



Western Cape
Government
FOR YOU



Medium Term Budget Policy Statement

2022



**Western Cape Government
Provincial Treasury**

**Medium Term
Budget Policy Statement
2022**

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Budget Policy Priorities

2023 MTEF Preliminary Budget Allocation R238.516 Billion

<div></div> <div>Growth for Jobs*</div> <div><small>*The Growth For Jobs Budget Policy Priorities are provisional as the strategy is currently in development</small></div>	<div>Ease of doing business</div> <div>Business Support Helpline</div> <div>Red Tape Reduction</div>	<div>Investment</div> <div>Promotion and Investment into Province, incl. Agriculture sector</div> <div>Enabling export growth</div>	<div>Infrastructure</div> <div>Manage, maintain & expand key public infrastructure</div> <div>Support the SIDAFF programme</div>	<div>Work opportunities & skills</div> <div>Amend existing & develop new academic programmes</div> <div>Expansion of the Schools of Skills</div> <div>BPO project, Public Employment Programmes, YearBeyond Programme</div>	<div>Economic resilience</div> <div>Energy sustainability & transition to carbon-zero</div> <div>WC Climate Change Response Strategy</div> <div>Implementing disaster prevention measures</div>
<div></div> <div>Safety</div>	<div>Law enforcement</div> <div>Law Enforcement Advancement Programme</div> <div>Increase road safety</div> <div>Police oversight & monitoring</div>	<div>Violence prevention</div> <div>Strengthening social protective factors</div> <div>Upscale violence prevention initiatives for youth at risk</div> <div>Amendment of the WC Liquor Act</div>	<div>Urban Design</div> <div>Improve living spaces of WC citizens</div>	<div>Safety Enablers</div> <div>WC Safety Plan</div> <div>Hospital and Emergency Centre Tracking Information System (HECTIS)</div> <div>Area-Based Teams</div>	
<div></div> <div>Wellbeing</div>	<div>Increased Wellbeing</div> <div>Health recovery & resurgence strategy</div> <div>Mental health & wellbeing</div> <div>After School programme interventions</div> <div>Regional Socio-Economic Projects</div>	<div>Building social cohesion & service</div> <div>Support social networks</div> <div>Planet Youth & Community Wellbeing Champions</div> <div>Rural Library Connectivity Project</div>	<div>Meeting basic needs & protecting human rights</div> <div>Strengthening the NPO sector</div> <div>Child and Youth Care Centers</div> <div>Food relief</div> <div>Shelter spaces for the homeless</div>	<div>Strong foundations</div> <div>1st 1000 days</div> <div>Improve access to quality ECD facilities</div> <div>Improve learning outcomes</div>	
<div></div> <div>Innovation, Culture & Governance</div>	<div>Innovation</div> <div>Implementation of the Innovation for Impact Strategic Framework</div> <div>Applying innovative methodologies</div>	<div>Citizen-centric culture</div> <div>Strengthening public participation</div> <div>Unannounced visits to frontline service points</div>	<div>Governance transformation</div> <div>Developing a data ecosystem for governance</div> <div>WCG Combined Assurance Model</div> <div>Integrated Provincial Governance & effective Local Governance</div> <div>Strategic Supply Chain Management</div>	<div>Integrated service delivery</div> <div>Joint District and Metro Approach</div> <div>Talent and staff development</div> <div>Reconfiguration of the Provincial Training Institute</div>	<div>Digital Transformation</div> <div>Digital Transformation Plan</div> <div>Rollout of Broadband infrastructure & public Wi-Fi hotspots</div>

Foreword

The 2022 Medium Term Budget Policy Statement (MTBPS) sets out the Western Cape Fiscal Strategy and approach to setting the Province on a path from recovery to growth.

Following the hardship caused by the COVID-19 pandemic, the Province's renewed focus on the delivery of the Provincial Strategic Plan is more important than ever. The 2022 MTBPS outlines the Province's fiscal approach and spending plans which aims to enable growth for jobs, build safe and cohesive communities and promote the wellbeing of our citizens while driving innovation, culture and governance.

The Western Cape Fiscal Strategy responds to the economic and fiscal risks and applies four key budget principles which includes protecting basic services outcomes, unlocking allocative efficiency, enhancing productive efficiency, and enabling long-run fiscal sustainability. In applying the Fiscal Strategy, the Western Cape Government commits to enhancing service delivery in areas that deliver the greatest impact for our citizens while doing more with less. The 2022 MTBPS therefore provides a **Framework for Hope**, promoting a budget that both **Cares and Prepares** as we continue our journey from recovery to growth.

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.



Ms M Wenger

Minister of Finance and Economic Opportunities

24 November 2022

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1

Building a better future

In summary

- The 2022 Western Cape Medium Term Budget Policy Statement lays the foundation for an economic recovery by prioritising Growth for Jobs, Safety and Wellbeing. Four key principles guide the fiscal strategy: protecting basic services outcomes; unlocking allocative efficiency; enhancing productive efficiency; and enabling long-run fiscal sustainability. Good governance is critical for effective service delivery, value addition, and economic growth both in-year and over the 2023 Medium Term Expenditure Framework.
- The 2022 Medium Term Budget Policy Statement adds a total of R1.279 billion to spending over the next three years.
- To support **Growth for Jobs**, from the previous baseline of R38.734 billion, an additional R466.5 million is directed to the new Infrastructure and Mobility departments to accelerate the Institutional Refresh while R257.3 million is added to Education and Health, mainly using previous year savings to expand critical infrastructure.
- To improve **Safety**, from the previous baseline of R1.187 billion, R200 million is made available over the three-year cycle to continue the Law Enforcement Advancement Programme.
- To enhance **Wellbeing**, from the previous baseline of R68.600 billion, R246.5 million is added to Social Development to support a comprehensive response to rising social distress. These resources will provide an additional 170 social workers, fund additional beds in child and youth care centres and extend food relief to thousands of at-risk children.
- In response to immediate needs, the 2022 Adjustments Budget makes provision for a net addition of R490.7 million in expenditure for the 2022/23 financial year. This will cover the wage agreement, add 50 Social and Auxiliary social workers targeted at hotspot areas, support food relief and fund infrastructure and mobility.

Introduction

During a time of heightened economic uncertainty, the 2022 Western Cape Medium Term Budget Policy Statement lays the foundation for a better future.

The focus remains on the three Provincial priorities of Growth for Jobs, Safety and Wellbeing. **Growth for Jobs** will be supported by expanding infrastructure spending, enhancing skills, and providing short-term employment opportunities. **Safety** will be enhanced by initiatives that includes policing and police oversight, violence prevention interventions that focus on safety hotspots and combatting gender-based violence. **Wellbeing** will follow a life-course approach through strong foundations, increased

wellbeing, building social cohesion and service, and meeting basic needs and protecting human rights.

The adjustments budget allocates resources to address with immediate pressures in infrastructure and social distress.

The economic context

Global economy is in a broad-based slowdown

The global economy is experiencing a broad-based slowdown due rising inflation and interest rates, a decelerating Chinese economy and the ongoing Russia-Ukraine war.

Table 1.1 Economic prospects

	Size of Global GDP in (per cent)	GDP Growth (per cent)			GDP Forecast (per cent)
		2020	2021	2022	2023
World output	100	(3.20)	6	3.2	2.7
Advanced economies	57.8	(4.60)	5.2	2.4	1.1
United States	23.7	(3.50)	5.7	1.6	1
Euro Area	15	(6.50)	5.2	3.1	0.5
Emerging and developing economies	42.2	(2.10)	6.6	3.7	3.7
China	18.3	2.30	8.1	3.2	4.4
South Africa			4.9	1.2	0
Western Cape			4.8	0.8	0

The lacklustre global economy, the worst power outages on record and the risk of extreme weather events will weigh heavily on South African economic activity into 2023. The power crisis will likely worsen over the next five years and the energy supply gap could increase by up to 40 per cent over the next five years.

The South African economy is expected to expand by only 1.2 per cent in 2022 and record no growth in 2023. This is a downward revision of 0.5 percentage points in 2022 and 0.3 percentage points in 2023, due to higher input costs and weaker demand.

In the second quarter of 2022, South Africa's narrow unemployment rate reached 33.9 per cent. This was 3.8 percentage points higher than pre-pandemic levels. In the same quarter the Western Cape's narrow unemployment rate was 27.5 per cent or 6.6 percentage points higher than pre-pandemic levels.

WC growth outlook has been downgraded

The October 2022 outlook for the Western Cape has been downgraded by 1.5 percentage points to 0.8 per cent in 2022, while no growth is expected in 2023.

South Africa faces an increased risk of social unrest due to the interplay of poverty, unemployment and inequality and faces persistent structural constraints, such as high unemployment, skill deficits and power shortages.

Further details are provided in Chapter 2.

Fiscal Framework

The Western Cape Government is funded by national transfers (the provincial equitable share and conditional grants), departmental own receipts, provincial taxes and the drawdown of reserves.

Over the 2023 MTEF, the funding envelope for the WCG is R238.516 billion

Over the 2023 MTEF, the total funding envelope for the Western Cape is R238.516 billion, with R77.663 billion in 2023/24, R79.719 billion in 2024/25 and R81.133 billion in 2025/26. The funding envelope is projected to grow at an annual average rate of 2.2 per cent over the 2023 MTEF.

Table 1.2 Provincial funding envelope over the 2023 MTEF

R'000	Adjusted Estimate	Medium term estimate			Total	Average Annual Growth Rate
	2022/23	2023/24	2024/25	2025/26	2023 MTEF	(2023 MTEF)
Transfers from National	73 407 226	71 625 323	74 237 716	77 397 884	223 260 923	4.0%
Equitable share	59 322 184	57 821 639	59 843 913	62 359 239	180 024 791	3.8%
Conditional grants	14 007 033	13 803 684	14 393 803	15 038 645	43 236 132	4.4%
Conditional grants rollover	78 009					
Own receipts	2 561 337	2 543 892	2 658 073	2 777 154	7 979 119	4.5%
Asset Financing Reserve	1 233 687	923 222	784 205		1 707 427	
PRF Financing	2 686 277	2 029 133	1 473 452	366 768	3 869 353	(57.5%)
Provincial Revenue Fund (Tax receipts)	522 548	541 810	566 137	591 500	1 699 447	4.5%
Total	80 411 075	77 663 380	79 719 583	81 133 306	238 516 269	2.2%

The Western Cape's share of nationally raised revenue (the Provincial Equitable Share or PES) accounts for 75.5 per cent of provincial funding. The PES is R57.821 billion in 2023/24, R59.843 billion in 2024/25 and R62.359 billion in 2025/26, growing at 4.0 per cent of the MTEF.

PES accounts for 75.5% of provincial funding

Indicative allocations for conditional grants to the Western Cape are estimated to total R43.236 billion over the 2023 MTEF. This is R13.804 billion, R14.394 billion, and R15.039 billion in 2023/24, 2024/25, and 2025/26 respectively. Conditional grants grow at 4.4 per cent.

Own receipts (departmental revenue) are expected to increase at an average annual growth rate of 4.5 per cent from the 2022/23 adjusted estimate of R2.561 billion to R2.777 billion in 2025/26, representing an increase of R215.818 million.

The Province uses the Asset Finance Reserve to smooth infrastructure spending. Drawdowns of R1.707 billion over the 2023 MTEF from this reserve are projected. This will be used primarily for roads infrastructure.

Prior to the pandemic, the Province accumulated reserves. During the fiscal consolidation and pandemic, these were used to support an aggressive pandemic response, cushion the impact on frontline service delivery and fund specific provincial priorities, particularly Safety. Drawdowns of R3.9 billion are projected over the 2023 MTEF. The intention is to phase out drawdowns and to begin rebuilding reserves from 2026/27.

The reserve for unforeseen and unavoidable expenditure is projected to be R550.649 million in 2023/24 R438.630 million in 2024/25 and R469.289 million in 2025/26.

Further details are provided in Chapter 3.

Fiscal Strategy

*WCG Fiscal Strategy
guide fiscal decision-
making*

Four key principles guide provincial fiscal policy: protecting basic services outcomes, unlocking allocative efficiency, enhancing productive efficiency, and enabling long-run fiscal sustainability.

These four key principles will be supported by a Compensation of Employees Strategy, a reprioritisation towards infrastructure, ongoing expenditure reviews, and funding of innovative service delivery models through the Fiscal Transition Support Facility.

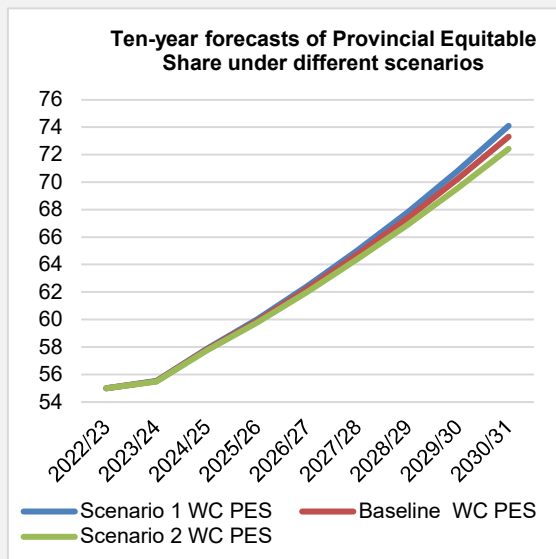
Further details are provided in Chapter 4.

Provincial long-term fiscal strategy (“Fiscal Futures”)

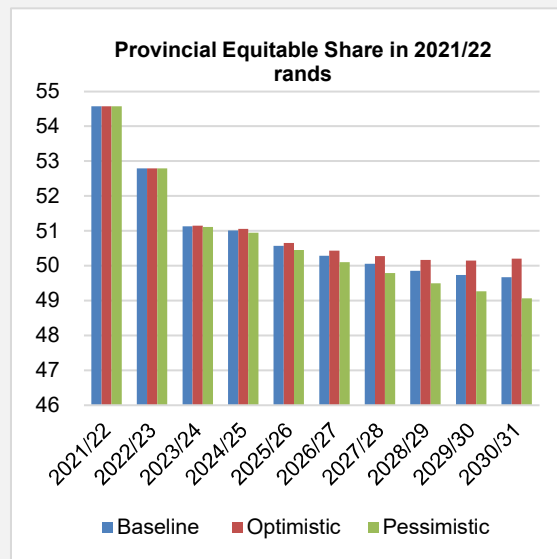
Long-term planning is critical for the success of the Province. As part of its work on fiscal futures, the Province has a model that forecasts key fiscal indicators until 2030/31, including the provincial equitable share. Our current baseline scenario is that the provincial equitable share will rise to R73 billion by 2030/31. However, expressed in 2021/22 rands, i.e., adjusting for inflation, we estimate that the provincial equitable share will decline from R54.6 billion in 2021/22 to R49.6 billion in 2030/31.

Ten-year forecasts of the Provincial Equitable Share In real 2021/22 rands

In nominal terms



In real 2021/22 rands



It is estimated that population growth will be concentrated in the City of Cape Town. The City of Cape Town is expected to grow by 882 607 people over the next ten years, equivalent to the Mangaung metro. The Western Cape is projected to grow by 1.25 million over the same period, equivalent to the current size of the Nelson Mandela Bay Metro. The consequence is a declining per capita provincial equitable share and significantly constrained resources. To ensure that long-term service delivery will not be impacted, new approaches to funding budget priorities will need to be found. This includes enhancing the role of the private sector, particularly in infrastructure finance, increasing provincial own revenue and reforming provincial taxes (particularly gambling taxes). Further work on a comprehensive fiscal futures scenarios model will be undertaken in 2023. Further details of revenue initiatives are in Chapter 3.

Source: Provincial Treasury Fiscal Model, Population projections from Provincial Population Unit, Department of Environmental Affairs and Development Planning

Budget Spending Priorities

The Provincial Strategic Implementation Plan focuses on Growth for Jobs, Safety and Wellbeing. This is enabled by Innovation, Culture and Governance.

Budget and policy trade-offs will align to achieve these four objectives.

Growth for Jobs Priority

The new Growth for Jobs Strategic Framework (G4J) is an “all of government approach”. Over the 2023 MTEF, departmental strategies will be aligned to the strategy.

Over the 2023 MTEF, the WCG's budget policy priorities are prioritised for delivery

In addition, high impact and focused interventions, that will also contribute to the Growth for Jobs Priority and benefit the entire economy include:

- Increasing infrastructure investment;
- The Schools of Skills initiative, which provides learners with the skills required to be employed;
- The Year Beyond Programme, Public Employment Programmes, and the Business Processing Outsourcing (BPO) project will improve access to employment opportunities;
- The Municipal Energy Resilience Project will assist municipalities to embrace opportunities to improve energy resilience from regulatory and policy changes; and
- The Western Cape Climate Change Response Strategy will aim to achieve a climate-resilient and net-zero Western Cape by 2050, supported by a detailed action-oriented Implementation Plan and the 2050 Carbon Emissions Mitigation Pathway.

Safety Priority

Safety Priority focuses on law enforcement, violence prevention and urban design

The Safety Priority focuses on law enforcement, violence prevention and urban design. The Department of Police Oversight and Community Safety will expand the monitoring of police stations focusing on Gender-based violence and domestic violence responses, police conduct, visible policing, and crime investigation efficiency.

Initiatives to combat gender-based violence include improving law enforcement, time to process cases, victim support and violence prevention programmes.

Wellbeing Priority

The Wellbeing Priority follows a life-course approach through its different pillars, namely strong foundations, increased wellbeing, building social cohesion and service, meeting basic needs and protecting human rights. Key Wellbeing interventions include improving access to quality ECD facilities, mitigating the contributing factors to learning losses, protecting, and nurturing psychosocial wellbeing, continuation of the After School programme, support to childcare and protection, and support to victims of GBV, homelessness, and food relief.

Enablers

The three Priority themes within the context of the Recovery Plan, are supported by the enabler of Innovation, Culture and Governance. The main contributing priority interventions include the implementation of the Innovation for Impact Strategic Framework; Strengthening public participation and communication in municipalities; Embarking on frontline service delivery site visits to inform and improve business processes and systems for the benefit of the citizen; Driving the implementation of the Combined Assurance Model; and focusing on Effective Local Governance, Integrated Provincial Governance, Efficient Infrastructure Investment, and Strategic Supply Chain Management.

Priority themes, are supported by the enabler of Innovation, Culture and Governance

Further details are provided in Chapter 5.

Governance

The WCG has institutionalised, through the deliberate prominence in the WCG strategic priorities, policies, processes, systems and people, its commitment to good governance to deliver citizen-centric services. Good governance is central to all our endeavours and critical for effective service delivery, value addition, and growth, especially in the context of navigating an unpredictable environment, emerging from a worldwide epidemic, and facing a global economic slowdown.

Good governance is central to all WCGs endeavours

The WCG's good governance agenda over the medium term will critically focus on leveraging the WCG governance system to enable growth within the province i.e., "Governing for Growth". Purchasing and procurement in the Province must enable progress on the provincial priorities of Growth for Jobs, Safety and Wellbeing.

With the focus on growth, it is required that the SCM strategy be repositioned to ensure that the necessary value and impact can be seen and felt at ground level. Optimising assurance and oversight are critical areas of focus to enable governance transformation to deliver citizen-centric services and to enable growth within the Province. The implementation of combined assurance will enable maximising assurance coverage, control efficiencies and the optimisation of overall assurance to the Executive and oversight bodies.

Further details are provided in Chapter 6.

2022 Adjustments Budget

The 2022 Adjusted Budget aim to achieve fiscal sustainability in-year and over the 2023 MTEF

The 2022 Western Cape Adjustments Budget makes provision for a net addition of R490.671 million in expenditure for the 2022/23 financial year. The key principles of the 2022 Adjusted Estimates of Provincial Revenue and Expenditure, aims to achieve fiscal sustainability in-year and over the 2023 MTEF, and makes provision for rollover and revenue retention requests. The final phase of the 2023 Budget process will result in the tabling of the 2023 MTEF Main Budget.

