

Western Cape Government Provincial Treasury

Medium Term Budget Policy Statement

Adjusted Estimates of Provincial Revenue and Expenditure

Overview of Adjusted Provincial and Municipal Infrastructure Investment

2019

Speech

"We are getting things done in the Western Cape"

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Honourable Speaker and Deputy Speaker

Honourable Premier and Cabinet Colleagues

Honourable Leader of the Opposition

Leaders of other political parties

Honourable members of the Western Cape Legislature

Colleagues

People of the Western Cape

1. Introduction

The Minister of Finance, Tito Mboweni, may have his Aloe Ferox, but we have our Spekboom, which is native to the Karoo, and which symbolises the Western Cape.

What the Spekboom symbolises is resilience, because it can survive frost, it can survive drought and it can survive fire; because it packs a punch reducing carbon in our atmosphere; and because it can survive for up to 200 years in the Western Cape.

We, like the Spekboom, are going to have to be resilient, as we face an increasingly turbulent future in South Africa.

Because when aspiration exceeds opportunity, especially among young people, it will fall to us to give hope to people who do not have jobs, or who have given up looking for jobs, in the Western Cape.

2. Free from Fear

We all remember Premier Alan Winde, delivering his maiden State of the Province Address, with a new vision, with a new focus, and with a new urgency, driven by what he had seen, and by what he had heard, during a grueling election campaign, and inspired by a vision of people living free from want, free from hunger, free from deprivation, free from ignorance, and free from fear in the Western Cape.

During that speech Premier Alan Winde promised that we would deliver a range of programmes that would keep people safe, and he promised that we would make allowance for those programmes in the adjustments budget process, because too many people live in fear in the Western Cape.

Since then, we have developed a Western Cape Safety Plan, which is informed by evidence, and which will be implemented using the latest technology, and which aims to boost law enforcement capacity in our least safe neighbourhoods to deal with crime, especially violent crime, in the Western Cape.

We will, over the next twelve months, be partnering with the City of Cape Town to train and deploy one thousand law enforcement officers, providing us with more "*boots on the ground*" to fight crime, especially violent crime, in the Western Cape.

We made a promise, and we have kept that promise, because today we can announce that:

- we have allocated an amount of R130 million in the adjustments budget for 2019/20;
- we have allocated an amount of R417 million in 2020/21, R350 million in 2021/22 and R400 million in 2022/23.

All to support the deployment of one thousand law enforcement officers, to fight crime, especially violent crime, in the Western Cape.

We have listened to the victims of crime, and we have heard the victims of crime, and we have found R1.3 billion to support the deployment of one thousand law enforcement officers to fight crime, especially violent crime, in the Western Cape.

When so many people have lost hope, and when so many people have lost trust, we are actually getting things done in the Western Cape.

3. Budget Blowout

We all remember the sense of renewal, of revitalisation and of progress following President Cyril Ramaphosa's first State of the Nation Address on 16 February 2018, and

we all remember the announcement of a “new path”, with the promise of more economic growth, of more employment and of more transformation in South Africa.

However, since then that sense of renewal, of revitalisation and of progress, along with the “new path” and the promise of more economic growth, of more employment and of more transformation, has faded in South Africa.

What should be going up, is going down, and what should be going down, is going up in South Africa.

We have:

- stagnant economic growth, with the economy forecast to grow at 1.2% in 2020, 1.6% in 2021 and 1.7% in 2022.

We have:

- collapsing revenue collection, with the revenue shortfall forecast to be R52.5 billion in 2019/20, R84 billion in 2020/21 and R114.7 billion in 2021/22.

We have:

- ballooning expenditure, with expenditure increasing by R191.3 billion in 2019/20, R134.7 billion in 2020/21 and R118.8 billion in 2021/22.

We have:

- zombie state-owned enterprises, consuming billions of rands in bailouts - R49 billion for Eskom; R5.5 billion for SAA; R3.2 billion for SABC; R1.8 billion for Denel; and R300 million for SA Express have been penciled in for this financial year alone, 2019/20.

We have:

- staggering levels of national debt, with gross loan debt of R3.6 trillion, or 64.9% of GDP, in 2020/21; R4.0 trillion, or 68.5% of GDP, in 2021/22; and R4.4 trillion, or 71.3% of GDP, in 2022/23.