Table 1.3 Western Cape 2022 Adjusted Budget

R'000		2022/23		
		Main Budget	Total adjustments	Adjusted Budget
		1	2	1+2=3
1	Department of the Premier	1 825 280	(19 998)	1 805 282
2	Provincial Parliament	176 502	10 673	187 175
3	Provincial Treasury	321 610	(2 790)	318 820
4	Community Safety	776 125	(304)	775 821
5	Education	28 032 601	17 853	28 050 454
6	Health	29 094 331	702	29 095 033
7	Social Development	2 285 335	79 741	2 365 076
8	Human Settlements	2 414 805	63 169	2 477 974
9	Environmental Affairs & Development Planning	568 586	7 006	575 592
10	Transport & Public Works	9 106 398	324 560	9 430 958
11	Agriculture	969 218	23 477	992 695
12	Economic Development & Tourism	514 798	(4 768)	510 030
13	Cultural Affairs & Sport	937 913	554	938 467
14	Local Government	309 301	(9 204)	300 097
Total		77 332 803	490 671	77 823 474
Direct Charge		50 301	0	50 301
Total		77 383 104	490 671	77 873 775

Additional funding for social workers

Social Development includes R43.924 million to fund additional social workers, towards alleviating the pressure on social worker caseloads. The additional funding will fund 50 posts, 50 per cent of which will be integrated into the crime hotspot strategy and deployed in the hotspots.

Additional funding for food relief initiatives

Further, an additional R25 million has been allocated in the short-term to fund the continuation of food relief initiatives in this financial

year. These include funding for Community Nutrition Development Centres (CNDCs) and food distribution centres.

Transport and Public Works includes R196 million for mobility programmes to improve public transport safety; to design the transport voucher scheme for unemployed youth; for the operational cost of the George Integrated Public Transport Network (GIPTN); for the data management and warehousing cost of the Integrated Transport Hub (ITH); for the Provincial Sustainable Transport Programme; and for the Motor Vehicle Licence agency fees.

Further, R128 million is included for infrastructure programmes to acquire erven and property for education and health purposes; to support the Organisational Refresh Integration; for upgrading of road infrastructure; and for the development and operation of the e-Merge integrated asset and project management system and development of Asset Management Practice models.

Cultural Affairs and Sport includes R3 million for e-Prix to be hosted in Cape Town on the 25 February 2023.

Further details are provided in the 2022 Western Cape Adjustments Budget publication.

■ Summary of the 2023 MTEF Budget

Over the 2023 MTEF, the total estimated expenditure for the Western Cape is R230.8 billion (excluding direct charges), with R76.0 billion in 2023/24, R76.5 billion in 2024/25 and R78.3 billion in 2025/26.

Table 1.4 summarises the expenditure priorities over the 2023 MTEF by policy area, highlighting that the overall budget will grow at approximately 1 per cent per year on average. The largest share of spending is on education (36.7 per cent) and health (36.4 per cent), followed by economic infrastructure and affairs (14.4 per cent).

Given the fiscal context over the 2023 MTEF, the average rate of growth in expenditure decreases for General Public Services (-2.8 per cent), Public order and safety (-5.8 per cent) and Economic Infrastructure and affairs (-0.1 per cent). Further, Education has a marginal average rate of growth of 0.7 per cent over the 2023 MTEF.

Table 1.4 Summary of three-year spending by policy area

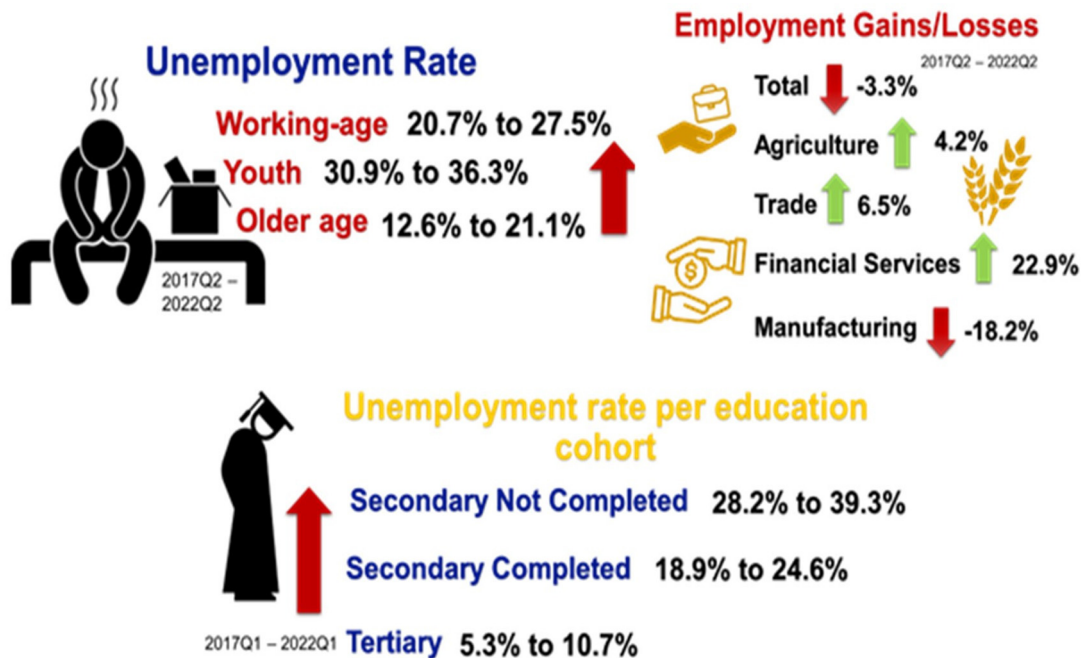
Policy area R'000	Adj Est 2022/23	Medium Term Estimate			Total over MTEF	Share	Average Growth
		2023/24	2024/25	2025/26			
General public services	2 611 374	2 758 585	2 559 331	2 525 342	7 843 258	3.4%	-2.8%
Public order and safety	775 821	720 225	728 699	595 665	2 044 589	0.9%	-5.8%
Economic infrastructure and affairs (including roads)	11 064 459	10 934 810	11 304 552	10 902 559	33 141 921	14.4%	-0.1%
Environmental protection	575 592	576 175	589 355	615 605	1 781 135	0.8%	2.3%
Housing and community amenities	2 347 198	2 345 843	2 443 811	2 521 950	7 311 604	3.2%	2.5%
Health	29 095 033	27 319 453	27 754 592	28 984 112	84 058 157	36.4%	2.0%
Recreation, culture and religion	938 467	868 816	895 508	935 358	2 699 682	1.2%	2.6%
Education	28 050 454	28 132 395	27 806 692	28 696 245	84 635 332	36.7%	0.7%
Social protection	2 365 076	2 372 385	2 412 152	2 522 169	7 306 706	3.2%	2.1%
TOTAL (Excluding Direct Charge)	77 823 474	76 028 687	76 494 692	78 299 003	230 822 382	100.0%	1.0%

Conclusion

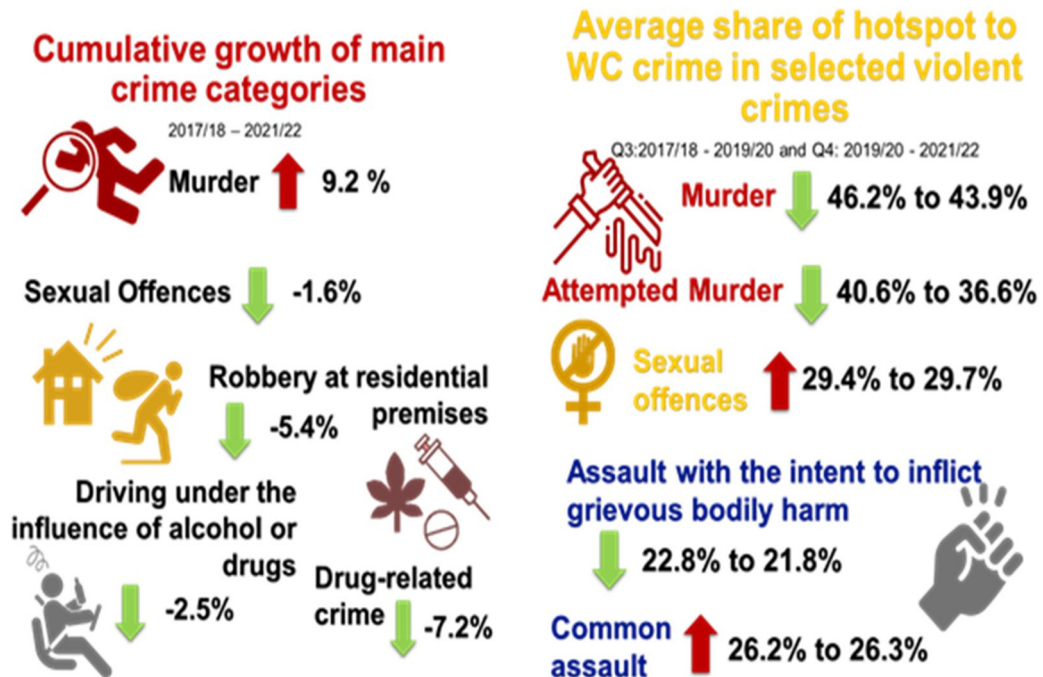
The 2022 MTBPS presents a three-year fiscal strategy that ensure a credible and sustainable Provincial fiscal framework that enables the medium term budget priorities of Growth for Jobs, Safety, and Wellbeing during a highly uncertain time.

2022/23 PERO Western Cape Overview

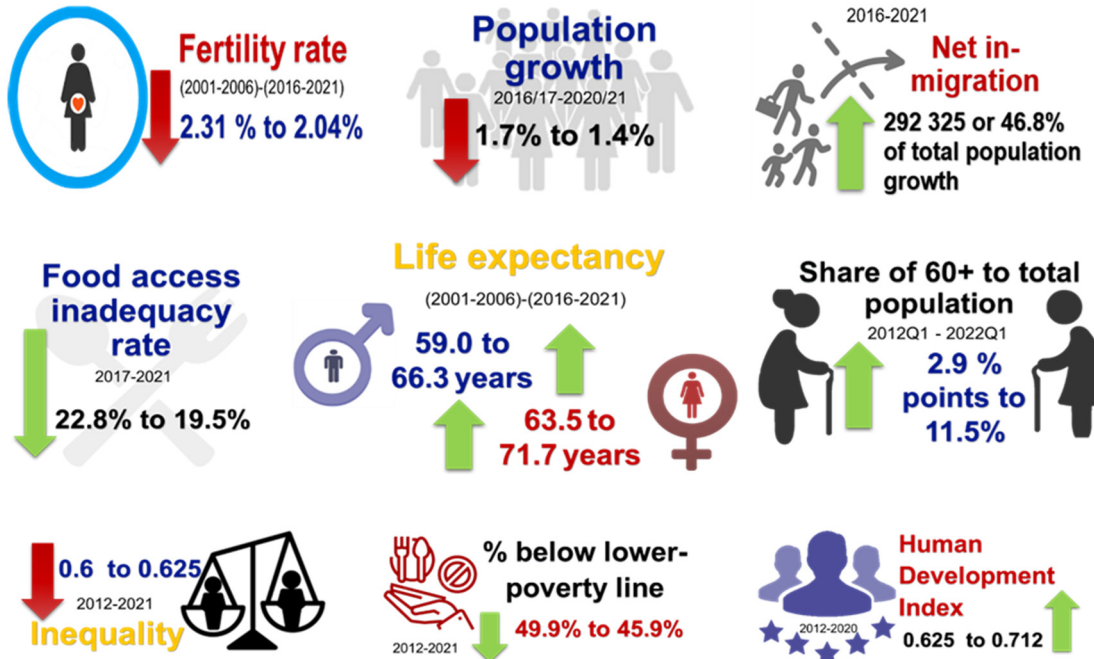
JOBS



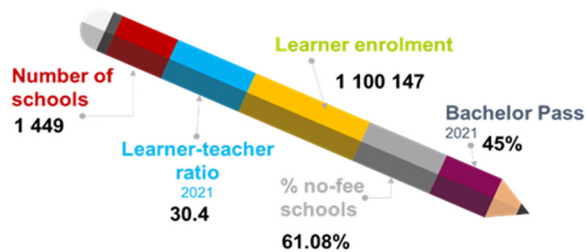
SAFETY



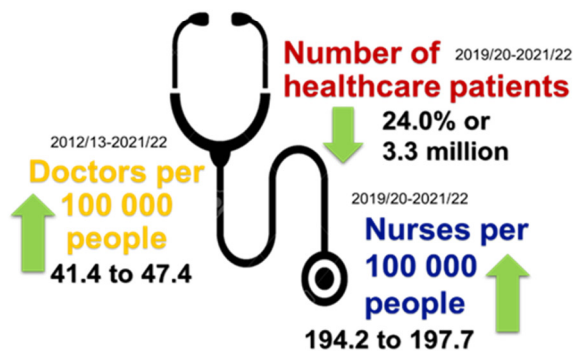
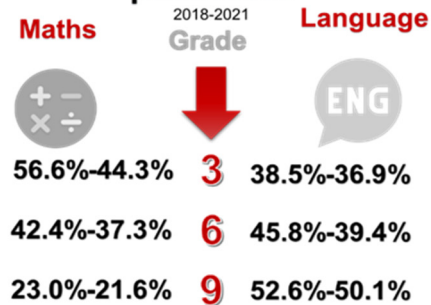
WELLBEING



Education Statistics 2022



Systemic test results pass rates



Psychiatric admissions



2

Economic context

In summary

- The global economy is in a broad-based slowdown and continues to experience challenges including rising inflation and interest rates, the economic consequences of the Russia-Ukraine war and an economic slowdown in China.
- The South African economic outlook is clouded by worsening electricity outages, policy uncertainty, the slow pace of economic reform and deteriorating rail and port infrastructure.
- The Western Cape economic outlook has been revised down and the Province is expected to expand by 0.8 per cent in 2022 and 0.0 per cent in 2023. This highlights the urgency of the Growth for Jobs initiative.
- In the second quarter of 2022, unemployment remained high at 33.9 per cent nationally and at 27.5 per cent in the Western Cape.
- The 2022/23 Provincial Economic Review and Outlook, which was published shortly before the MTBPS, highlighted notable socio-economic trends in the Western Cape including substantial net in-migration, rising inequality, rising learner-teacher ratios, increased health pressures such as mental health, and increased social pressures such as food insecurity, and homelessness.

Introduction

The medium term policy challenge is to boost growth, employment, and investment by focusing on structural economic reforms, including a greater role for the private sector, and measures to restore business and citizen confidence. Rising debt servicing costs and slower economic and tax revenue growth rules out a broad-based fiscal stimulus, underlining the need for budget discipline. Efforts to restore energy security are making headway, although electricity supply will remain severely constrained, at least over the medium term. Patchy policy implementation and ongoing uncertainties in core areas, such as land expropriation, will weigh on business confidence.

A renewed focus on governance for growth will be essential in building a better future for citizens. As pressures of economic hardship accumulate, the role of government to care and prepare for its citizens will become more profound.

Global economic context

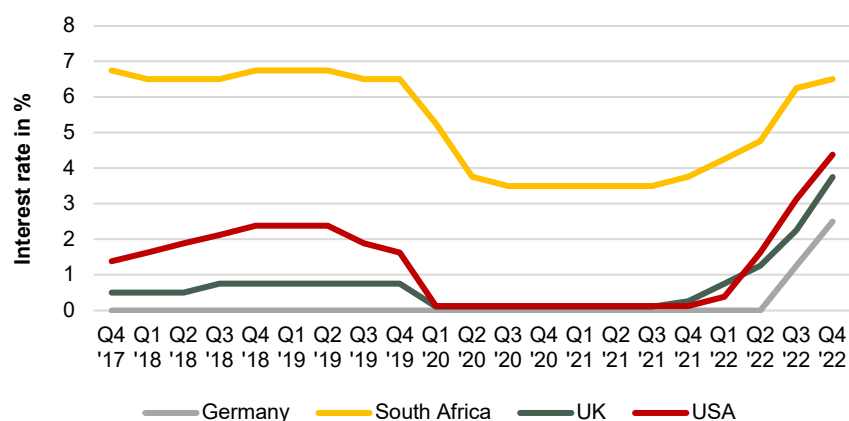
The global economy is in a broad-based slowdown and continues to face severe challenges due to the prolonged Russian invasion of Ukraine; rising inflation pressures; and a slowdown in China.

The war in Ukraine has increased global food prices and severed gas supplies to Europe. This has amplified pre-existing stresses in global commodity markets. Rising food prices have had a serious impact on sub-Saharan Africa where food accounts for a large portion of the region's consumption basket, and where the pass-through of global to domestic prices is high.

Most central banks have indicated that future rate hikes are likely

Rising inflation has led to central banks rapidly raising policy interest rates. Since early 2022, the United States (US) Federal Reserve increased the federal funds target rate by 3.75 percentage points; the Bank of England raised its policy rate by 2.75 percentage points; while the European Central Bank raised its policy rate by 2.5 percentage points. Most central banks have indicated that future rate hikes are likely.

Figure 2.1 Policy interest rates of selected countries, 4Q2017 - 4Q2022



Source: Economic Intelligence Unit

In May 2022, 50 million people in China were forced into lockdown, being prevented from going to work or in some cases even leaving their homes. China's COVID-19 outbreak with subsequent mobility constraints has impacted on local economic activity and negatively affected operations of an already constrained global supply chain. China is a major global manufacturing hub for auto parts and electric vehicles.

Table 2.1 Global economic performance and outlook, 2020 - 2023

	Share of global GDP in 2021 (per cent)	GDP Growth (per cent)		GDP Forecast (per cent)	
		2020	2021	2022	2023
World output	100	-3.2	6	3.2	2.7
Advanced economies	57.8	-4.6	5.2	2.4	1.1
United States	23.7	-3.5	5.7	1.6	1
Euro Area	15	-6.5	5.2	3.1	0.5
Emerging and developing economies	42.2	-2.1	6.6	3.7	3.7
China	18.3	2.3	8.1	3.2	4.4

Source: IMF, 2022; Quantec Research, 2022; Own Calculations

In the **United States (US)** declining real disposable income continues to erode consumer demand with higher interest rates taking a significant toll on spending. The US economy unexpectedly contracted in the second quarter of 2022. It is expected to enter a mild recession in the next 12 months, with modest contractions in GDP in the final quarter of 2022 and the first quarter of 2023. Monetary tightening is the main trigger for this slowdown as the Federal Reserve aims to keep high inflation from becoming entrenched. The International Monetary Fund (IMF) revised its projected growth rate for the US downward by 0.7 percentage points to 1.6 per cent in 2022 and 1.0 per cent in 2023.

The US economy is expected to enter a mild recession in the next 12 months

The **Euro area** is heading for an energy supply crunch with an expected economic downturn over the winter of 2022/23. The extent of the energy crunch will depend on the extremity of the forthcoming winter, the strength of Euro area solidarity, and the effectiveness of firm and household responses in substituting alternative energy sources for gas. Austria and Germany, which are highly dependent on Russian gas and have limited alternative supply options, will face shortages and plan to ration gas usage. Projected growth is 3.1 per cent in 2022 and 0.5 per cent in 2023.

The Euro area is heading for an energy supply crunch with an expected economic downturn over the winter of 2022/23

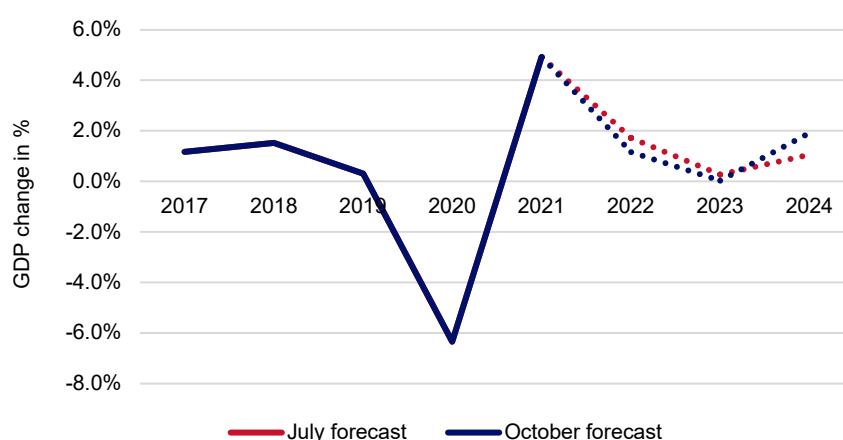
In **China**, adherence to “zero-COVID” policies will continue to drag on economic activity in early 2023. The Chinese government will still seek to fine-tune the harsh regulatory crackdown on the property and technology sectors to rebuild market confidence. A hard-line approach to curbing housing bubbles has led to a protracted crisis in the property sector. The market will firm up by mid-2023, following government intervention, but will remain on a longer-term downward trajectory, given demographic headwinds. The Chinese economy is projected to grow at 3.2 per cent in 2022 and 4.4 per cent in 2024.