We have:

- eye-watering debt service costs of R232.8 billion in 2020/21, R264.6 billion in 2021/22 and R299.1 billion in 2022/23.

We have:

- terrifying fiscal risks in the form of Eskom, with a debt mountain of R440 billion, requiring bailouts of R112 billion over the medium-term, consuming about R85 billion per year in debt service costs, and with the potential to blow up the entire national balance sheet.

We have:

- sovereign credit rating agencies ready to push the “red button” and downgrade our sovereign credit rating to “junk status” in South Africa.

The fact is:

- national debt, measured as gross loan debt, has increased by a staggering R2.4 trillion, or 293%, over the past ten years, from R805 billion, or 33% of GDP, in 2009/10, to R3.16 trillion, or 60.8% of GDP, in 2019/20; and
- debt service costs have increased by a staggering R146.7 billion, or 257%, over the past ten years from R57.1 billion in 2009/10 to R203.7 billion in 2019/20 in South Africa.

To put these numbers in perspective, consider the fact that if we do not stabilise national debt, we will be spending R299 billion on debt service costs alone by 2022/23, which is more than four times what we will spend this year - 2019/20 - in the Western Cape.

We should not forget, of course, that national debt does not include SOE debt, with the ten largest borrowing state-owned enterprises, increasing borrowing by 177% in just eight years from R266.7 billion in 2009/10 to R738.3 billion in 2017/18.

4. Debt Trap

The fact is that national government's key fiscal objective is to stabilise national debt in South Africa.

However, the data suggests that if we "do nothing" national debt will not stabilise, and will continue to increase to unsustainable levels, with gross loan debt exploding to 80.9% of GDP in 2027/28.

It comes as no surprise when Moody's Investor Services, which now stands between us and full-blown "junk status", concluded that the Medium Term Budget Policy Statement did not represent a developed and credible fiscal strategy for South Africa.

5. Deep Trouble

We are, in the end, earning too little, spending too much and borrowing much too much in South Africa.

We are drowning in red ink and using multiple "credit cards" simultaneously to balance the books in South Africa.

We are in deep economic trouble in South Africa.

6. Economic Strategy

The Minister of Finance, Tito Mboweni, set out his response to the full horror of the mismanagement of the economy, the mismanagement of our public finances, the mismanagement of our state-owned enterprises and the massive corruption in his Medium Term Budget Policy Statement three weeks ago in Parliament.

To his credit, the minister, who is often an island of sanity in a sea of madness, had the courage to:

- acknowledge that economic growth needed to be accelerated and tabled a paper titled: "*Towards an Economic Strategy for South Africa*";
- tackle zombie state-owned enterprises like South African Airways, which he referred to as a "Sword of Damocles", and Eskom, which he said should be "run like a business"; and

- make it absolutely clear that national health insurance was not affordable in South Africa.

Of course, it was not long before those in the governing party who are stuck in the past still fighting the Cold War, fighting for a smokestack economy, fighting for the return of Aeroflot while singing their favorite song, *The Internationale*, sprung into action to defeat efforts to boost economic growth in South Africa.

Standard and Poor's put it so well in their recent rating review:

"Factional disagreements within the ruling ANC party threaten the reform momentum crucial to kick starting growth."

7. Budget Cuts

The minister was also clear in his Medium Term Budget Policy Statement that to stabilise our public finances would require "*difficult decisions*" that would "*imply sacrifices*" and as a result penciled in what he called "*large reductions*" to the provincial transfers in South Africa.

We expect to spend approximately R72.8 billion in 2020/21, R77.3 billion in 2021/22 and R81.7 billion in 2022/23, or a total of R231.9 billion over the medium term in the Western Cape.

However, the fact is that:

- total provincial transfers, in the form of provincial equitable share and conditional grants, will be cut by R20.3 billion over the medium term between 2020/21 and 2022/23; and
- total municipal transfers, in the form of local government equitable share and direct conditional grants, will be cut by R20.5 billion over the medium term between 2020/21 and 2022/23.