■ Developments and outlook for the South African economy

South Africa faces an increased risk of social unrest given the interplay of poverty, unemployment and inequality. The economy faces persistent structural constraints, including high unemployment, skill deficits and power shortages.

A lacklustre global economy combined with the Russia-Ukraine war; the worst power outages on record; and the risk of extreme weather events will weigh heavily on economic activity into 2023.

Figure 2.2 GDP growth and projected growth for South Africa, 2017 - 2024



Source: Quantec

The South African economy is expected to slow to 1.2% in 2022

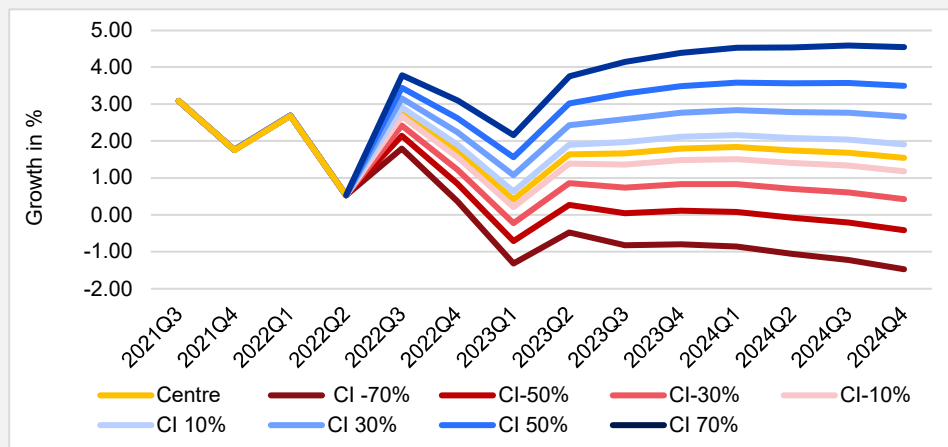
The South African economy is expected to slow to 1.2 per cent in 2022 and 0.0 per cent in 2023 after recording a recovery of 4.9 per cent in 2021. Quantec revised its national growth outlook downward by 0.5 percentage points in 2022 and by 0.3 percentage points in 2023. The downward revisions can mainly be attributed to higher input costs fuelled by a currency depreciation and weaker demand due to interest rate hikes and high inflation. Between August and October 2022, the rand depreciated against the US dollar by 10.2 per cent while the repo rate was raised by 150 basis points over the same period.

The South African Reserve Bank estimates a 26.3% chance of a recession in the first quarter of 2023

In the latest *Monetary Policy Review*, the South African Reserve Bank (SARB) estimates a 26.3 per cent chance of a recession in the first quarter of 2023 (see box 2.1). While the SARB's baseline forecast is for an average economic growth rate of 1.6 per cent over the medium term, there are both upside and downside risks. The outlook for South African growth will improve if the Russia-Ukraine war is resolved, China lifts its COVID-restrictions, and rapid progress is made to secure domestic electricity supply. On the other hand,

growth will slow if the energy supply worsens or if global inflation remains high.

Box 2.1 The correlation between time and risk in economic forecasts



The SARF's quarterly GDP forecast for the South African economy illustrates increased risk at making forecasts over longer time intervals. The confidence level is the percentage of times you expect to reproduce an estimate between the upper and lower bounds of the confidence interval and another way to describe probability. Confidence intervals are useful for communicating the variation around a point estimate. The SARF projects economic expansion of 2.8% for the third quarter in 2022. At a lower and upper confidence interval of 70% the estimate will fall 70 out of 100 times between 1.8% and 3.8% (2 percentage point spread). However, at the same confidence interval, the risk or uncertainty substantially increases as the time horizon of the forecasts increases to the fourth quarter of 2024. At a 70 per cent upper/lower confidence interval the range of possible values increases to 6 percentage points and will vary between -1.5% and 4.5%.

Source: SARF

On a sectoral basis, an overall contraction in 2022 is expected in the **Agriculture sector** after the sector contracted by 13.3 per cent in the first half of 2022 compared to the same period in 2021. The weaker performance represents a return to normality after two years of exceptional growth. Exports grew despite trade bans and logistical constraints. The outlook for the Agriculture sector is -3.3 per cent in 2022 and -1.4 per cent in 2023. However, an above consumption maize harvest is forecasted for 2022/23, which provides some upside risk to 2023. Under such conditions maize exports could be above 3 million tonnes.

The **Mining sector** has been recently hampered by safety and logistical disruptions; electricity supply constraints; labour actions and persistent rail constraints. The Transnet strike will weigh-in on the Mining sector in the fourth quarter with ports operating at lower capacity. The sector declined by 7.3 per cent in the first half of the year compared to the same period in 2021. The Mining sector is expected to contract by 1.7 per cent in 2022 and by 3.0 per cent in 2023.

The Transnet strike will weigh-in on the Mining sector in the fourth quarter

Transnet strike impact on mining exports

Transnet workers went on strike between 6 and 17 October 2022 after a dispute on wage increases. The unions were demanding wage increases linked to South Africa's annual inflation rate but settled on a 6% increase this year; 5.5% in 2023 and 6% in 2024. The strike impacted on freight rail and port operations with fruit and mining exporters the most affected. According to the Minerals Council of South Africa, mining companies were losing R815 million per day in export revenue due to the strike, as major mineral export harbours were operating at between 11 and 30% of their daily averages due to the strike.

Source: Reuters

The Construction sector contracted by 6.1% in the first half of the year, compared to the same period in 2021

The **Construction sector** contracted by 6.1 per cent in the first half of 2022 compared to the same period in 2021, mainly due to declining residential and non-residential building works. Building material shortages, delays in tender processes in the public sector and the increased prevalence of illegal disruptions depress the growth outlook going forward, although construction dynamics in the Western Cape differ to some extent. The sector is projected to contract by 0.6 per cent in 2022 and by 2.2 per cent in 2023.

The Construction mafia

The Construction mafia in South Africa target businesses, government departments, and state-owned companies, threatening infrastructure investments and major projects worth billions of rands. Armed "business forums" aggressively approach developers and in some instances demand up to 30% of a project's value. Construction mafia's have a detrimental impact on the construction sector and the economy. A R5 billion mining rehabilitation project was halted for two years after the disruptions caused by these construction mafias caused foreign investors to walk away.

Source: Bizznews

The **Utilities sector** is hampered by high tariffs, illegal connections, and ageing infrastructure. The electricity shortages have persisted so far in 2022, owing to further breakdowns at key generation plants alongside scheduled maintenance operations. Loadshedding is expected to persist over the next 18 months. In April 2022, the Department of Mineral Resources and Energy (DMRE) launched its sixth bid window under its Renewable Energy Independent Power Producer Procurement Programme (REIPPPP). Challenges in expanding existing capacity through independent power producers will stunt the sector's outlook going forward. The sector is expected to contract by 0.6 per cent in 2022 and by 3.0 per cent in 2023.

Bricks-and-mortar stores will continue to regain some of the ground they lost during the pandemic

The **Trade sector**, which includes South African retailers face an increasingly challenging economic environment due to rising inflation; high unemployment and interest rate pressures. Bricks-and-mortar stores will continue to regain some of the ground they lost during the pandemic, although this will not prevent further gains for online retailers. The sector is expected to marginally expand by 0.4 per cent in 2022 but contract by 1.0 per cent in 2023.

The **Transport sector** was challenged in 2022 by the Transnet strike, deterioration in infrastructure, criminal activity and a shortage of equipment and spare parts. The Sector, which includes telecommunications, was supported by the extended provision for spectrum licences handed out to operators at the onset of the coronavirus pandemic. This helped the country's major operators such as MTN, Telkom and Vodacom to manage the surge in data demand. The sector is expected to expand by 5.3 per cent in 2022 and 0.0 per cent in 2023.

The **Finance sector** expanded by 3.2 per cent in the first half of 2022 compared to the same period in 2021. The well-regulated sector's resilience will be tested by slower global growth and tighter monetary policy. Higher interest rates should boost lenders' margins in the short term, however there is a risk that the rising cost of credit will lead to a downturn in the pace of borrowing and an increase in credit defaults. The sector is expected to grow by 3.1 per cent in 2022 and 1.8 per cent in 2023.

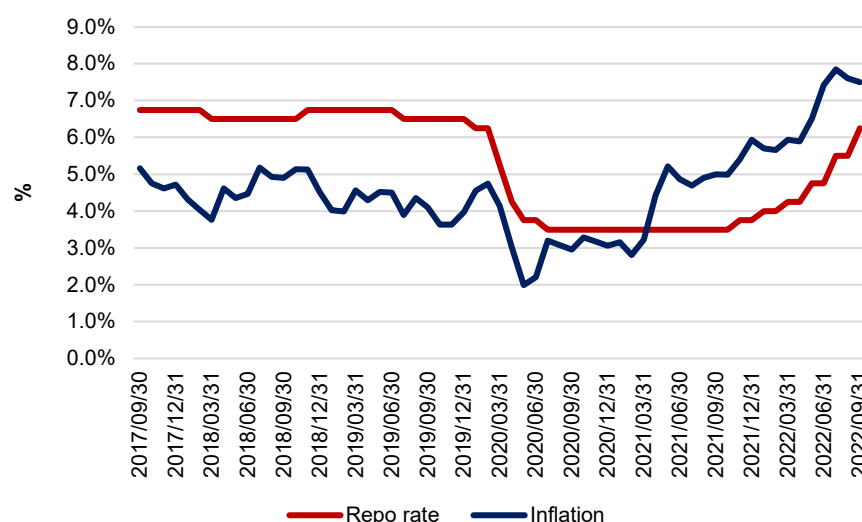
The Finance sector expanded by 3.2% in the first half of 2022 compared to the same period in 2021

Inflation

Interest rate hikes have yet to make a significant impact on South Africa's inflation. South Africa's inflation (core CPI) increased by 7.5 per cent in September 2022. Since July 2022, the average inflation rate has been well above the mid-target rate (4.5 per cent) set by the SARB. The Repo rate increased by 275 basis points since September 2021 to 6.25 per cent.

The Repo rate increased by 275 basis points since September 2021 to 6.25%

Figure 2.3 Repo rate and inflation for South Africa, Sep 2017 - Sep 2022



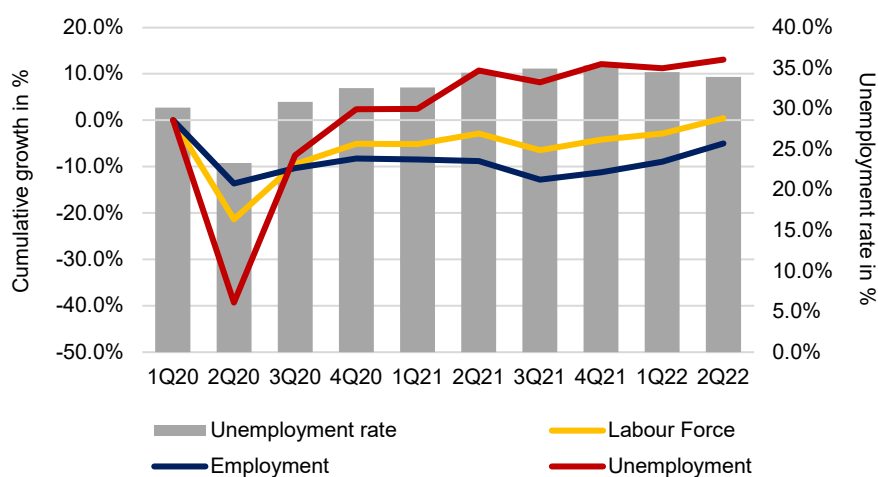
Source: Quantec

Labour

In the second quarter of 2022, South Africa's narrow unemployment rate reached 33.9%

In the second quarter of 2022, South Africa's narrow unemployment rate reached 33.9 per cent. This was 3.8 percentage points higher than pre-pandemic levels. Between the first quarter of 2020 and the second quarter of 2022, the number of unemployed in South Africa cumulatively increased by 13.1 per cent to 7.994 million people.

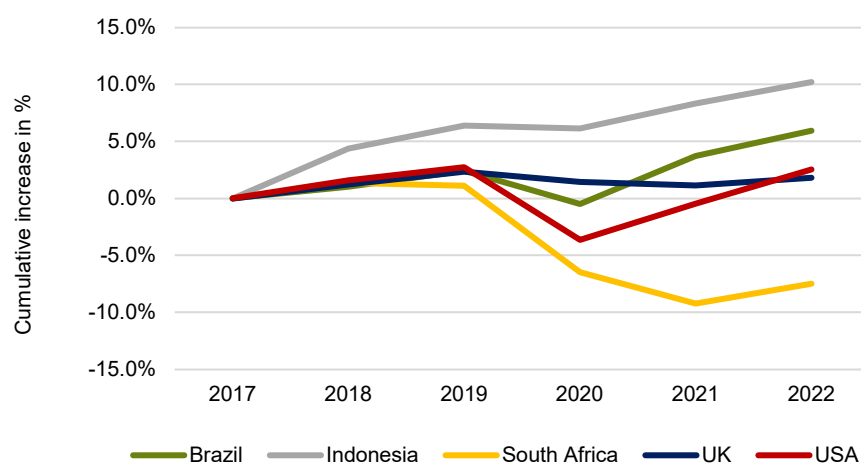
Figure 2.4 Labour dynamics in South Africa, 1Q2020 - 2Q2022



Source: StatsSA, Own Calculations

Over the same period, employment cumulatively contracted by 5.0 per cent to 15.562 million people, while the labour force marginally expanded by 0.4 per cent.

Figure 2.5 Cumulative employment growth for selected countries, 4Q2017 - 1Q2022



Source: Economic Intelligence Unit

Between the fourth quarter of 2017 and the first quarter of 2022, South Africa's employment level cumulatively contracted by 7.5 per cent. Advanced economies such as the US (2.5 per cent) and the

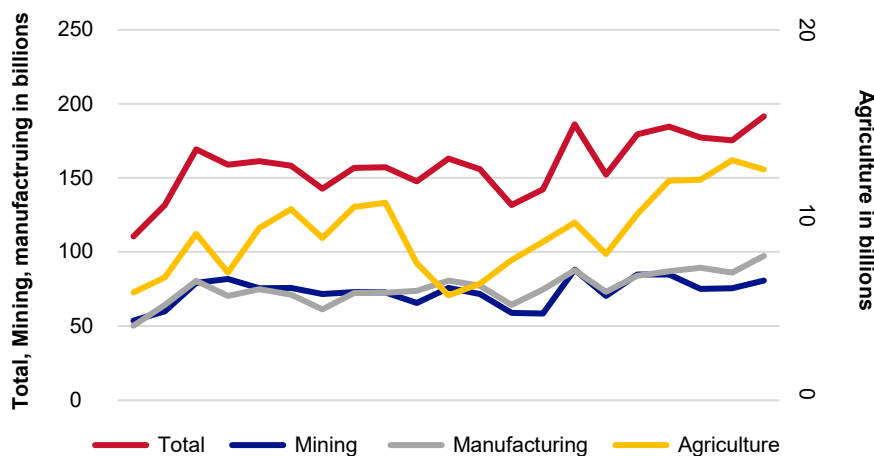
United Kingdom (UK) (1.8 per cent) made marginal progress, whilst emerging market economies with a similar GDP per capita to South Africa significantly increased their employment levels, (Indonesia by 10.2 per cent; Brazil by 5.9 per cent).

Trade

Between the second and third quarter of 2022, South African exports increased by 5.4 per cent of which the Manufacturing (5.6 percentage points) and Agriculture (1.5 percentage points) sectors made notable growth contributions. Over the same period, the Mining sector (-1.7 percentage points) made a negative growth contribution to exports mainly due to a substantial reduction in platinum metal group exports (-26.2 per cent).

In the second and third quarter of 2022, SA exports increased by 5.4%

Figure 2.6 South African Exports in selected sectors, Jan 2021 - Sep 2022



Source: Quantec

In September 2022, total nominal exports expanded by 22.0 per cent on an annual basis. Coal and lignite (13.1 per cent); Platinum group metals (10.6 per cent) and Motor vehicles (8.4 per cent) made the largest contributions to total exports in September 2022. The impact of the Transnet strike on harbour ports is likely to have affected exports in October 2022.

Medium term outlook for the Western Cape economy

Outlook

The sharp economic slowdown in the US, EU and China combined with a weaker economic outlook for South Africa has decelerated growth prospects for the Western Cape. The Western Cape economy is exposed to global factors such as weaker consumer demand; higher inflation and rising policy rates whilst it is also exposed to national challenges of power loadshedding; labour strikes; as well as port and rail inefficiencies.

The power crisis is likely to worsen over the next five years

The power crisis will likely worsen over the next five years. According to an Eskom report¹, the energy supply gap could increase by up to 40 per cent over the next five years. As a consequence, the October 2022 outlook for the Western Cape has been downgraded by 1.5 percentage points to 0.8 per cent in 2022, while no growth is expected in 2023.

Table 2.2 Western Cape economic outlook, 2022 - 2024

Sector	October forecast			% point Change from July forecast		
	2022	2023	2024	2022	2023	2024
Agriculture	- 5.1	- 1.9	0.4	↓ -13.9	↓ -2.1	↓ -1.0
Mining	6.1	- 7.6	- 0.9	↓ -12.8	↓ -0.1	↑ 0.6
Manufacturing	- 1.6	- 3.8	0.6	↓ -4.0	↓ -3.5	↓ -1.0
Utilities	- 0.0	- 2.2	0.1	↓ -0.9	↓ -2.5	↓ -0.6
Construction	- 0.1	- 2.2	4.5	↓ -1.3	↓ -3.7	↑ 1.0
Trade	0.0	- 0.8	1.9	↓ -9.2	↓ -3.0	↓ -1.8
Transport	4.1	0.5	3.1	↓ -2.1	↓ -1.8	↑ 0.1
Finance	2.6	1.6	2.8	↑ 3.4	↑ 2.4	↑ 1.9
Government	- 0.1	1.4	2.0	↑ 1.2	↑ 1.4	↑ 1.8
Community services	0.4	2.1	2.4	↑ 1.2	↑ 1.9	↑ 2.0
Total GDP @ market prices	0.8	0.0	2.0	↓ -1.5	↓ -0.3	↑ 0.6

Source: Quantec

The Finance sector contribution to the Western Cape GDP was 31.3 per cent in 2021

The difference between the growth forecast for the Western Cape and National economies is due to differences in the structure of the two economies. For example, in 2021 the GDP contribution of Mining in the overall South African economy was 5.5 per cent vs 0.2 per cent in the Western Cape, Finance (SA 25.4 per cent vs WC 31.3 per cent) and Community Services (SA 16.8 per cent vs WC 10.7 per cent) sectors. The difference in the economic outlook of these sectors can largely explain the difference in economic prospects between the National and Provincial economies.

The lower economic outlook in the provincial **Agriculture sector** can be attributed to higher input costs (fertilizer and diesel), a lower demand for exports due to inflation pressures; logistical challenges (Ports) and stricter phytosanitary requirements from the European

¹ Eskom medium term adequacy report, 30 October 2022

markets. The Sector is expected to contract by 5.1 per cent in 2022 and by 1.9 per cent in 2023. However, higher tractor sales, attractive commodity prices and favourable weather forecasts points to possible upside risk for 2023.