We should make no mistake that these budget cuts risk wiping out service delivery on the frontline, in education, in health and in social development in provinces across South Africa.

8. Service Delivery

We need to understand that national government's mismanagement of the economy, mismanagement of our public finances, mismanagement of our state-owned enterprises and massive corruption are the reasons budgets are being cut, and are the reasons service delivery may be compromised in the Western Cape.

The fact is that budget cuts:

- may compromise our ability to appoint sufficient teachers to accommodate increasing learner numbers;
- may compromise our ability to provide quality healthcare resulting in longer waiting times for emergency services; and
- may compromise our ability to provide social services and support to vulnerable children, older persons, persons with disabilities and victims of violence in the Western Cape.

9. Simply Wrong

What makes these budget cuts so hard to swallow is that provincial governments are expected to absorb them so that national government can bailout zombie state-owned enterprises in South Africa.

We do not have all the facts, but we estimate that the budget cuts this province will be expected to absorb will be roughly equivalent to the bailouts penciled in for South African Airways.

We are effectively bailing out national government, so that national government can bailout zombie state-owned enterprises like South African Airways in South Africa.

Which means, perversely, that when it comes to our national airline, that the poor are, effectively, subsidising the rich, which is simply wrong in South Africa.

10. Gender-Based Violence

However, we must give credit to national government for allocating additional funding to employ social workers, to prevent gender-based violence and to improve access to sanitary dignity for young women in the Western Cape.

We will:

- receive an additional R59.7 million over the medium term to employ social workers in areas with a high prevalence of gender-based violence in the Western Cape.

We will:

- receive an additional R17 million over the medium term to continue to support efforts to deal with the social drivers of HIV, TB, STIs and gender-based violence in the Western Cape.

And we will:

- receive an additional R31.5 million towards improving access to sanitary dignity for young women so that they can stay in school and get the education they deserve in the Western Cape.

11. Uncertainty

The Minister of Finance, Tito Mboweni, pointed out in his Medium Term Budget Policy Statement that:

"There is no point in publishing a policy statement if it simply means publishing a budget three months early. The purpose is to open a debate before the (actual) budget is finalised."

The minister was quoting from a press statement on the first three-year budget policy statement, but neglected to mention one of the key objectives of a Medium Term Budget Policy Statement, which is to provide certainty to the public service and to the markets.

However, that is exactly the opposite of what the minister did in his Medium Term Budget Policy Statement when he announced that to stabilise national debt "*additional measures*" - read tax hikes, and spending cuts - in excess of R150 billion would be required over the medium term between 2020/21 and 2022/23.

What is so intriguing for a minister who believes that "*hope is good but it is not a strategy*", is that the "*additional measures*" are expected to result from budget cuts imposed on compensation of employees.

We are told that:

"reductions in compensation, based on the outcome of discussions with labour, are expected to be implemented in the future."

Well, if ever there was a case of hope dressed up as strategy, it is the idea that the public-sector unions will agree, at some point in the future, to major reductions in expenditure on compensation of employees in the public service in South Africa.

We simply do not know, even at this stage of the budget process, how the budget cuts will be applied to conditional grants, whether the budget cuts to compensation of employees will even materialise, and if they do materialise how they will impact the Western Cape.

12. Fiscal Strategy

Which means that we are entering a period of significant and unprecedented uncertainty, when it comes to the budget in the Western Cape.

To deal with these "*known unknowns*" in the budget process we will:

- continue to implement our Western Cape Government Fiscal Strategy;
- continue to focus on proper expenditure management, proper revenue management and maintaining a balanced budget in the Western Cape; and
- continue to apply the principles of allocative efficiency, fiscal sustainability, fiscal consolidation and fiscal discipline in the Western Cape.

We will do so to maintain stability, credibility and transparency when it comes to the budget in the Western Cape.

However, despite the significant and unprecedented uncertainty, we can be absolutely sure that there will be budget cuts, and so we have made some tough decisions about how to proceed over the medium term in the Western Cape.

First, we have:

- assumed a worst-case scenario and have planned a total downward adjustment to the provincial budget over the medium term of 5%, or R2.67 billion, in 2020/21, 6%, or R3.4 billion, in 2021/22 and 7%, or R4.19 billion, in 2022/23, in the Western Cape.

Second, we have:

- committed to minimising the impact of the budget cuts on education, on health and on social development in the Western Cape.

Third, we have:

- committed to minimising the impact of the budget cuts on existing infrastructure assets in the Western Cape.

And, fourth, we will:

- continue to maintain a balanced budget in the Western Cape.

To achieve this, we will have to explore further measures to increase own revenue, to reduce expenditure and to improve efficiency over the medium term in the Western Cape.

13. Infrastructure

We will also have to be more innovative and find new ways of doing things in government in the Western Cape.

We will have to explore new ways to finance new infrastructure development that supports economic growth, including public-private partnerships, accessing finance from development banks and accessing finance from development finance institutions, in the Western Cape.

14. Belt-Tightening

We have worked hard, perhaps harder than any other province, on implementing belt-tightening measures in the Western Cape.

However, because of the magnitude of the budget cuts we anticipate, it is necessary to act now and impose additional belt-tightening measures, which will be implemented over the medium term by government in the Western Cape.

We will:

- review the provincial ministerial handbook.

We will:

- reduce spending on overtime through planning and implementing stricter controls.

We will:

- reduce spending on payouts for leave through proper leave planning and stringent measures.

We will:

- review spending on performance bonuses across provincial government.

We will:

- review spending on procurement with a view to further cost containment.

And we will:

- review all appointments of senior staff members that fall below a departmental vacancy norm in the Western Cape.

15. Prudence

We need to pause for a moment and consider the fact that we will only be able to absorb the budget cuts because we have been prudent in the past and we have made provision for possible future shocks in the Western Cape.

We are in the fortunate position of being able to minimise the impact of budget cuts on education, health and social development only because we have built up reserves for unforeseen and unavoidable expenditure and for fiscal stabilisation in the Western Cape.

We have:

- a total of R659 million available over the medium term for unforeseen and unavoidable expenditure; and
- a total of R1.2 billion available over the medium term for fiscal stabilisation in the Western Cape.

Which is the “life line” we will have available to cushion education, health and social development, and expenditure on the maintenance and repair of existing infrastructure assets, from budget cuts and which is a huge tribute to my predecessors and to the provincial treasury in the Western Cape.

Which goes to show that, like the Spekboom we can adapt and survive tough conditions in the Western Cape.

16. Vision-Inspired Priorities

We have a vision of “*A safe Western Cape where everyone prospers*” focusing on five strategic “vision-inspired priorities” in the Western Cape.

We will:

- prioritise and invest in safe and cohesive communities over the medium term in the Western Cape.

We will do so by:

- enhancing the capacity and effectiveness of policing and law enforcement and strengthening youth-at-risk referral pathways and child and family-centred initiatives, to reduce violence and increase social cohesion and safety in public places in the Western Cape.

We will:

- prioritise and invest in economic growth and job creation over the medium term in the Western Cape.

We will do so by:

- increasing investment, boosting infrastructure development, growing the economy through export growth, creating opportunities for job creation through skills development, and creating an enabling environment for economic growth through resource resilience in the Western Cape.

We will:

- prioritise and invest in empowering people over the medium term in the Western Cape.

We will do so by:

- improving early childhood development, education and learning, youth and skills development, health and wellness, and care for older persons and persons with disabilities in the Western Cape.

We will:

- prioritise and invest in mobility, spatial transformation and human settlements over the medium term in the Western Cape.

We will do so by:

- providing better linkages between places through public transport and mobility systems that work together, creating spatially and economically vibrant growth

points, providing more opportunities for people to live in better locations and improving the places where people live in the Western Cape.

We will:

- prioritise and invest in innovation and culture in government over the medium term in the Western Cape.

We will do so by:

- creating a culture of innovation to improve service delivery, and by focusing on new and innovative ways of doing things, and on an integrated service delivery approach in the Western Cape.

17. Adjusted Estimates

We have an opportunity to adjust the budget to support new priorities and to respond to service delivery pressures in the Western Cape.

We have proposed adjustments to the main budget in the amount of R716.4 million to support new provincial priorities and respond to service delivery pressures in the Western Cape.