European phytosanitary requirements (Non-tariff Trade barriers)

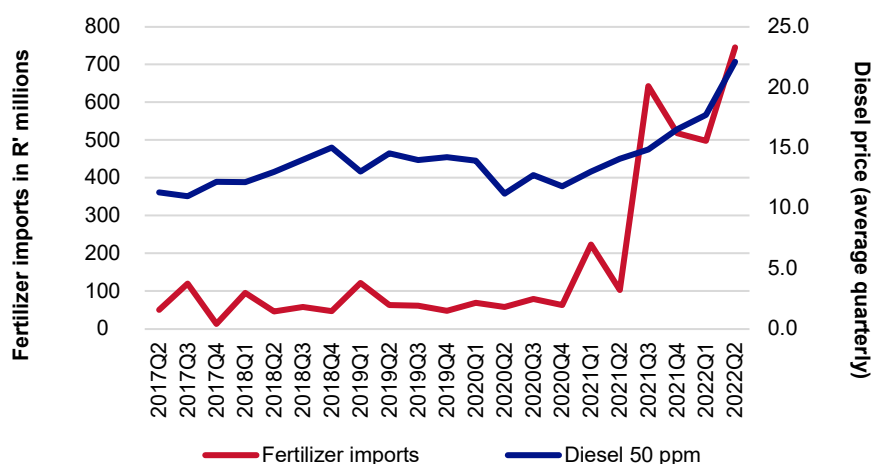
The EU introduced interim measures that required South African consignments of oranges be treated at the cold treatment facilities in the EU and provided for additional phytosanitary declarations for grapefruit and soft citrus. The measures were published on 21 June 2022 and were set to come into force by 24 June 2022 when many shipments were already enroute to Europe. New measures were introduced following concerns it had with the False Codling Moth on citrus fruit. Over 2 000 containers valued at an estimated value of R500 million were affected by this blockage. The new phytosanitary rules led to the first-ever World Trade Organisation dispute settlement case initiated by South Africa.

Source: Reuters

Between the second quarters of 2021 and 2022, the nominal value of fertilizer imports to the Western Cape increased substantially by 625 per cent due to the price increase of fertilizers. Over the same period, the average quarterly price of diesel 50 ppm increased by 57.0 per cent. Diesel and fertilizer are key inputs in the Agriculture sector.

Rising diesel and fertilizer costs impacted disproportionately on the Agriculture sector

Figure 2.7 Fertilizer imports in the Western Cape and average diesel prices, 2Q2017 - 2Q2022



Source: Quantec, Automobile Association of South Africa

The lower GDP outlook for the **Mining sector** can be attributed to higher transport costs, lower expected demand and production cuts mainly due to the electricity crisis. The Sector is expected to expand by 6.1 per cent in 2022 but will contract by 7.6 per cent in 2023.

In the year up to August 2022, the **Construction sector** in the Western Cape was supported by strong growth in building plans passed (25.2 per cent) and buildings completed (42.1 per cent) compared to the same period last year. In addition, the FNB/BER Business

confidence index for main building contractors was on average 13.1 percentage points higher in the first three quarters of 2022, compared to the same period in the previous year. It is therefore likely that the negative outlook for the Construction sector will soon be revised.

Downward revisions in the outlook for the **Trade** and **Manufacturing sectors** were due to the expected impact of electricity disruptions, inflationary pressures; higher production costs and weaker consumer demand.

Green Hydrogen Developments in the Western Cape

The Hydrogen Council has projected that by 2050, green hydrogen will constitute 22% of the final energy demand globally. South Africa currently produces approximately 2 per cent of global hydrogen, with Sasol being the leading producer. Hydrogen has emerged as a key opportunity in the Western Cape toward energy resilience and will play a significant role in the transition to a net-zero energy system. The CSIR and the Department of Science and Technology identified Saldanha Bay as one of the locations of great potential to produce green hydrogen, given its established port infrastructure and significant renewable energy generation potential in close proximity. Following Sasol's agreement with ArcelorMittal South Africa, on its intent to become the first African green flat steel producer by using green hydrogen, Freeport Saldanha signed a MOU with Sasol to collaborate on creating a bankable and implementable project.

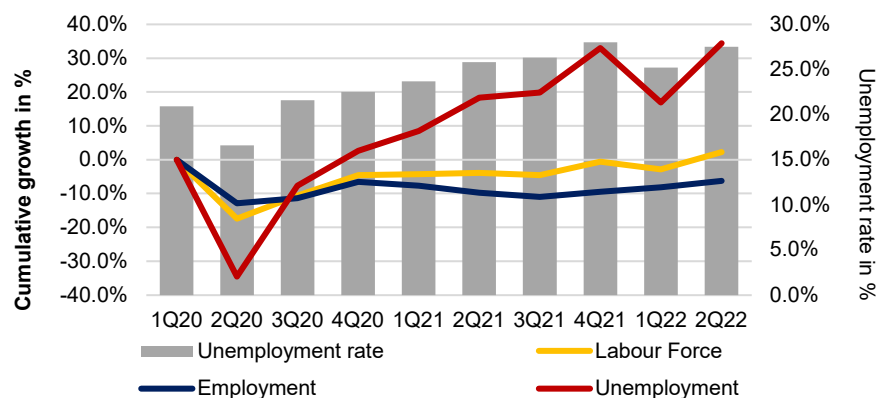
Source: DEDAT, MiningWeekly.com

Labour

In the second quarter of 2022, the Western Cape narrow unemployment rate was 27.5%

In the second quarter of 2022, the Western Cape's narrow unemployment rate was 27.5 per cent or 6.6 percentage points higher than pre-pandemic levels. Between the first quarter of 2020 and the second quarter of 2022, the number of unemployed in the Western Cape cumulatively increased by 34.4 per cent to 891 000 people.

Figure 2.8 Labour dynamics in the Western Cape, 1Q2020 - 2Q2022



Source: Quantec, Own Calculations

Over the same period, employment cumulatively contracted by 6.3 per cent to 2.344 million people, while the labour force expanded by 2.2 per cent, exceeding National labour force growth by 1.8 percentage points.

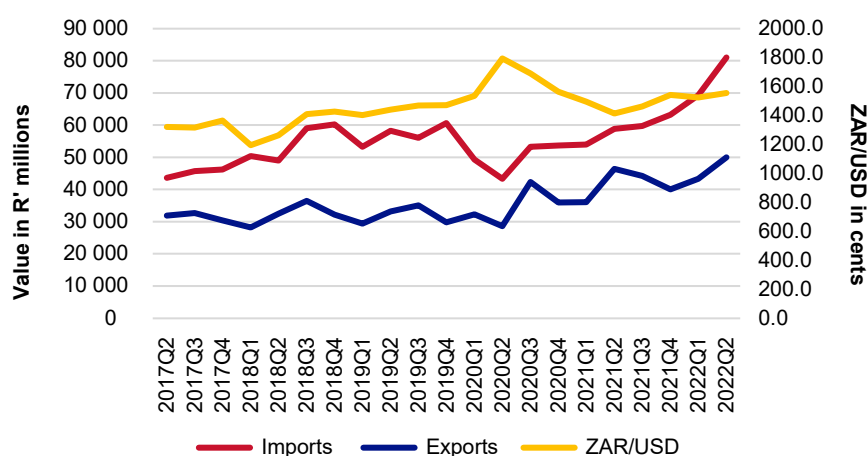
Trade

Between the second quarters of 2017 and 2022, the Western Cape consistently ran a nominal trade deficit. The trade deficit was due to the import of Mineral fuels, mineral oils, and products of their distillation; bituminous substances; and mineral waxes, which collectively contribute 52.3 per cent of Western Cape imports.

In the second quarter of 2022, the Western Cape's share of total imports to South Africa was 18.1 per cent, with the Western Cape's manufacturing imports (19.4 per cent) making a notable contribution to South Africa's manufacturing imports.

In the 2nd quarter of 2022 the Western Cape share of SA total imports was 18.1%

Figure 2.9 Nominal imports and exports of the Western Cape; ZAR/USD exchange rate, 2Q2017 - 2Q2022



Source: Quantec

In the second quarter of 2022, the Western Cape's contribution to total exports in South Africa was 9.7 per cent. The Province contributed a significant portion (53.2 per cent) of South Africa's agriculture exports. In the same quarter, Edible fruit and nuts; peel of citrus fruit or melons (25.0 per cent) made a substantial contribution to the Western Cape's total exports.

The growth and extent of trade deficits in the Western Cape are mainly affected by factors impacting on the quantity and price of its main import (oil derivatives) and export (fruits and nuts) products. This includes exchange rate movements, and relative export to import prices (terms of trade). Commodity prices are affected by both supply (sanctions, natural disasters, input costs) and demand side (consumer demand, interest rates) factors.

Port of Cape Town update

The recent Transnet strike caused a significant backlog at South African ports, with industry experts stating that it may take anywhere between 6 and 10 weeks for shipments to clear. Prior to the Transnet strike, some improvements at the Port of Cape Town had been noted, including waiting times for ships to berth being one day or less for 5 consecutive weeks in August and September this year. In comparison, the average waiting time to berth was 0.71 days internationally with Japan (0.35 days) being the most efficient.

Research presented at a recent workshop showed that an efficient Port of Cape Town with sufficient capacity and investment in key infrastructure has the potential to contribute an additional R6 billion in exports, roughly 20 000 direct and indirect jobs, over R1.6 billion in additional taxes by 2026. Ensuring our Ports are working efficiently is therefore a top priority.

Source: DEDAT, Statista

Grapes make a significant contribution to total exports at the Port of Cape Town in the first quarter of each year

Grapes make a significant contribution to total exports at the Port of Cape Town in the first quarter of each year (34.8 per cent in 2022), whereas apples typically make the largest contribution to total exports in the second quarter of each year (34.8 per cent in 2022). The third quarter is normally dominated by oranges and mandarins (16.7 per cent and 10.8 per cent in 2022), whilst the last quarter's main export contributions is evenly distributed between cranberries and bilberries; oranges; grapes and apples.

Table 2.3 Exports of selected fruits and berries as a share of total commodity exports from the Port of Cape Town, 1Q2021 - 3Q2022

Commodity	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3
Oranges	0.0%	4.2%	15.3%	5.8%	0.0%	2.5%	16.7%
Mandarins	0.1%	5.6%	10.7%	1.5%	0.0%	4.6%	10.8%
Lemons and limes	0.5%	3.5%	3.6%	0.4%	0.6%	3.4%	4.3%
Grapes, fresh or dried	36.9%	3.9%	0.7%	5.8%	34.8%	4.6%	0.6%
Apples	3.9%	10.3%	7.5%	4.3%	4.1%	11.2%	7.6%
Pears	4.6%	4.0%	1.7%	1.3%	4.4%	5.0%	2.2%
Plums and sloes	5.3%	1.2%	0.0%	0.6%	5.2%	1.7%	0.0%
Cranberries, bilberries and other fruit of the genus	0.1%	0.0%	1.5%	7.4%	0.0%	0.0%	0.8%

Source: Quantec

The Transnet strike in October 2022 will likely impact on exports of cranberries and bilberries; oranges; grapes and apples

The Port of Cape Town reported a cyber-attack on its operating systems on 22 July 2021 (third quarter of 2021) which affected the exports of oranges, mandarins, and apples disproportionately. The Transnet strike in early October 2022 (fourth quarter of 2022) will likely have a greater impact on the exports of cranberries and bilberries; oranges; grapes and apples.

■ Conclusion

To support evidence-based policy making, the Western Cape Government publishes an annual Provincial Economic Review and Outlook (PERO) ahead of the Medium Term Budget Policy Statement.

The 2022/23 PERO tracks key statistics in the Growth for Jobs, Safety and Wellbeing focus areas of the Provincial Strategic Implementation Plan. These metrics inform the budget policy priorities.

A complementary publication, the 2022/23 Municipal Economic Review and Outlook, tracks the Growth for Jobs, Safety and Wellbeing in the Metro and five district municipalities.

3

Medium term fiscal framework

In summary

- The national government is continuing its strategy to achieve fiscal sustainability by narrowing the budget deficit and stabilising debt.
- The consolidated budget deficit is projected to narrow from 4.9 per cent of GDP in 2022/23 to 3.2 per cent of GDP in 2025/26. The fiscal consolidation means that allocations to provinces decline in real terms.
- The provincial equitable share remains the Province's most important funding source, accounting for approximately 75.5 per cent of the provincial revenue envelope.
- There have been two significant changes to the provincial equitable share. First, an amount of R4.5 billion has been added to the Western Cape allocation over the medium term to deal with health and education pressures. Second, changes to the formula and data updates have seen the Western Cape's percentage of the provincial equitable share reduced. This translates into a reduction of R1.919 billion over the 2023 MTEF. The net effect is that the provincial equitable share increases by approximately R2.6 billion over the 2023 MTEF.
- In aggregate, conditional grants to the Province are broadly unchanged.
- Over the 2023 MTEF, own revenue and taxes are expected to rise in line with inflation. Increasing own revenue will be critical to ensure that the Province has the resources to meet the challenges of Growth for Jobs, Safety and Wellbeing.

Summary

The three-year fiscal framework responds to the economic context laid out in the previous chapter. It continues the pathway from recovery to growth across the Province, builds a better future for our citizens, with a focus on Growth for Jobs, Safety, and Wellbeing; and takes immediate steps to care for citizens, who are facing hardship as a result of the weak global and domestic economy.

The three-year provincial fiscal framework is formulated within the context of a constrained fiscal environment. Given the limited

resource envelope, the WCG's fiscal framework reflects a strengthened and targeted approach to resource allocation in line with provincial priorities. This ensures that the WCG is spending on the right outputs and within its core mandates, for the maximum impact.

The fiscal framework further reflects a renewed focus on improving revenue performance. This approach supports the delivery of basic social services in areas as diverse as healthcare, basic education, community development, integrated human settlements, and social development.

It ensures that the WCG delivers in an impactful manner using resources more efficiently and effectively. To ensure long run fiscal sustainability, the WCG will focus its attention on rebuilding reserves over the medium term to remain resilient to external shocks and to build a better future for its citizens.

The fiscal framework builds onto the Fiscal Futures project that aims to look beyond the MTEF horizon to determine the best options available to maintain the long term fiscal sustainability of WCG. Further detail on the Fiscal Futures project is provided in Chapter 5.

Table 3.1 Western Cape Provincial Funding Envelope

R'000	Adjusted Estimate	Medium term estimate			Total	Average Annual Growth Rate
	2022/23	2023/24	2024/25	2025/26	2023 MTEF	(2023 MTEF)
Transfers from National	73 407 226	71 625 323	74 237 716	77 397 884	223 260 923	4.0%
Equitable share	59 322 184	57 821 639	59 843 913	62 359 239	180 024 791	3.8%
Conditional grants	14 007 033	13 803 684	14 393 803	15 038 645	43 236 132	4.4%
Conditional grants rollover	78 009					
Own receipts	2 561 337	2 543 892	2 658 073	2 777 154	7 979 119	4.5%
Asset Financing Reserve	1 233 687	923 222	784 205		1 707 427	
PRF Financing	2 686 277	2 029 133	1 473 452	366 768	3 869 353	(57.5%)
Provincial Revenue Fund (Tax receipts)	522 548	541 810	566 137	591 500	1 699 447	4.5%
Total	80 411 075	77 663 380	79 719 583	81 133 306	238 516 269	2.2%
Percentages						
Transfers from National	91.29%	92.23%	93.12%	95.40%	93.60%	
Equitable share	73.77%	74.45%	75.07%	76.86%	75.48%	
Conditional grants	17.42%	17.77%	18.06%	18.54%	18.13%	
Conditional grants rollover	0.10%	0.00%	0.00%	0.00%	0.00%	
Own receipts	3.19%	3.28%	3.33%	3.42%	3.35%	
Asset Financing Reserve	1.53%	1.19%	0.98%	0.00%	0.72%	
PRF Financing	3.34%	2.61%	1.85%	0.45%	1.62%	
Provincial Revenue Fund (Tax receipts)	0.65%	0.70%	0.71%	0.73%	0.71%	
Total	100.00%	100.00%	100.00%	100.00%	100.00%	

Table 3.1 provides a summary of the key components of the Provincial fiscal framework, highlighting:

- Average annual growth in the provincial equitable share of 3.8 per cent in nominal terms¹;
- Average annual growth in conditional grants of 4.4 per cent in nominal terms;
- Own receipts and tax receipts rising by an average of 4.5 per cent in nominal terms; and
- A reduced reliance on drawdowns from the Provincial Revenue Fund as the Province returns to surplus after the shock of COVID-19.

Average annual growth in the provincial equitable share of 3.8% in nominal terms

Each of the components of the Fiscal Framework is outlined in more detail below.

National fiscal framework

Stabilising South Africa's public debt is the focus of the national medium term fiscal framework. Since 2007/08, South Africa's public debt has risen sevenfold, from R577 billion to over R4 trillion in 2021/22. Gross government debt is expected to stabilise at 71.4 per cent of GDP in 2022/23, two years earlier and at a lower level than projected in the 2022 National Budget. Revenue is projected to reach R1.681 trillion for 2022/23, compared to revenue estimates of R1.598 trillion in the 2022 National Budget. As part of government's commitment to narrow the budget deficit, the consolidated budget deficit is projected to narrow from 4.9 per cent of GDP in 2022/23 to 3.2 per cent of GDP in 2025/26.

Consolidated budget deficit is projected to narrow from 4.9% of GDP in 2022/23 to 3.2% of GDP in 2025/26

Compared to the 2022 National Budget, the gross tax revenue estimate for 2022/23 is projected to be R83.500 billion higher. As a result of disciplined budgeting, supported by favorable revenue dynamics, government expects to achieve a primary budget surplus² in 2023/24. The net loan debt, which is gross loan debt less cash balances, will stabilise at 69 per cent of GDP in 2024/25.

The overarching objective of the national medium term fiscal strategy outlined in the 2022 National Medium Term Budget Policy Statement (MTBPS) is therefore to achieve fiscal sustainability by narrowing the budget deficit and stabilising debt, while increasing spending on policy priorities such as security, basic services, and

¹ In nominal terms is an unadjusted number, whereas in real terms is adjusted for inflation.

² A primary budget surplus occurs when tax revenue is greater than government spending.

infrastructure. These interventions aim to promote economic growth and reduce fiscal and economic risks, including through targeted support to key public entities and building fiscal buffers for future shocks.

Higher than budgeted public service wage costs would place undue stress on the fiscus. As Public Service Co-ordinating Bargaining Council wage negotiations for 2022/23 are still ongoing, the 2022 National MTPBS includes provision for a pensionable salary increase of 3 per cent for public servants, backdated to April 2022. The non-pensionable cash allowance, which translates into an average of R1 000 per employee per month (net after tax), will continue until March 2023.

No provisions have been made for wage increases in 2023/24 to avoid pre-empting the wage negotiation process. However, wage increases will need to be contained within the available fiscal resources so as not to compromise other spending priorities.

Short to medium term risks to the fiscal outlook include:

- A slowdown in global economic growth, which would negatively affect domestic growth and revenue collection worsening the fiscal position;
- Continuous electricity supply constraints, which would decelerate economic growth;
- The materialisation of contingent liabilities, such as government guarantees, and the weak financial position of several state-owned companies;
- New, unfunded spending pressures that could negatively affect public finances; and
- Wage pressures and Social Relief of Distress grants.

■ Impact on the Provincial Fiscal Framework

Allocations to provinces increase on average by 2.8% a year over the MTEF

The national fiscal context has significant implications for allocations to provinces. Over the medium term, national government proposes to allocate 48.4 per cent of available non-interest expenditure to national departments, 41.4 per cent to provinces and 10.1 per cent to local governments.

Medium term allocations to provinces increase on average by 2.8 per cent a year, well below projected average inflation of 4.8 per cent or a real decline of almost 2 per cent.

Table 3.2 Division of revenue framework

R billion	2019/ 20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Outcome			Revised	Medium term estimates		
Division of available funds	749.8	790.5	823.0	857.9	817.7	822.2	859.1
National departments							
Provinces	613.5	628.8	660.8	684.5	684.3	709.5	743.3
Equitable share	505.6	520.7	544.8	560.8	556.4	576.5	602.9
Conditional grants	107.9	108.1	116.0	123.7	128.0	133.0	140.4
Local government	123.0	137.1	135.6	154.2	164.9	174.6	183.5
Main budget expenditure	1 691.0	1 789.0	1 887.5	2 018.2	2 041.6	2 144.5	2 263.2

R billion	2019/ 20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Outcome			Revised	Medium term estimates		
<i>Percentage shares</i>							
National departments	50.4%	50.8%	50.8%	50.6%	49.1%	48.2%	48.1%
Provinces	41.3%	40.4%	40.8%	40.3%	41.1%	41.6%	41.6%
Local government	8.3%	8.8%	8.4%	0.1%	9.9%	10.2%	10.3%

Source: National Treasury

Faster growth in allocations is provided to provincial and local government in support of service delivery, stabilising municipalities in immediate distress, and developing longer term plans to improve capability at a local government level. Particular areas of focus include health, education and the provision of free basic services by local government. A specific focus is placed on infrastructure investment including rehabilitating damaged municipal infrastructure and refurbishing provincial roads.