The 2019 Adjusted Estimates provide for:

- an allocation of R130 million for the appointment, training and resourcing of law enforcement officers who will be deployed to fight crime, especially violent crime, in the Western Cape;
- an allocation of R311.4 million for infrastructure-related expenditure and an allocation of R170.6 million for information technology-related expenditure; and
- an allocation of R50 million in emergency funding, made in terms of section 25 of the Public Finance Management Act, for fodder support on drought-stricken farms in the Western Cape.

18. Good Governance

We have prioritised good governance and have once again received the best audit outcomes for the 2018/19 financial year in South Africa.

We have more clean audits, no unauthorised expenditure, less irregular expenditure, and less fruitless and wasteful expenditure, by miles, than any other province in South Africa.

We also have the first clean audit of any health department in any province ever in South Africa.

Think about it:

- we have eight more clean departmental audits than Gauteng and ten more clean departmental audits than KwaZulu-Natal;
- we have no unauthorised expenditure, compared to R5.9 million worth of unauthorised expenditure in Gauteng and compared to R29.6 million worth of unauthorised expenditure in KwaZulu-Natal;
- we have R7.1 billion less irregular expenditure than Gauteng and R12.4 billion less irregular expenditure than KwaZulu-Natal; and
- we have R112 million less fruitless and wasteful expenditure than Gauteng and R30 million less fruitless and wasteful expenditure than KwaZulu-Natal.

Which is the result of our effort, not only to prioritise good governance, but also to constantly work to improve the way we manage public finances and is a “badge of honour” for our hard-working and diligent accounting officers, chief financial officers and staff members in provincial government in the Western Cape.

19. Hope

We recently tabled two outstanding documents - the Provincial Economic Review & Outlook 2019 and the Municipal Economic Review & Outlook 2019 - which tell a story of a slow recovery in economic growth, of a rebound in employment, and of improved human development in the Western Cape.

We have businesses who are experimenting with new products, with new markets and with new technology, and who are under pressure, not to close their businesses, but to expand their businesses, because they simply cannot keep up with demand for their products, which are flying off the shelves in capitals around the world.

Which, of course, is a credit to resilient businesses which have, not only survived, but also thrived, despite tough business conditions, and which is, ultimately, a story of hope, for people, especially young people, who do not have jobs, or who have given up looking for jobs, in the Western Cape.

We have worked hard, harder than any other province, to back business by creating an enabling environment for the private sector, and for the markets, to drive economic growth and job creation in the Western Cape.

We have:

- backed business in the Western Cape.

We have:

- world-class infrastructure in the Western Cape.

We have:

- an effective clean provincial government in the Western Cape.

We have:

- an award-winning international airport in the Western Cape.

We are:

- a leading tourism destination in the Western Cape.

We are:

- the tech capital of the continent in the Western Cape.

We are:

- home to four world-class universities in the Western Cape.

We have:

- a vibrant culture, amazing climate and beauty everywhere in the Western Cape.

Which is why we have:

- a growing economy in the Western Cape.

And which is why:

- we are giving hope to people, especially young people, who do not have jobs, or who have given up looking for jobs, in the Western Cape.

20. Conclusion

We have worked on the Medium Term Budget Policy Statement and the associated documents day-after-day, night-after-night, and weekend-after-weekend at the Provincial Treasury.

We all owe a big thank you to Provincial Treasury's Acting Head Official, Julinda Gantana, who, together with "*Team Finance*", have done such a great job producing the 2019 Western Cape Adjusted Estimates of Provincial Revenue and Expenditure, the Western Cape Adjustments Appropriation Bill 2019, the Western Cape Gazette of Allocations to Municipalities, an Overview of Adjusted Provincial and Municipal Infrastructure Investment 2019 and the 2019 Western Cape Medium Term Budget Policy Statement, which it gives me great pleasure to table today for deliberation and consideration by the Western Cape Provincial Parliament.

I would also like to thank Premier Alan Winde and my cabinet colleagues for their support in what turned out to be a very challenging budget process in the Western Cape.

We will, like the "*Spekboom*", which can survive frost, which can survive drought, which can survive fire, and which can survive for up to 200 years, have to remain resilient in the Western Cape.

I thank you.