Despite limited fiscal resources, and the national objective of repairing public finances, growth in expenditure is possible due to the strong growth in nominal revenue collections. This is in part due to windfall tax receipts from higher commodity prices, and improvements in efficiencies at the South African Revenue Service.

The PES allocation to all provinces is projected to be R556.4 billion in 2023/24, R576.5 billion in 2024/25 and R602.9 billion in 2025/26. Of this, the Western Cape is allocated R57.8 billion (10.42 per cent), R58.8 billion (10.38 per cent) and R62.3 billion (10.35 per cent) in each of the years over the medium term.

Table 3.3 Provincial Equitable Share between provinces

R million	2022/23	2023/24	2024/25	2025/26
Eastern Cape	72 231	71 682	74 059	77 422
Free State	31 107	30 815	31 798	33 157
Gauteng	120 042	118 566	123 219	128 844
KwaZulu-Natal	114 558	113 240	116 758	121 688
Limpopo	64 056	64 175	66 774	70 276
Mpumalanga	45 962	45 834	47 581	49 882
Northern Cape	14 942	14 878	15 441	16 182
North West	39 540	39 373	41 027	43 091
Western Cape	58 367	57 822	59 844	62 359
Total	560 805	5 563 85	576 501	602 900

Source: National Treasury

Gauteng and KwaZulu-Natal receive the largest share of the PES. The WC receives the 5th largest share out of the nine provinces. The growth in PES for all provinces is -0.8 per cent in 2023/24, 3.6 per cent in 2024/25 and 4.6 per cent in 2025/26.

Changes to the Provincial Equitable Share between the 2022 Budget and 2022 MTBPS

The WC's share of the PES formula declined by -0.16 percentage points from 10.5% over the 2022 MTEF to 10.3% over the 2023 MTEF

The WC proportional share of the PES is projected to decline over the 2023 MTEF. At the time of the 2022 Budget, the Western Cape's share was approximately 10.5 per cent. The reduction in the share is due to the continued phasing in of the new Health Risk-Adjusted Index together with data updates, particularly to health usage and education data. The Western Cape's share of the PES formula declines by 0.16 percentage points from the 2022 MTEF to the 2023 MTEF. This is a shift from a 10.5 per cent share to 10.3 per cent, which will be phased-in incrementally over a three-year period (see box for technical details of the phase-in).

The combined impact of the data updates together with the second-year phase-in of the health sub-component amounts to a reduction of R1.919 billion over the 2023 MTEF.

Table 3.4 Revisions to the Provincial Equitable Share: 2023 MTEF

R Thousands	2023 Medium-term expenditure framework			Total Revisions
	2023/24	2024/25	2025/26	
Provincial equitable share (PES) (as per final 2022 MTEF allocation letter)	56 810 292	58 991 251	61 634 059	177 435 602
Adjustment to baseline due to impact of new data updates in the PES formula (phase-in from 2023/24 of 2022 MTEF)	(368 077)	(651 263)	(899 688)	(1 919 028)
Total: Technically adjusted provincial equitable share before Adjustments to Baselines	56 442 215	58 339 988	60 734 371	175 516 574
Plus: Adjustments to Baselines for Basic Service Delivery Pressures	1 379 424	1 503 925	1 624 868	4 508 217
2022 MTEF PES Percentages (new data updates (phased-in))	10.42%	10.38%	10.35%	
Total: Preliminary Provincial Equitable Share for 2023 MTEF	57 821 639	59 843 913	62 359 239	180 024 791

Source: National Treasury preliminary PES allocations for the 2023/24 - 2025/26 MTEF.

Adjustment to the Provincial Equitable Share Baseline for service delivery pressure

The National Government has allocated additional amounts to provinces for health, education, and other basic service delivery pressures. This translates to an amount of R4.508 billion over the MTEF for the Western Cape. This includes R2.4 billion over the MTEF for health pressures (health sector specific needs relate to service backlogs, including anti-retroviral and tuberculosis treatment, laboratory services and other goods and services including medicines and medical supplies) and R2.1 billion for compensation of employee pressures in education.

In addition, the National Treasury has made provision for the implementation of a 3 per cent cost-of-living adjustment in 2022/23. This amounts to R954.737 million and is included in the 2022/23 Adjusted Estimates. Once the current wage negotiations have been finalised, it is expected that an additional allocation will be made to the Province to cover the increased cost of employment over the remaining years of the 2023 MTEF.

Annual Technical Data Updates impact on the PES

The PES formula is updated on an annual basis, to promote alignment between the allocation of available resources through the horizontal distribution across provinces. This allows for allocations to reflect changes in the demand for services as measured by provincial population numbers and official institutional data as verified by national departments. Table 3.5 summarises the data sources used to update the various components of the PES formula.

Table 3.5 Summary of PES data updates

Weight	Component	Data used
48%	Education	<ul style="list-style-type: none"> Mid-Year Population Estimates 2022 age cohorts 2022 (new data) LURITS School Enrolment (new data)
27%	Health	<ul style="list-style-type: none"> 2022 Mid-Year Population Estimates (new data) Insured population (2019 GHS) 2020/21 Council for Medical Schemes data 2021 and 2018 General Household Survey Total fertility rate (new data) Premature Mortality (new data) Patient load data (DHIS 2020/21 - 2021/22)
16%	Basic	<ul style="list-style-type: none"> 2022 Mid-Year Population Estimates (new data)
3%	Poverty	<ul style="list-style-type: none"> 2022 Mid-Year Population Estimates (new data) Income and Expenditure Survey 2010/11
1%	Economic	<ul style="list-style-type: none"> GDP-R 2019
5%	Institutional	<ul style="list-style-type: none"> Not applicable - distributed equally amongst provinces (data not used)

The Education component relies on data, weighted equally, drawn from the 2022 Mid-Year Population Estimates of the school-age population (5 to 17 years) and the number of learners (Grades R to 12) enrolled in public ordinary schools. The Western Cape's share of the education component declined by 0.06 percentage points. For the 2022 enrolment numbers, the WCED used the 10th school day SNAP survey and not learner enrolment numbers based on a later in-year survey point such as the Annual School Survey. This led to an underestimation of learner enrolment as learners that are placed in schools later in the year were not included in the 2022 enrolment numbers.

In 2023, the WCED will review the timing of the measurement point to record official learner counts that contributed to the decline in Western Cape learner enrolment recorded in the 2022 LURITS database. This review is expected to normalise the decline that was recorded in the 2022 learner numbers in the Department's submission for 2023, which should translate into a rise in the Western Cape's PES share of the education component for the 2024 MTEF allocations, barring potential major shifts in other provinces' enrolment data.

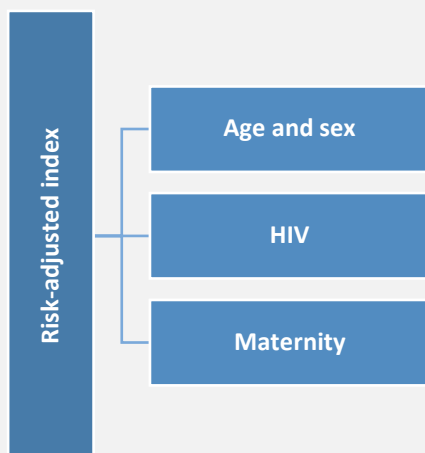
Further quality assurance measures will be developed to enable Provincial Treasury oversight in respect of all administrative data submissions to the PES data update process going forward.

Box 3.1: Continued phasing-in of the Health Risk Adjusted Component

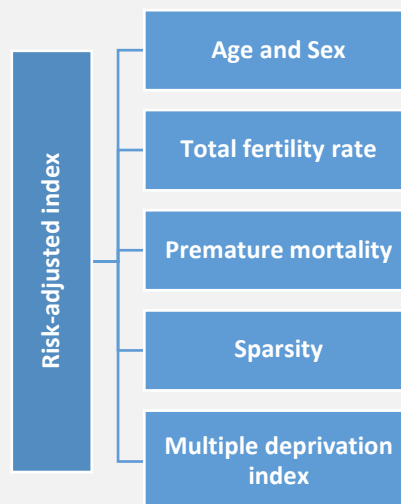
The introduction of the new Health Risk Adjusted Index health sub-component continues to impact the provinces share of the PES. This is the second year of the phase in following the adoption of the new component as part of the PES review process that was concluded in 2021. The new health risk-adjusted index replaces the current risk-adjusted index, which was last updated in 2010 and sees the Western Cape's share of the Risk-Adjusted Index decline from 104 per cent to 90 per cent.

The change seeks to account for changes in health risk profiles and the associated cost curves for age and sex and to make the formula more equitable by taking into account poverty and sparsity. The components which informed the old and new risk adjustment component are shown below.

Old:



New:



The factors and their weights recognised to influence health spending include:

- **Age and Sex (69%)** – The majority of health spend can be attributed to age and sex. Demand for health care is higher amongst the very young, women of childbearing age and the elderly;
- **Total Fertility Rate (3%)** – Accounts for the average number of children expected to be born to a woman in her lifetime. This variable is important given the health system focus on maternal and child health, and the additional costs associated with pregnancies, deliveries and child health. A separate weighting for this factor has been included to account for the substantial differences in total fertility rate between provinces;
- **Premature Mortality (12%)** – Is used to approximate the burden of disease and associated demands on the health care system. Higher premature mortality implies a higher rate of morbidity and therefore a higher need for health care resources;
- **Multiple Deprivation Index (5%)** – Social determinants of health affect demand for health services and thus costs. These include education, access to water services, electricity, housing, and the extent of household asset ownership (e.g. refrigerator, stove, computer, cellphone etc.); and
- **Sparsity Adjustment (11%)** – Delivering health care in areas with low population density and that are geographically remote incurs additional costs. These areas are often more difficult to access, and have lower utilisation levels that reduce economies of scale and make costs per capita higher than urban areas.

The new risk-adjusted index accounting for 75 per cent of the **Health component** was approved by Budget Council in 2021. The new risk-adjusted index, consisting of five different factors, takes into consideration the relative cost of health care needs by age and sex, total fertility rate, the burden of disease as measured through

premature mortality, a deprivation index used as a proxy for socio-economic factors and sparsity to account for the higher potential costs associated with delivering health care needs to lower density populations. Data points informing the age and sex variable linked to the Government Employees Medical Scheme data together with sparsity and multiple deprivation will be updated periodically. The rest of the data used in the risk-adjusted index has also been updated.

The health risk-adjusted index has seen the WC's share decline by 0.9 percentage points

The year 2023/24 represents the second of a three-year phasing-in period of the health risk-adjusted index, which has seen the Western Cape's share decline by 0.9 percentage points from 10.7 per cent to 9.8 per cent.

The Output sub-component represents the remaining 25 per cent share of the health component. It comprises of the sub-component primary health care which makes up 5 per cent and Hospital workload patient-day equivalents which accounts for the remaining 20 per cent of the entire health formula. The primary health care sub-component is updated using patient load data from the District Health Information Services as well as the average number of clinic visits at primary health care clinics between 2020/21 and 2021/22. The Western Cape's share of this component has declined by 1.5 percentage points from 11.9 per cent to 10.4 per cent.

The Hospital sub-components use an average of each provinces share of the total patient-day equivalents from public hospitals between 2020/21 and 2021/22. The Western Cape's share of this component has increased by 0.6 percentage points from 13.1 per cent to 13.7 per cent.

The combined changes to the formula resulted in the Western Cape's share of the total health component declining by 0.6 percentage points overall from 11.2 per cent to 10.6 per cent.

Basic component sees the WC's share increase marginally by 0.1% as a result of a 1.4% increase in the WC's population

The remaining 25 per cent of the PES formula is informed by updates to the **Basic component** comprised of the mid-year population estimates which sees the Western Cape's share increase marginally by 0.1 per cent as a result of a 1.4 per cent increase in the Western Cape's population from 7 113 212 in 2021 to 7 212 142 in 2022. The **Poverty component** increases by 0.07 per cent driven by the increase in population weighted by the 2010/11 Income and Expenditure Survey data. The Province's share of the **Economic component** uses the same 2019 GDP-R data from StatsSA for 2023 as for 2022 and therefore remains unchanged at 13.6 per cent. At the time of formulating the data updates to the 2023 PES formula, the 2020 GDP-R data was not available from StatsSA. Lastly, the **Institutional component** is split equally between the provinces with each province receiving an 11.1 per cent share.

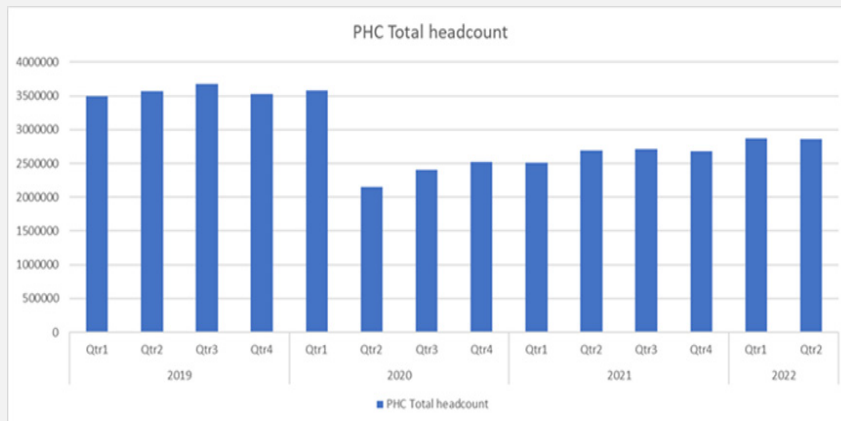
The Institutional component of PES is split equally between the provinces with each province receiving an 11.1% share

The net effect of the continued phasing-in of the Health Risk-Adjusted component together with the data updates results in the Western Cape's share of the formula declining from 10.5 per cent in 2022/23 to 10.4 per cent in 2023/24.

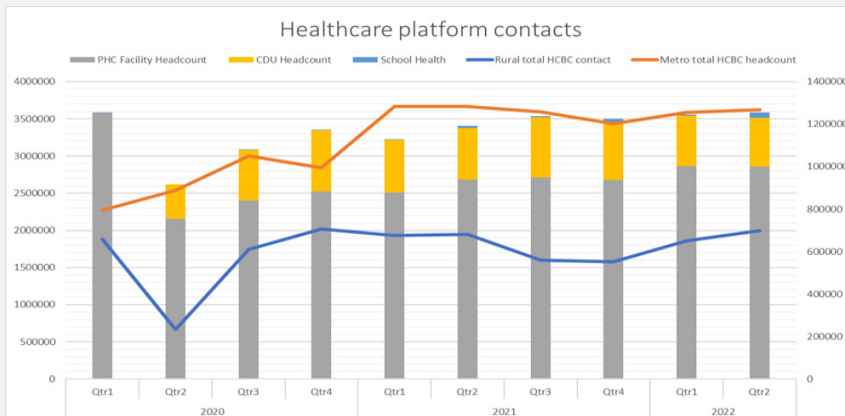
Box 3.2: Alternative Service Delivery Platforms

Output data comprises 25 per cent of the Health PES component, making the variables used in this sub-component critically important in accurately reflecting the activities of provincial health departments and in turn a province's PES.

In 2020, the definition for the Primary Health Care (PHC) headcount changed. School health visits and chronic dispensing unit (CDU) deliveries were removed leading to a drop in PHC headcount.



The re-inclusion of school health data and CDU deliveries into PHC headcount as shown in the graph below indicates that PHC workload is once again at 2019 levels following the impact of COVID-19 restrictions, when people stayed away from accessing healthcare facilities for fear of contracting COVID-19.



The Western Cape Department of Health has embarked on a number of innovative strategies to improve the delivery of quality health services. These may not necessarily be recognised in the output component of the health PES formula. PHC visits may be a poor indication of the workload at the primary health care level as it assumes that health services only occur in brick-and-mortar buildings. Service delivery has moved beyond this with services now being offered at a place that is most convenient for the patient. This includes the delivery of medication to their homes, visits by community health workers or even tele-medicine consultations.

A new indicator that adequately captures the workload at primary health care level is thus required, one that is able to capture current workload as well as other health innovations aimed at reducing patient traffic to health facilities such as tele-medicine, community health work visits and alternate medicine delivery, etc.

Provincial conditional grants

The indicative baseline for conditional grants over the 2023 MTEF is presented in Table 3.6. According to Section 26(2)(e) of the 2022 Division of Revenue Act, national departments responsible for administering conditional grants must submit allocations for each grant per province to the National Treasury by 2 December 2022. Final allocations will subsequently be communicated to provinces.

Furthermore, a National Treasury task team is in the process of reviewing the conditional grants transfer system. The outcome of this review will contribute towards informing revisions to conditional grants allocations over the 2023 MTEF.

Table 3.6 Conditional grant baseline allocations over the 2023 MTEF

Vote and grant R'000	Medium-term estimate			Total over 2023 MTEF	Average annual growth rate
	2023/24	2024/25	2025/26		
Education	1 822 160	1 904 561	1 989 885	5 716 606	4.50%
HIV and AIDS (Life Skills Education) Grant	18 071	18 939	19 787	56 797	4.64%
National School Nutrition Programme Grant	467 538	488 535	510 421	1 466 494	4.49%
Learners with Profound Intellectual Disabilities Grant	31 069	32 982	34 460	98 511	5.32%
Infrastructure Grant	1 180 389	1 233 451	1 288 710	3 702 550	4.49%
Maths, Science and Technology	37 135	38 746	40 482	116 363	4.41%
Early Childhood Development Grant	87 958	91 908	96 025	275 891	4.49%
Health	7 116 650	7 401 230	7 732 805	22 250 685	4.24%
National Tertiary Services Grant	3 332 007	3 481 646	3 637 624	10 451 277	4.49%
National Health Insurance Grant	43 272	44 264	46 247	133 783	3.38%
Human Resources and Training Grant	887 123	903 926	944 422	2 735 471	3.18%
District Health Programmes Grant	2 049 145	2 141 171	2 237 095	6 427 411	4.49%
Health Facility Revitalisation Grant	805 103	830 223	867 417	2 502 743	3.80%
Mobility	1 177 519	1 230 401	1 285 523	3 693 443	4.49%
Public Transport Operations Grant	1 177 519	1 230 401	1 285 523	3 693 443	4.49%
Infrastructure	3 215 346	3 365 894	3 516 686	10 097 926	4.58%
Provincial Roads Maintenance Grant	1 007 837	1 059 248	1 106 702	3 173 787	4.79%
Human Settlements Development Grant	1 701 511	1 777 924	1 857 575	5 337 010	4.49%
Human Settlements: Informal Settlements Upgrading Partnership Grant for Provinces	505 998	528 722	552 409	1 587 129	4.49%
Agriculture	187 312	196 334	205 130	588 776	4.65%
Ilima/Letsema Projects Grant	59 979	62 672	65 480	188 131	4.48%
Comprehensive Agriculture Support Programme Grant	121 653	127 116	132 811	381 580	4.49%
Land Care Programme Grant: Poverty Relief and Infrastructure Development	5 680	6 546	6 839	19 065	9.73%
Cultural Affairs and Sport	284 697	295 383	308 616	888 696	4.12%
Mass Participation and Sport Development Grant	91 366	94 214	98 435	284 015	3.80%
Community Library Services Grant	193 331	201 169	210 181	604 681	4.27%
Total conditional grants	13 803 684	14 393 803	15 038 645	43 236 132	4.38%

Indicative allocations for conditional grants to the Western Cape are estimated to be R43.236 billion over the 2023 MTEF, where R13.804 billion, R14.394 billion, and R15.039 billion are allocated in 2023/24, 2024/25, and 2025/26 respectively.

The National Tertiary Services Grant, the Comprehensive HIV, AIDS, and TB Grant, Education Infrastructure Grant, and the Human Settlements Development Grant are among the largest conditional allocations received by the Province.

Additions to direct Provincial Conditional Grants

Most of the disaster funding allocated at the beginning of the financial year has been exhausted but additional funding has been added to the disaster grants to cater for appropriate disaster responses.

R97 million is therefore added to the Provincial Disaster Response Grant and R350 million is added to the Provincial Emergency Housing Grant in order to assure funding for disasters.

Provincial own receipts

Provincial departments are empowered by Sections 228 and 229 of the Constitution to raise revenues which they can use to further their mandates. Although most of the revenue envelope of provinces comes from the national sphere of government, own receipts are supplementary funding that contribute to the service delivery ability of provincial departments. Provinces have access to narrow-based taxes such as gambling taxes, motor vehicle licence (MVL) fees, liquor licence fees, and user charges like hospital patient fees. Broad-based taxes such as personal income and corporate taxes are under the jurisdiction of the national government. Provincial own receipts comprise around 5 per cent of the total revenue envelope in the Western Cape with provincial equitable share and conditional grant.

The most significant sources of own receipts contributing to the adjusted budget are from the Department of Transport and Public Works with 81 per cent and 16 per cent from the Department of Health. Table 3.7 provides the overview by department.

The most significant sources of own receipts are from DTPW with 81% and 16% from the Health Department

Liquor licence fees and gambling taxes are reported independently from the budgets of departments under the category of Provincial Revenue Fund receipts: The Department of Community Safety and the Provincial Treasury function merely as conduits through which gambling taxes and liquor licence fees are received from the Western Cape Gambling and Racing Board (WCGRB), and the Western Cape Liquor Authority (WCLA) and are deposited into the Provincial Revenue Fund (PRF).

Box 3.3: Taxes and user charges

According to Section 228 of the Constitution the provincial legislature may impose:

- (a) taxes, levies and duties other than income tax, value-added tax, general sales tax, rates on property or customs duties; and
- (b) flat-rate surcharges on any tax, levy or duty that is imposed by national legislation, other than on corporate income tax, value-added tax, rates on property or customs duties.

MVL fees, gambling taxes, and liquor licence fees are provincial taxes used by provinces to raise revenue in order to help fund the expenditure requirements of provincial departments. These types of taxes do not necessarily have a direct link to the financial resources raised and transferred to government, and the goods and services purchased in the delivery of those services. The tax is compulsory, and taxpayers are legally compelled to comply with the appropriate legislative requirements to do so.

Other fees, or user charges, are levied by the Province inclusive of hospital patient fees, museum fees, and other fees charged to gain access to government goods and services. These types of fees make a direct link between the amount paid by the taxpayer to the good or service received from the government institution.

Both taxes and user charges used by the provincial government contribute towards raising own revenue in the Province.

Provincial own receipts raised by departments are estimated to increase at an average annual growth rate (AAGR) of 2.7 per cent from the 2022/23 adjusted estimate of R2.561 billion to R2.777 billion in 2025/26, representing an increase of R215.818 million. PRF: tax receipts are projected to increase at an AAGR of 4.2 per cent from R522.548 million in the 2022/23 adjusted budget to R591.500 million in 2025/26.

Table 3.7 Summary of projected provincial own receipts by vote and source

Votes	2022/23	2023/24	2024/25	2025/26
R'000	Adjusted Budget	Medium Term Estimate		
Provincial Own Receipts raised by Departments	2 561 337	2 543 892	2 658 073	2 777 154
Department of the Premier	1 712	1 789	1 869	1 953
Provincial Parliament	78	82	86	89
Provincial Treasury	80	84	88	92
Community Safety	328	343	358	375
Education	25 693	26 849	28 053	29 310
Health	397 253	396 817	414 634	433 209
Social Development	1 258	1 315	1 374	1 436
Human Settlements	10 407	1 950	2 000	2 089
Environmental Affairs and Development Planning	2 917	3 048	3 185	3 327
Transport and Public Works	2 085 136	2 072 117	2 165 155	2 262 154
Agriculture	34 738	36 301	37 931	39 630
Economic Development and Tourism	388	405	423	442
Cultural Affairs and Sport	1 235	2 673	2 793	2 918
Local Government	114	119	124	130
Provincial Revenue Fund: Tax Receipts	522 548	541 810	566 137	591 500
Gambling Taxes	483 528	501 034	523 530	546 984
<i>of which:</i>				
Casino Taxes	373 330	380 333	397 410	415 214
Horse racing taxes	110 198	120 701	126 120	131 770
Liquor Licence Fees	39 020	40 776	42 607	44 516
Total	3 083 885	3 085 702	3 224 210	3 368 654

Box 3.4: Motor Vehicle Licence (MVL) fees history

Between 2001/02 and 2005/06 the WCG increased its MVL fees by 10 per cent per year on average. These increases were used to address the backlog in road infrastructure development and maintenance in the Western Cape. Before the WCG undertook these fee increases, MVL fees across provinces were roughly the same. The assumption was made by the WCG that other provinces would follow suit and increase their MVL fees to match the increases of the Western Cape. This however did not happen, and by 2006/07 the Western Cape's MVL fees were on average 50 per cent higher than the other provinces.

The National Treasury (NT) and provincial treasuries met and eventually agreed that the Western Cape would keep its own MVL fees unchanged to allow other provinces to increase their MVL fees until they were once again on par with the Western Cape. As a result, the Western Cape did not increase MVL fees between 2006/07 and 2012/13.

An updated study in 2012 by Future lead showed that MVL fees in other provinces were reaching parity with MVL fees in the Western Cape. The original study was conducted by Future lead in 2008.

The findings of the 2012 updated report resulted in the Western Cape increasing MVL fees by 5.3 per cent with effect from the 1st of June 2013 for the first time in 6 years. Subsequently, MVL fees were increased annually according to the following:

- 3.4 per cent with effect from the 1st of July 2014;
- 3.0 per cent with effect from the 1st of July 2015;
- 6.0 per cent with effect from the 1st of April 2017;
- 4.5 per cent with effect from the 1st of April 2018;
- 3.0 per cent with effect from the 1st of April 2019; and
- 4.5 per cent with effect from 01 April 2020.

Since the other provinces achieved parity with the Western Cape in terms of MVL fees, the Western Cape Department of Transport and Public Works is now able to increase its MVL fee tariffs without the risk of license holders registering their cars in other provinces.

MVL fees were not increased during the 2021/22 financial year. The Department of Transport and Public Works received submissions from private individuals and companies stating that the COVID-19 pandemic was having a negative impact on livelihoods, and the ability to pay higher motor vehicle licence and registration fees, which further cemented the decision not to increase fees in 2021/22.

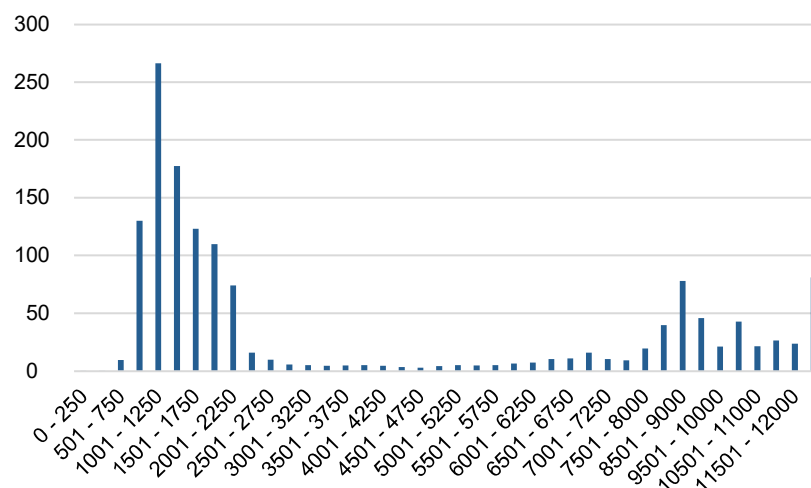
Motor Vehicle Licence (MVL) fees

MVL fees make the largest contribution to own receipts collected in the province and are projected to grow at an AAGR of 3.9 per cent from R1.897 billion in the 2022/23 adjusted budget to R2.130 billion in 2025/26. Growth in MVL fee collections is determined by increases in the MVL fee tariffs across the various motor vehicle licence categories, and by the growth in the motor vehicle population.

Table 3.8 shows that most of the estimated revenue for motor vehicle licence fees collected for item 2.2 is clustered around tare weights 751 to 2 250 kilograms as most of the motor vehicle

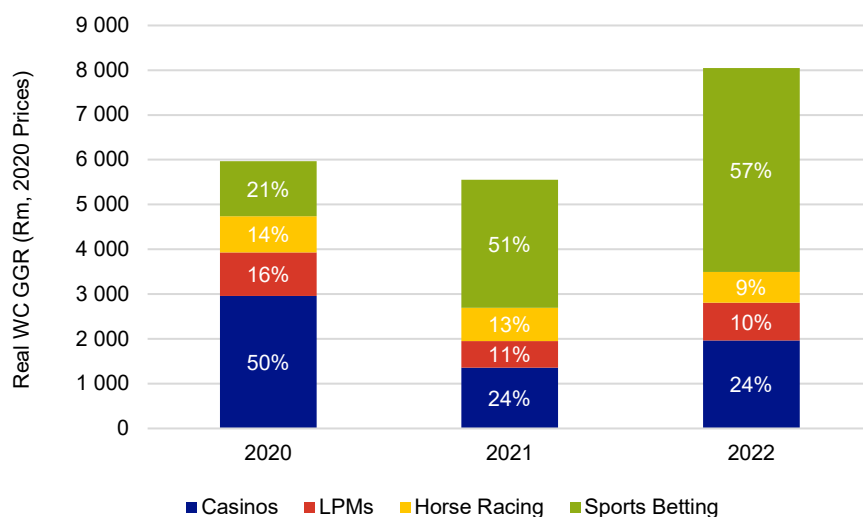
population fall into this range. Total revenue for item 2.2 in 2022/23 is estimated to be R1.444 billion.

Figure 3.1 Estimated Western Cape 2022/23 MVL fees revenue for item 2.2 (per tare range in kilograms)



The COVID-19 pandemic has sped-up changes which had already started emerging within the gambling sector. Key trends are the maturing of the casino sector, with real growth in Gross Gambling Revenue declining and online sports betting continuing to show significant post-pandemic growth.

Figure 3.2 Western Cape Gross Gambling Revenue per Gambling Sector, 2020 – 2022



Hospital Patient Fees

Hospital patient fee tariffs are determined at a national level by the National Department of Health which sets the Uniform Patient Fee Schedule (UPFS) which has been developed to simplify the charging structure for public hospitals. UPFS tariffs apply to both public and private hospital patients. Some of the notable objectives of the UPFS include simplicity of implementation in manual and computerised systems; an activity-based costing approach; and easy to implement changes to cost structures.

Hospital patient fees are estimated to increase at an AAGR of 3.0 per cent from R312.925 million in the 2022/23 Adjusted Budget to R341.623 million in 2025/26.

Financial transactions in assets and liabilities

This category of revenue is estimated to decrease at an AAGR of 12.1 per cent from R34.171 million in the 2022/23 adjusted budget to R23.186 million in 2025/26. The AAGR decline projected over the period is distorted as the 'financial transactions in assets and liabilities' budget for the Department of Transport and Public Works was increased during the 2022/23 Adjusted Budget process, thereby skewing the calculated increase.

Most of the revenue items for financial transactions in assets and liabilities relate to the recovery of expenditures from previous financial years, and the recovery of rental debt.

Provincial Reserves

Reserves are accumulated to ensure there are financial resources available to deal with unforeseen fiscal, economic, or other shocks which may have a negative effect on the service delivery of provincial government departments. Unforeseen shocks may necessitate a need for increased expenditure, particularly in frontline service delivery departments. The use of reserves enables the provincial government to maintain a stable level of service delivery in the face of adverse events placing pressure on government public finances, such as occurred in the response to the COVID-19 pandemic.

The Province continues to focus on rebuilding its reserves, following on from the pandemic, in order to maintain its fiscal base and the ability to deal with unexpected additional expenditure demands for services.

Table 3.9 Provincial Reserves

R'000	2023/24	2024/25	2025/26	Total MTEF
Unforeseen and Unavoidable	550 649	438 630	469 289	1 458 568
2024/25 CPI increase on COE (PES Reserve)	-	1 818 791	1 900 273	3 719 064
Acquisition of Property Reserve (PES Reserve)	60 947	63 684	99 307	223 938
Stabilisation reserve	150 000	200 000	-	350 000
Total	761 596	2 521 105	2 468 869	5 751 570

The reserve for unforeseen and unavoidable expenditure is projected to be R550.649 million in 2023/24 R438.630 million in 2024/25 and R469.289 million in 2025/26, representing a total of R1.459 million over the 2023 MTEF.

Funding has also been reserved for inflationary increases relating to COE expenditure amounting to R3.719 billion over the 2023 MTEF.

In total, R5.752 billion has been placed in reserve over the 2023 MTEF to maintain stable sustainable service delivery and responsiveness to exogenous shocks. The WCG will thus be prepared by ensuring that the Province is ready for disasters and unforeseen spending through the contingency reserve.

R5.752 billion has been placed in reserve over the 2023 MTEF to maintain stable sustainable service delivery and responsiveness to exogenous shocks

■ Conclusion

The uncertain economic and fiscal environment, coupled with rising service delivery demands and changes in the PES formula, has resulted in the Province's PES being reduced over the 2023 MTEF in real terms. This has been compounded by the constrained resource envelope, which has highlighted the importance of productive efficiency, long-run fiscal sustainability, allocative efficiency and protecting basic services outcomes. The Western Cape's shrinking share of the PES allocation along with below inflation increases in transfers from National, requires the Province to do more with less requiring tough budget policy trade-offs. Provincial own receipts are growing especially through Motor Vehicle Licence fees and Gambling taxes which the Province may need to put greater emphasis on due to the shrinking share of PES. The growth in Provincial reserves over the 2023 MTEF is to maintain stable sustainable service delivery and responsiveness to exogenous shocks. The fiscal framework will shape a budget that cares for citizens, is prepared and governs for growth as the Province builds the foundation needed for a prosperous future.

4

Western Cape fiscal strategy

In summary

- Key provincial risks include energy security, youth unemployment and disillusionment, increasing household hunger in communities, increasing demand for mental health services and psychosocial support, the ability to manage and respond to disasters, crime, and service delivery pressures.
- The Western Cape Government's (WCG's) fiscal response strategy supports the objective of building a better future for our citizens, and is guided by four key principles: protecting basic services outcomes, unlocking allocative efficiency, enhancing productive efficiency and enabling long-run fiscal sustainability.

Introduction

The Western Cape Fiscal Strategy considers the national and provincial economic and fiscal risks, and applies four key principles towards building a better future and to achieve the Province's priorities of Growth for Jobs, Safety, Wellbeing and the enablers of Innovation, Culture and Governance in a constrained fiscal environment.

Western Cape Fiscal and Service Delivery Risks

Critical fiscal and delivery risks facing the Western Cape

For the 2023 MTEF, key Provincial risks identified across the WCG priorities of Growth for Jobs, Safety, Wellbeing and the enablers of Innovation, Culture and Governance are summarised in Table 4.1.

Table 4.1 Provincial risks across priority areas

Priority	Provincial risks
Growth for Jobs	<ul style="list-style-type: none"> Energy security Climate change and water security Housing backlogs, land invasions and growth of informal settlements Youth unemployment and disillusionment Public transport crisis Spreading of animal diseases and veterinary services pressures Public entities sustainability for Atlantis Special Economic Zone, Free Port Saldanha Bay IDZ and Casidra Backlog in maintenance and new infrastructure Effective intergovernmental engagements with municipalities, national government, and State-Owned Enterprises
Safety	<ul style="list-style-type: none"> Violence and crime Limited ability to influence policing resources in the Province Violence at schools affecting learner performance and teacher morale Traffic law enforcement
Wellbeing	<ul style="list-style-type: none"> Increasing household hunger in communities Undesirable learner: teacher ratios contributing to overcrowding Increasing demand for mental health services and psychosocial support Re-integrating comprehensive health services post COVID-19 Increasing medico-legal claims Library services sustainability Capacity constraints of non-governmental organisations
Innovation, Culture and Governance	<ul style="list-style-type: none"> Financial sustainability of the provincial government Rising public sector wage pressures and stable labour productivity levels Managing cyber security services Sustaining broadband services across the Province Ability to manage and respond to disaster risks

Risks require both fiscal and non-fiscal measures to be applied

Service delivery and budgetary risks over the 2023 MTEF require both fiscal and non-fiscal mitigation measures to be applied, key among which include enhanced collaboration between departments or entities, innovation in business processes and approaches, and strengthened governance.

Western Cape Government Fiscal Approach

The four key fiscal principles of the Western Cape Fiscal Strategy guide fiscal decision-making during the 2023 planning and budgeting process.

Key principles guide decision-making during the planning and budgeting process

Figure 4.1 Key principles of the Western Cape Fiscal Strategy



Protecting Basic Services Outcomes: The WCG has core mandates to deliver basic social services in areas such as healthcare, basic education, community development, integrated human settlements, and social development.

Unlocking allocative efficiency: Trade-offs between budget programmes are required to maximise the outcomes and impacts of spending, particularly relative to the WCG's priorities of Growth for Jobs, Safety, Wellbeing, and the institutional enablers of Innovation, Culture and Governance.

Trade-offs required to maximise outcomes and impacts of WCG priorities

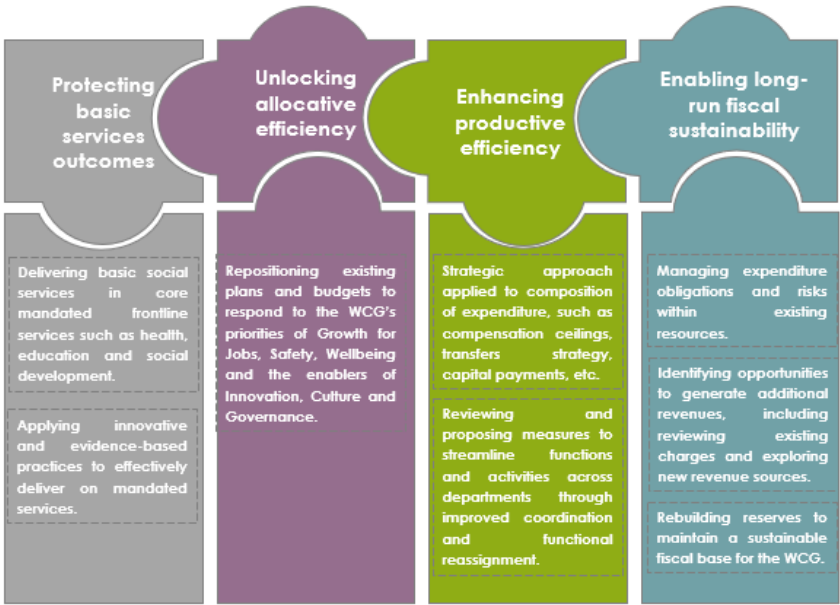
Enhancing productive efficiency: Maintaining or expanding service delivery outputs within a narrowing fiscal envelope requires a continual focus on productive efficiency, rather than purely cost containment. Productive efficiency involves re-evaluating the mix of inputs across major expenditure items such as compensation, goods and services, transfer payments, and infrastructure investment and renewal, as well as the value propositions of each item. In support of this objective, the WCG will continue the implementation of the Compensation of Employees (CoE) Strategy to manage headcount.

Enabling long-run fiscal sustainability: The WCG will seek to rebuild reserves over the medium term, thereby maintaining a sustainable fiscal base for the Province and ensuring that we are prepared to respond to any disasters and unforeseen spending pressures.

Rebuilding reserves to maintain a sustainable fiscal base for the WCG

The implementation of the four key fiscal principles of the Western Cape Fiscal Strategy is depicted in Figure 4.2.

Figure 4.2 Implementing the principles of the Western Cape Fiscal Strategy



■ Implementing the Western Cape Fiscal Strategy

Transversal commitments to drive effective delivery in support of the fiscal principles

The fiscal policy response over the medium term includes transversal commitments that are essential for driving effective delivery in support of the Western Cape Fiscal Strategy.

Compensation of Employees Strategy

CoE is the largest provincial spending item and remains a key lever in achieving fiscal consolidation in the Province. Although prudent CoE management remains a focus in maintaining fiscal sustainability, the protection of core services, especially in the social sector, is an important service delivery function for citizens of the Western Cape. Provincial government services are inherently labour-intensive with approximately 91 per cent of WCG personnel providing education, health and social development services. An important factor for consideration is to maintain norms such as the number of learners per educator.

Containing compensation budgets through expenditure ceilings and headcount management

Prudent CoE management has resulted in the WCG having the lowest number personnel per capita, in comparison to the average of other provinces. Over the medium term, the WCG will continue to contain CoE spending through CoE ceilings and headcount management. The provincial CoE strategy takes a differentiated approach across departments, which aims to manage targeted headcount levels. Each department formulates their own CoE plan, which articulates the headcount management strategy over the medium term. Headcount growth should only be considered if there

is alignment to policy imperatives as determined by the Executive. Departmental turnover rates will be used to manage headcount reductions through natural attrition of staff, early retirement, retirement, contract terminations and redeployment of staff over the medium term. Headcount growth will be enabled in frontline service functions, subject to available resources and clear strategic rationales.

Consolidated wage bill and headcount trends

Table 4.2 reflects how headcounts have grown across different parts of government relative to salaries and wages since 2015/16. On average, headcounts have increased by 0.2 per cent per year, while salaries and wages have grown on average by 6.2 per cent per year over the same period.

Table 4.2 Consolidated wage bill and headcount trends, 2015/16 to 2021/22

	2015/16	2018/19	2021/22	Average annual growth 2015/16 – 2021/22
R million	Outcome			
National departments				
Salaries and wages	136 387	165 433	181 628	4.9%
Headcount	427 160	408 962	395 267	-1.3%
Provinces				
Salaries and wages	288 910	358 278	416 458	6.3%
Headcount	893 221	883 730	912 856	0.4%
of which:				
Western Cape				
Salaries and wages	27 289	33 864	39 491	6.4%
Headcount	81 144	83 419	88 581	1.5%
Local government				
Salaries and wages	81 757	105 152	130 032	8.0%
Headcount	314 446	329 918	342 048	1.4%
National public entities				
Salaries and wages	44 813	56 423	62 829	5.8%
Headcount	109 285	104 377	117 619	1.2%
Total				
Salaries and wages	551 867	685 286	790 948	6.2%
Headcount	1 744 112	1 726 987	1 767 790	0.2%

Source: National Treasury, Statistics South Africa; Own Calculations

In national departments, headcounts declined by an annual average rate of 1.3 per cent between 2015/16 and 2021/22 yet spending increased by 4.9 per cent over the same period. Police, defence and correctional services account for the largest share of spending and headcounts in national departments.

Provincial headcounts also declined between 2015/16 and 2018/19, but the numbers increased significantly in 2021/22 largely due to COVID-19-related appointments in health and education. For the Western Cape, headcounts increased by 1.5 per cent between 2015/16 and 2018/19, while spending increased by 6.4 per cent over the same period.

Headcounts and spending in both local government and national public entities increased significantly between 2015/16 and 2021/22.

Infrastructure investment and development

To give effect to the fiscal objective of rebalancing the composition of the budget by increasing spending on infrastructure, the WCG remains committed to reforms designed to accelerate infrastructure investment, lower the cost of doing business and create a more

The WCG remains committed to accelerating infrastructure investment

competitive economy. This is aligned to the national framework that prioritises additional funding for public infrastructure.

The impact of COVID-19 is still evident to some degree and some supply shortages affecting the construction industry. This has contributed to slow spending on infrastructure programmes, which are already affected by a complex regulatory environment.

The WCG welcomes the National Government's initiatives to improve the scale, speed, quality and efficiency of infrastructure spending. This mainly involves creating a credible pipeline of projects, conducting project appraisal and technical analysis, and attracting private-sector participation and financing.

The Project Preparation Facility will assist to create a pipeline of infrastructure projects for the Province

The WCG has issued a Project Preparation Facility (PPF) Guideline to support the provincial departments, entities, and municipalities with project preparation costs of certain categories of infrastructure projects. This facility will assist to create a clear, well-prepared pipeline of infrastructure projects for the Province, which is aligned to investments by other spheres of government. Projects that are funded from the PPF over the 2022 MTEF are included in Table 4.3.

Table 4.3 Projects funded from the Project Preparation Facility

Description (R'000)	2022/23	2023/24	2024/25	Total
Department of Transport and Public Works: Stikland North	1 700	960	700	3 360
Department of Transport and Public Works: Oude Molen	700	1 200		1 900
Department of Transport and Public Works: Leeuwenhof	700	850	888	2 438
Department of Transport and Public Works: Leeuloop	3 000	3 000		6 000
Department of Transport and Public Works: Prestwich	2 130			2 130
Department of Transport and Public Works: Belhar Relocation Development Project	1 500			1 500
Department of Transport and Public Works: Caledon Office Block	2 350	4 269	2 792	9 411
Department of Transport and Public Works: Enablement: Planning, environmental and heritage legislative requirements	16 000	18 000	18 000	52 000
Department of Cultural Affairs and Sport: Cango Caves PPP: The feasibility study for the future management of the Cango Caves with the aim of increasing revenue generation to ensure future sustainability	1 000			1 000
Department of Cultural Affairs and Sport: Cango Caves PPP: A project preparation costing study needs to be done to determine the amount of funding required for the short, medium and long term maintenance of the Cango Caves and surrounding infrastructure	500			500
Department of Cultural Affairs and Sport: Cultural Facility: Feasibility study for a potential PPP for Melkbos Oppiesee and Schoemanspoort to transform these facilities to a level which will allow private use in addition to our current public usage model	1 500			1 500
Department of Local Government: New Municipal Financing Model Sustainable Infrastructure Development and Finance Facility (SIDAFF) project management support	3 000	3 000		6 000
Total	34 080	31 279	22 380	87 739

Infrastructure priorities over the 2023 MTEF include:

- Expanding education infrastructure to accommodate growth in learner numbers;
- Preparing long term investments to health infrastructure, particularly the replacement of Tygerberg Hospital;

- Energy resilience through partnerships with the private sector and the Municipal Energy Resilience (MER) programme;
- Water security and resilience as part of the Provincial water resilience plan;
- Social and economic infrastructure, which includes energy, municipal water and sanitation, public transport and roads;
- Ease of doing business, with focus specific game changers, systematic approaches and new funding models; and
- Establish blended financing for private sector investment in municipal infrastructure.

Significant progress has already been made with the public-private partnership (PPP) for the new Tygerberg Central Hospital, including an updated feasibility study that has been approved by the National Treasury, advisory support from multilateral development agencies and initial discussions on funding support from international financial institutions.

Significant progress made for the new Tygerberg Central Hospital PPP

The Fiscal Transition Support Facility

The Fiscal Transition Support Facility (FTSF) was introduced in the 2021 MTEF and provides fiscal support to provincial departments for the once-off, upfront costs of investment in or implementation of new service delivery approaches and technologies that can achieve long term savings and improved outcomes over time. Allocations made to departments in the 2022 MTEF from the FTSF to support the implementation of specific interventions are indicated in Table 4.4.

The Fiscal Transition Support Facility enables investment into new service delivery approaches

Table 4.4 Interventions funded from the Fiscal Transition Support Facility

Description (R'000)	2022/23	2023/24	2024/25	Total
Vote 1: Strategic communication review	3 000			3 000
Vote 1: Elsenburg migration to the WCG's Corporate ICT network	7 400	7 800		15 200
Vote 3: SCM reform - to drive value for money	1 500			1 500
Vote 3: e-Procurement Solution	200	418		618
Vote 8: Removing 2021 Fiscal Transition Funding	(40 000)	(30 000)		(70 000)
Vote 6: Tele-Health (FTSF)	5 000	5 000		10 000
Vote 6: Home-delivery of chronic medication (FTSF)	33 000	33 000		66 000
Vote 7: Digitising the Non-Profit Organisation Management Systems (NPOMS)	1 000	1 000	1 000	3 000
Vote 7: Development of a Mobile Client Service System to support Social Workers to deliver more efficient services	1 000	1 000	1 000	3 000
Vote 7: Enable mobile connectivity	2 000	2 000		4 000
Vote 13: Virtual & Digital Services in Western Cape Provincial Archives	16 476			16 476
Total	30 576	20 218	2 000	52 794

Applications to the FTSF for the 2023 MTEF will be based on the following criteria:

- A clear statement of project objectives that is responsive to key risks or development priorities and strategies of the Province;
- Evidence of significant innovation service delivery mechanisms;
- Costed, quantifiable evidence that these are once-off, upfront and/or transitional costs associated with the introduction of the proposal;
- Costed, quantifiable evidence that the proposal will achieve either long term savings or improvements in outcomes; and
- Readiness to implement, including programme design, feasibility, phasing and timelines, governance, and mobilisation arrangements.

Expenditure Reviews

Expanding expenditure reviews for improved spending efficiencies in a constrained fiscal environment

The current economic and fiscal outlook requires efforts to strengthen efficiencies and enhance impact from service delivery programmes. Expenditure reviews enable the systematic analysis of baseline expenditures to identify scope for efficiency gains, which can ensure the sustainability of service delivery in the current constrained fiscal environment. The following spending reviews were completed in the 2021/22 financial year:

- The learner transport programme in the Western Cape Education Department;
- Commuted overtime in the Department of Health;
- Broadband in the Department of the Premier;
- Transfers to non-profit institutions that provide foster care services in the Department of Social Development; and
- Skills programmes and projects for youth in Business Process Outsourcing in the Department of Economic Development and Tourism.

Findings of completed expenditure reviews to inform policy choices and proposals on possible savings

The results from the completed expenditure reviews have provided valuable insights into understanding the availability of data or what kind of data must be generated for policy choices in the provincial budget and to make proposals on possible savings. The 2023 expenditure review topics have been carefully selected using the following criteria:

- A focus on pertinent, relevant, and topical issues in the WCG;
- The quantum of possible savings;

- Transversal/cross-cutting subject matter. Expenditure reviews should adopt a whole-of-government approach tackling issues that affect multiple departments, including entities; and
- Expansion of the scope of previous expenditure reviews.

The following expenditure reviews are being conducted in 2022/23:

- E-Learning in the Western Cape Education Department;
- Agency and support services focusing on the utilisation of medical doctors and nursing staff in the Department of Health;
- Agriculture producer support and development in the Department of Agriculture; and
- Enhancing access to government services and information by vulnerable people through the Thusong service centres and outreaches in the Department of Local Government.

These expenditure reviews will be finalised by March 2023 and the key findings will be incorporated during the 2023 MTEF.

■ 2023 Budget Themes

The 2023 Budget Themes were identified based on the Western Cape Recovery Plan priorities, recent changes in economic and socio-economic trends as well as those enabling transversal mechanisms which have been prioritised to support delivery. The 2023 Budget Themes include Gender Responsive Budgeting (GRB), Citizen Engagement, Climate Change, and Spatial planning and budgeting.

Budget Themes identified to support delivery of the Western Cape Recovery Plan priorities

Gender Responsive Budgeting

Despite notable advances in gender equality and women's empowerment in South Africa, most women and girls still suffer from multidimensional poverty, inequality and discrimination based on gender and multiple social problems such as gender-based violence. Further details on the WCG's response to gender-based violence is provided in Chapter 5.

GRB practices in planning and budgeting are crucial in the South African context, to improve the economic and social environment for women. Gender budgeting involves using the tools, techniques, and procedures of the budget cycle in a systematic way to promote equality. The Department of Women, Youth and Persons with Disabilities (DWYPD), together with the International Monetary Fund (IMF), have developed the Gender Responsive Budgeting Roadmap to be implemented by all national and provincial departments by 2026. Provincial departments are required to

*Supporting interventions
to improve gender
equality outcomes*

collect and collate disaggregated women related data, toward implementing the Gender Responsive Planning, Budgeting, Monitoring, Evaluation and Auditing (GRPBMEA) framework. The GRPBMEA framework is aimed at ensuring better outcomes for women and girls, as well as tangible gender impacts in South Africa.

While this GRPBMEA framework is in place and will be applied, the WCG recognises that promoting gender equality requires a common understanding of what gender equality is and understanding the strategic mechanisms available to government, to not only promote it, but practically implement interventions that will improve gender equality outcomes through joint action and collaboration. The 2023 Budget process will therefore promote GRB through delivering on the following:

- Capacity building interventions supported to implement GRB;
- Developing a coherent approach across provincial departments that drives practical action and collaboration toward achieving overall provincial women empowerment targets, which includes the eradication of gender-based violence;
- Supporting capacity building interventions for officials involved in Monitoring and Evaluation and Budgeting to effectively oversee GRB implementation at a departmental level;
- Developing a framework for departments to have distinct departmental "Gender Budgets" and supporting progressive realisation of strategies to spend more and have a more meaningful impact on women empowerment;
- Entrenching equal opportunity policy within personnel and procurement systems; and
- Lobbying and research for better policy around implementing GRB.

*Incorporating the
principles of GRB within
the budgeting and
planning processes*

The Provincial Treasury is driving the planning of the WCG's GRB strategy. This includes research on international best practices and methodologies for implementing GRB and communicating to departments through budget circulars, and the importance of including the principles of GRB within budgeting and planning processes. The Department of Social Development is in the process of implementing the WCG GBV Implementation Plan, while the Department of Economic Development and Tourism runs various work placements and supply programmes and experiential training to youth with a bias towards women.

Citizen Engagement

The WCG is committed to putting people first in all its activities. Supporting this objective requires involving service users and residents of the Province in the planning, delivery, and monitoring of services.

Effective citizen engagement requires relevant and appropriate platforms for citizens to engage on the matters that concern them most. It requires opportunities for constructive engagement between citizens and service providers on the usefulness and quality of services that are being provided by Government. Municipalities also play a critical role in engaging with citizens, and efforts to enhance citizen engagement must be closely coordinated between spheres of government.

Relevant and appropriate platforms required for citizens to engage with Government

Expanded information interventions and grievance redress mechanisms are two categories of social accountability interventions that are being incorporated into Government programmes. Both involve efforts to inform citizens and provide them with opportunities to use information to influence service delivery. Information interventions involve project and policy measures ranging from simple information provision, such as right-to-information legislation, information campaigns, and report cards, to more active steps, such as scorecards and social audits, that engage citizens to use information to influence providers. Grievance redress mechanisms, also known as complaints-handling mechanisms, are formal channels for citizens to demand their rights, complain, and provide feedback to providers and policy makers about service delivery.

Social accountability interventions include information interventions and grievance redress mechanisms

The provincial budget begins with the Provincial Economic Review and Outlook (PERO) and Municipal Economic Review and Outlook (MERO). To promote transparent budget information practices, a PERO and MERO outreach programme will be implemented to actively engage stakeholders and citizens on key economic and socio-economic trends as they relate to the Province.

Furthermore, over the 2023 MTEF meaningful citizen engagement will be deepened by measuring the perceptions of citizens on the quality and impact of frontline services. The views of citizens at a facility level will be taken into account in future budget decisions. This will lead to a more responsive government, capable of responding to the needs of citizens

The Service Delivery Index (SDI) is a quantitative measurement tool which paints a holistic picture of how the WCG is performing in relation to service delivery. A key data source for informing the SDI is the Citizens Perception Survey, which links citizens' feedback with

Linking feedback of citizens with government services and community outcomes

government services and community outcomes. The SDI pilot was successfully concluded and shifted into implementation stage. The WCG Citizen Perception Survey is now becoming an annual tracking study measuring government service delivery.

Climate Change

Climate change poses significant economic, socio-economic, and environmental risks that present many challenges globally.

Promoting climate change responsive budgeting to reduce greenhouse gas emissions

The South African Climate Change Bill aims to address the effects of climate change and facilitates South Africa's transition to a greener economy, by compelling businesses to reduce greenhouse gas emissions that accelerates addressing the effects of climate change. The National Climate Change Response White Paper (2011) also makes provision for climate responsive budgeting. In addition to the policy direction to address the effects of climate change, fiscal policies and instruments also have a major role to play in the effort to meet long term climate change commitments and national development goals.

The National Treasury has been working with the World Bank to develop and design a Climate Budget Tagging (CBT) system for South Africa. CBT is being piloted in 11 sites across national, provincial, and local governments. Once finalised and approved, the outcomes of the pilot will serve as the indicative CBT framework for systematically tracking and monitoring of climate change-relevant public expenditure.

From a provincial perspective, in response to addressing the effects of climate change, the WCG led by the Department of Environmental Affairs and Development Planning (DEA&DP), has developed a climate change response strategy for the Province, called VISION 2050. The Strategy is supported by a detailed action-oriented Implementation Plan and the 2050 Carbon Emissions Mitigation Pathway, both in development during 2022/23. During the 2023 MTEF, the DEA&DP will lead and coordinate the provincial response to climate change, while provincial departments will be expected to indicate and implement their sectoral/departmental interventions which responds to the provincial climate change strategy.

The Municipal Energy Resilience initiative promotes lower carbon energy generation

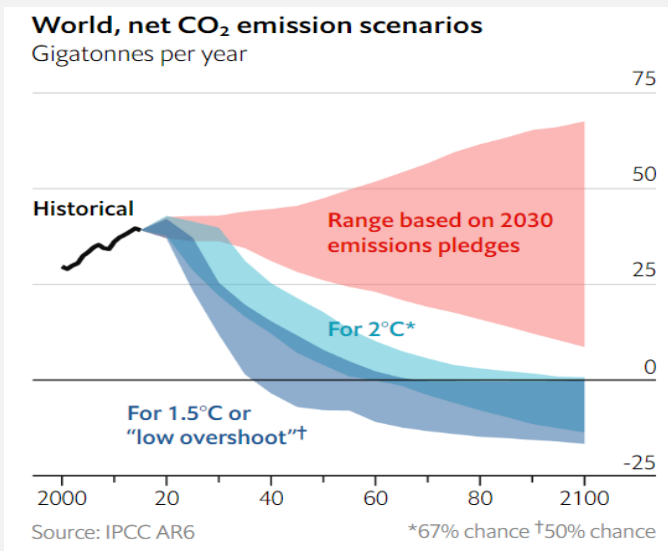
The Municipal Energy Resilience (MER) initiative has a key lens of lower carbon energy generation to reduce greenhouse gas (GHG) emissions and resilient infrastructure. This will contribute toward the WCG Net Zero 2050 target as well as South Africa's GHG emissions reduction targets, while strengthening the resilience of businesses to increasing pressures for carbon neutrality and carbon border adjustments. The MER work is being done in collaboration with

Provincial Treasury, the Department of Local Government and the DEA&DP, including municipalities across the Province, national government stakeholders, private sector organisations, and academia. Further details on the MER initiative is provided in Chapter 5.

The 1.5°C global carbon emissions target

A significant impact of global warming is the rising of sea levels and the resultant loss of territory for island and coastal nations. A rise in average global temperature of more than 1.5 degree Celsius would place countries such as Tonga, the Maldives, and New Zealand at risk of losing most of their territory.

The United Nations Environment Programme estimates that, at the current trajectory, average global temperatures will rise by 3.5 degrees Celsius if no interventions in industrial carbon emissions are made. Additionally, all indications are that if current climate change policies are implemented meaningfully, an average global temperature increase of 2.8 degree Celsius can be expected. However, if countries keep to the Paris commitments, an average temperature increase of 2.4 degrees Celsius can be expected.



These estimations fall short of the target of keeping global warming below 1.5 degrees Celsius. The 2015 Paris climate agreement, which as of 2022 has been ratified by 193 countries, aims to reduce carbon emissions by 50 per cent by 2030 and aims to achieve net zero carbon emission by 2050.

The climate budget is the cumulative carbon dioxide (CO₂) emissions associated with a specific rise in average global temperatures. In order to keep to the 1.5 degrees Celsius target, a climate budget of 400 billion tonnes of CO₂ has been calculated. At the current rate, the 400 billion tonnes budget will be depleted in ten years, meaning that the world has less than a decade to transition to net zero CO₂ emissions, if the target of

maintaining an average global temperature increase of 1.5 degrees Celsius is to be met.

Source: *The Economist*

Spatial planning and budgeting

The Integrated Service Delivery (ISD) approach acknowledges that limited integration across the spheres of government and external partners is often cited as one of the causes of the slow pace of service delivery and leads to duplication or wastage of limited public resources. ISD aims to synchronise key processes within the WCG and strengthen joint planning, coordination, collaboration, and coherence across WCG departments, municipalities, and national organs of state.

The adoption of the Joint District and Metro Approach has strengthened collaboration and the interface between the three spheres of government and other stakeholders at the metro and

Integrated Service Delivery strengthens joint planning and collaboration across the three spheres of government

district levels. The 2023 MTEF will demonstrate how integrated planning and delivery responds to the socio-economic dynamics and challenges within a geographic space. While financial resources remain under pressure due to the constrained fiscal envelope, spatial planning and budgeting, including improved cooperation between the spheres of government, will enhance productive efficiency by streamlining functions and activities through improved coordination to build a better future for citizens in the Western Cape.

Conclusion

As we prepare a budget that cares for our citizens, the key principles of the Western Cape Fiscal Strategy that guide decision-making include protecting basic services outcomes, unlocking allocative efficiency, enhancing productive efficiency, and enabling long-run fiscal sustainability.

A key focus of the 2023 budget process is to drive budget policy priorities by applying repositioning and prioritisation strategies to ensure that the WCG priorities of Growth for Jobs, Safety, Wellbeing and the enablers of Innovation, Culture and Governance, can be met within the limits of a constrained provincial budget.

The 2022 Medium Term Budget Policy Statement provides the economic, fiscal and budget policy context that informs the 2023 MTEF. It further provides the framework for the WCG to build a better future and enable long-run fiscal sustainability by managing key economic, socio-economic and fiscal risks while enhancing service delivery in areas that delivers the greatest impact for our citizens while doing more with less.

5

Budget policy priorities

In summary

- The medium term budget policy priorities identifies those specific areas that builds a better future for the citizens of the Western Cape and supports a budget that cares and prepares for our citizens. The Provincial Strategic Plan and the Western Cape Recovery Plan provides the context for the budget policy priorities of Growth for Jobs, Safety, and Wellbeing; supported by the enablers of Innovation, Culture and Governance.
- The Growth for Jobs Priority will be supported by a Growth for Jobs (G4J) Strategy that is nearing finality and will inform the Province's economic strategy going forward. The G4J Strategy is underpinned by a Growth for Jobs Strategic Framework that focuses on the horizontal enablement of private sector-led economic growth, creating a conducive business environment, overcoming binding constraints, supporting growth opportunities and stimulating market growth.
- The Safety Priority will ensure safe and cohesive communities. The Priority will enhance the collaborative, whole of government and society approach through interventions of law enforcement, violence prevention and urban design.
- The Wellbeing Priority follows a life-course approach through its interventions of strong foundations, increased wellbeing, building social cohesion and service, and meeting basic needs and protecting human rights.
- The Provincial Priorities are supported by the enabler of Innovation, Culture and Governance. This enabler and its related programmes and interventions originates from the VIP 5 priority area as articulated in the 2019 - 2024 Provincial Strategic Plan.
- The 2022 Adjustments Budget is set within the context of the 2022 Main Budget with the aim to ensure that expenditure priorities and interventions are aligned to the Priorities. The 2022 Adjustments Budget makes provision for a net addition of R490.671 million in expenditure for the 2022/23 financial year.

■ Introduction

This chapter outlines the Province's budget policy priorities of Growth for Jobs, Safety and Wellbeing, supported by the enabler of Innovation, Culture and Governance. The medium term budget policy priorities aim to improve socio-economic development and promote sustainable economic growth, by building a better future for our citizens, while taking immediate steps to care for our citizens as we respond to hardship.

The medium term budget policy priorities aim to build a better future for citizens of the Western Cape

The Western Cape Government's Fiscal Strategy requires a collective shift to make the required policy and budgetary trade-offs, to deliver on the Province's policy priorities in line with the Provincial Strategic Plan (PSP). The budget policy priorities will continue to protect basic services, including education, health, and social development, as well as support effective infrastructure delivery across the Province. In doing so, the Western Cape Government (WCG) continues to explore new and innovative programmes and projects to drive the desired impact on service delivery informed by evidence-based decision-making.

■ Global, national and provincial policy context

Global policy context

The priorities of the WCG are framed in the context of national and global 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.

National policy context

The revised Medium Term Strategic Framework (MTSF) 2019 - 2024 guides the implementation and monitoring of the National Development Plan (NDP). The revised MTSF takes cognisance of the socio-economic impact of the COVID-19 pandemic on the country, and maintains seven apex priorities, namely: (i) a capable, ethical and developmental state; (ii) economic transformation and job creation; (iii) education, skills and health; (iv) consolidating the social wage through reliable and quality basic services; (v) spatial integration, human settlements and local government; (vi) social cohesion and safe communities; and (vii) a better Africa and world. The South African Economic Reconstruction and Recovery Plan, which was adopted to mitigate the devastating effects of the pandemic and outline priorities for economic recovery, informed the revised 2023 Medium Term Expenditure Framework (MTEF).

As a result of determined and disciplined budgeting, the national budget deficit is narrowing. This achievement will enable government to begin rebuilding their fiscal position and re-establish real spending growth in key policy areas that support the economy. Medium term spending increases, emanating from the 2022 National Medium Term Budget Policy Statement, are targeted to increase the number of teachers and police, retain health workers, and improve critical water, roads and rail infrastructure.

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

The narrowing budget deficit will enable real spending growth that support the economy

PSP aligned to NDP strategic outcomes

The 2019 - 2024 PSP provides the strategic framework for the medium term budget policy priorities and is aligned with the NDP strategic outcomes. In light of the pandemic, the Western Cape Recovery Plan was developed to address the increasing pressure on the demand for WCG service delivery while faced with a constrained fiscal envelope. The Recovery Plan aimed to prioritise and elevate key PSP interventions and focus areas that would best address the socio-economic challenges that have been exacerbated by the pandemic in the Western Cape over the 2021 MTEF.

The strategy and structures of the PSP have been folded into the three Recovery Plan Priorities of Growth for Jobs, Safety, and Wellbeing. In addition, the Innovation, Culture and Governance Priority enables the delivery of all priorities. These four Priorities guide and inform the WCG budget policy priorities for the remainder of the political term and set the pathway to building a better future of hope for our citizens. Each Priority is informed by a Theory of Change and tracks strategic outcome and output indicators linked to priority interventions that have been identified as key levers to deliver the PSP.

Given the increase in demand for government services within a constrained fiscal envelope, there is a requirement to collectively shift towards making the required policy and budgetary trade-offs, to deliver on the Province's policy priorities in line with the PSP and Provincial Strategic Implementation Plan. This requires hard choices in reconciling expenditure pressures within available resources. The WCGs Fiscal Strategy and approach, provides the framework within which the provincial government's planning processes align with the resource planning and budgeting processes.

Requirement to make policy and budgetary trade-offs to reconcile expenditure pressures

WCG Institutional Refresh

The WCG Institutional Refresh process forms part of the immediate budget policy priorities and strategic commitments for the 2023/24 financial year. The WCG Institutional Refresh initiatives announced by the Premier, during his 2022 State of the Province Address, includes creating a new Department of Infrastructure; creating a new Department of Mobility; renaming of the Department of Community Safety to the Department of Police Oversight and Community Safety; renaming of the Department of Health to the Department of Health and Wellness and creating of a Violence Prevention Unit within the Department of Health and Wellness.

A two-phased approach is being followed to give effect to Institutional Refresh initiatives. The implementation process of Phase 1 of the overall institutional refresh of the WCG can be divided into two broad stages, namely: (i) establishment of the new departments (stage 1), and (ii) optimisation of the new departments (stage 2). Phase 2 will build on Phase 1 and seek to design and implement a capable, connected and citizen-centric government. Relevant executive authorities will continue to provide strong leadership and guidance to the new Departments in making the policy decisions around programmes and projects that will be prioritised.

Source: Western Cape Provincial Treasury

■ Medium term budget policy framework

Integrated policy, planning, budgeting and implementation

The process of fiscal consolidation requires difficult policy decision-making to give effect to the WCG's budget policy priorities, that ensure that a sustainable pathway is followed in building a future of hope for the citizens of the Western Cape. The 2022/23 Provincial Economic Review and Outlook (PERO) was tabled on 20 September 2022 and provided the economic and socio-economic context and outlook of the Western Cape. Thereafter, the 2022 Medium Term Budget Policy Committee (MTBPC) engagements were held in September 2022 and discussed the implementation of the PSP priorities – that is, Growth for Jobs; Safety; Wellbeing; and Innovation, Culture and Governance, identifying policy priorities for implementation over the next 18 months. Subsequently, the 2022 Provincial Government Medium Term Expenditure Committee (PG MTEC 1) engagements were focused on how identified budget policies priorities are translated into departmental plans and budgets.

Doing Things Differently

Dynamic social and economic trends require innovation in service delivery so that government efficiently and effectively meet the changing needs of citizens. Public sector leaders are challenged to take an active and structured approach to improve “how” services are delivered as well as “what” these services are.

Focus on impactful service delivery that demonstrates behaviour change, innovation, and effective, economical and efficient use of existing resources

The WCG has been enjoying clean audits for the better part of thirteen years, and these have become a by-product of a good governance agenda. However, this does not translate into service delivery improvements at the speed and scale that is required, which is the value addition required from good governance. The move from compliance to performance is critical to enhancing service delivery and requires evidence-based decision-making demonstrating behaviour change, innovation and effective, economical and efficient use of existing resources to inform decision making about future resource allocations.

Departments have presented the use of innovation to improve service delivery at the PG MTEC 1 engagements. This includes both innovative methodologies to enhance service delivery and the development of innovative service delivery models that are impactful, value-adding and responsive. To further support this approach, the Fiscal Transition Support Facility detailed in the Fiscal Strategy, has been established to provide fiscal support to departments for the once-off, upfront costs of investment in or implementation of new service delivery approaches and

technologies that can achieve long-term savings and improved outcomes over time. Where impact or delivery on short to medium term outcomes is not evident, tools such as Expenditure Reviews and Evaluations actively inform planning and implementation to ensure improvements in impact.

The WCG is progressively improving strategy development, planning, and budgeting through budget process reforms that ensures strategic foresight through the Fiscal Futures project and strengthening of coordination across spheres of government. Fiscal Futures aims to look beyond the MTEF horizon to determine the best options available to maintain the long-term fiscal sustainability of WCG. It will allow policymakers to assess the sustainability of fiscal accounts based on various assumptions of current policies, tax revenues and key economic factors. The continued focus for the 2023 MTEF will be to drive integrated planning and budgeting, through the Province's Joint District and Metro Approach (JDMA) and the Innovation, Culture and Governance Priority.

Executing budget process reforms that ensures strategic foresight

■ Medium term budget policy priorities

The medium term budget policy priorities provide a framework to ensure that capacity and resources are allocated to drive programme implementation in preparation of a Budget that Cares for the citizens of the Western Cape. Figure 5.1 demonstrates those budget policy priorities that are prioritised for delivery across the 2023 MTEF. The 2023 Budget Approach and Objectives, as discussed in Chapter 4, have guided decision-making on the allocation of fiscal resources, based on key budget principles, with the objective of aligning spending towards the budget policy priorities of the WCG.

The 2023 Budget Approach and Objectives have guided the fiscal allocation towards key budget policy priorities

Figure 5.1 2023 MTEF Budget Policy Priorities per theme of the Western Cape Recovery Plan

Theme 1: Growth for Jobs

The WCG's strategic response to economic growth and job creation is reaching finality through the development of a Growth for Jobs Strategy. The Growth for Jobs Strategy will replace all other economic strategies in the Province and is informed by a strategic framework that has been endorsed by the Provincial Cabinet. The framework was based on sound research and analysis, including a detailed growth diagnostic commissioned by the WCG. The framework understands that it is not entirely government's role to create jobs, but rather to deliver an enabling environment for entrepreneurs, business people, and citizens to succeed. The primary focus of the Growth for Jobs Strategic Framework is therefore the horizontal enablement of private sector led economic growth, creating a conducive business environment, overcoming binding constraints, supporting growth opportunities, and stimulating market growth.

Given that the Growth for Jobs Strategy remains in development, the strategic priorities of the Growth for Jobs Priority are set out below in accordance with the approach of the Jobs Priority under the current Provincial Strategic Implementation Plan.

Ease of Doing Business

In working towards the vision of, “the Western Cape to be the leading province in South Africa that is making it easier to do business”, for 2023/24 and beyond, the WCG will be striving towards:

Fostering a conducive business environment that will unlock opportunities

- All municipalities having institutional and regulatory environments that are conducive to investment, business retention and expansion;
- Addressing binding and systemic constraints that will unlock opportunities within the Province and municipalities;
- Taking a transversal approach in the form of a Municipal Red Tape Reduction Support Programme;
- A WCG that is efficient and values the contribution of business to our citizens' prosperity. Central to this will be the engraining of a business-centric culture and a philosophy of continuous improvements in business-facing services. The planned interventions here include: i) culture transformation of the WCG and its relevant agencies/entities; ii) improvement in business-facing services; iii) Business Support Helpline providing immediate and direct assistance to businesses affected by unnecessary bureaucratic delays and blockages; and iv) communication interventions aimed at simplifying compliance requirements for business in order to access opportunities; and
- Proposing and advocating for policy and systemic reforms in areas and sectors that are key to both the Western Cape and South Africa's economic growth and development.

Investment

The Province's investment promotion strategy will be undertaken through three agencies namely Wesgro, Atlantis Special Economic Zone (ASEZ) and the Free Port Saldanha Bay Industrial Development Zone (SBIDZ). Wesgro has been mandated to undertake investment promotion and facilitation activities to attract both new investments and support existing firms with expansion initiatives. In support of agricultural investment in the Province, Wesgro will focus on the promotion of the agricultural sector and facilitate investment into the sector. The ASEZ will provide manufacturers of green technology products with affordable industrial facilities, linked-up support services and incentives within a national programme. This will provide investors with the opportunity to develop value chain clusters for the local and export market, with backward and forward linkages into the broader regional economy.

Retaining and increasing investment opportunities and expanding exports

The SBIDZ will support the oil, gas and marine repair engineering and logistics services complex, serving the needs of the upstream exploration and production service companies operating in the oil

Saldanha Bay has the potential to become the Green Hydrogen Energy Hub of Africa

and gas fields in Sub-Saharan Africa. Saldanha Bay has the potential to become the Green Hydrogen Energy Hub of Africa, following the signing of a joint development agreement with private industry players to develop carbon capture technology that will produce sustainable fuels and chemicals.

Improved access to employability/opportunities

The growing gap between the supply and demand of skills introduces considerable economic risks. The skills ecosystem is complex due to many stakeholders playing various roles to driving various interventions, advocating and lobbying legislation, as well as directing how the skills supply pipeline is shaped in the country.

In responding to the above challenges, the WCG will bridge the gap between the supply and demand for skills and skilled individuals. This will be achieved through the following: the development of collaborative partnerships with all stakeholders in the Human Resource Development Council, which consists of business representatives, education sector, Sector Education and Training Authorities, Tertiary institutions, etc; and amending existing and developing new academic programmes and academic instrument modalities, such as in the green solar energy area and new academic instruments at basic and higher education in response to the growing demands in the Business Process Outsourcing (BPO) domain.

Improved access to employability will include the Year Beyond Programme, Public Employment Programmes, and the BPO project

Youth unemployment remains a key challenge in the Western Cape that impacts on social cohesion, crime, economic wellbeing and inequality. To address the continued mismatch between skills supplied and those demanded by the economy, the expansion of the Schools of Skills is prioritised over the medium term to better prepare our youth with skills for employability. The Year Beyond Programme provides first work opportunities to between 3 000 and 4 000 youth, providing candidates with a mentor and supporting a pathway into studies or work after the programme. Public Employment Programmes will continue to facilitate the creation of short and medium term work opportunities for the unemployed; and the successful BPO project will be continued, which looks to provide youth within the BPO sector with training and permanent employment.

Infrastructure

Infrastructure as a lever to stimulate short term employment, economic growth and social development

The WCG 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.

As part of the WCG Institutional Refresh, the WCG will build on the work done by the former departments of Transport and Public Works

and Human Settlements, to reconceptualize the 2013 Western Cape Infrastructure Framework as part of the establishment of a Department of Infrastructure. The Framework aims to: i) align existing planning processes; ii) outline strategic decisions and trade-offs that need to be made to achieve the provincial 2050 vision in a complex and changing environment; iii) identify and guide the planning and execution of major infrastructure interventions for the period 2023 - 2050; iv) mobilise and direct new investments; v) facilitate partnerships and collaboration; and vi) leverage the nascent relationship with Infrastructure South Africa to foster a collaborative partnership aimed at unlocking the latent potential of significant infrastructure projects in the Western Cape.

Mobility is critical for economic growth as it provides access to both economic and social opportunities. In this regard, the new Department of Mobility will manage, maintain and expand public transport and freight in such a manner that it will increase the safety, productivity and competitiveness of the provincial mobility ecosystem. This will enable a more reliable and affordable public transport system, with better coordination across municipalities and integration between different transport modes.

The following infrastructure investment prioritised over the medium term to facilitate employment, economic growth and social development, includes:

Facilitating priority infrastructure for maximum impact

- Construction of the new Delft North Primary and Moorreesburg High School project;
- Five mega health infrastructure projects are being planned over the medium to long term to modernise the system and improve healthcare. These include the Belhar, Klipfontein and Helderberg Regional Hospitals, the Tygerberg Central Hospital development, and the Swartland District Hospital;
- In terms of road infrastructure, projects include Cape Town Integrator-Northern Growth Corridor, Saldanha Bay Industrial Development Zone road network upgrade, and the George Western Bypass;
- Investment in public transport through, amongst others, subsidised bus contract services, and the George Integrated Public Transport Network (GIPTN);
- Clearing rivers of alien biomass and restoring it with indigenous plants in order to save water resources and preserve environmental integrity;
- Maintenance of aged concrete-lined canals that serve as the sole bulk water supply system to the Matzikama Municipality; and

- Upgrade and maintenance of CapeNature's tourism infrastructure will continue with two new developments planned for the De Mond and Stony Point Nature Reserves.

Financing Facilities established to support infrastructure projects in the Province

The Sustainable Infrastructure Development and Financing Facility (SIDAFF) was established to support and assist Western Cape municipalities to attract private sector finance for a pipeline of bankable catalytic infrastructure projects. The WCG will continue to support the SIDAFF programme over the 2023 MTEF as municipal catalytic infrastructure projects have the potential to unlock economic and socio-economic development opportunities in the Province.

Furthermore, the WCG established a Project Preparation Facility (PPF) to support and assist departments, public entities and municipalities with project preparation costs of certain categories of infrastructure projects. A detailed infrastructure project pipeline will be found in the 2023 Western Cape Overview of Provincial and Municipal Infrastructure and Investment publication.

Energy sustainability and transition to carbon-zero

South Africa's electricity generation is carbon intensive and not conducive to sustainability and to the achievement of net zero carbon emissions. Carbon border adjustment mechanisms are also projected to reduce our competitiveness and negatively impact our export growth. This is, therefore, a key strategic area that will be addressed through the G4J Strategy to improve export growth and job creation.

Greater focus prioritised on energy, in particular renewable energy

The WCG intends to take advantage of the positive regulatory and policy amendments nationally, and improve the energy resilience of the Province by supporting municipalities to embrace opportunities presented and purchase greener energy from independent power producers.

The Municipal Energy Resilience (MER) Project was developed following an amendment to Schedule 2 of the Electricity Regulation Act in 2020, allowing municipalities to generate their own electricity. The key objectives of the MER project are the development, support and capacity building to implement renewable energy projects in municipalities across the Province for municipalities, businesses and households to generate, procure and sell electricity. The project aims to secure reliable electricity supply for the Province and increase economic resilience. The project includes four approaches: creating space for small-scale embedded generation, providing assistance in procurement processes for municipalities to source energy from Independent Power Producers (IPP), building a business case for utility-scale gas to power generation, and finally, reforming the sector. This project will consider multiple pioneering

renewable energy technologies and scales, cost options, the scale of investment required, location issues, risks, municipal readiness needs, infrastructure needs, timelines to get capacity onto the grid, transaction and procurement mechanisms and regulatory issues.

Climate change represents a threat to the economic prosperity of the Province due to the indirect effects of the rising cost of embodied greenhouse gas emissions in our exports and the global shift away from coal and oil-based energy and transportation. The Western Cape Climate Change Response Strategy is focused on action with the goal of a net zero and climate-resilient Western Cape by 2050. The Strategy reflects the current realities, priorities and responses; and providing policy direction for sector departments, municipalities and implementation partners outside government to collectively achieve the vision.

Continued effort will be prioritised in implementing disaster prevention measures to manage wildfire and floods in order to preserve biodiversity and promote equitable and sustainable use of ecosystem goods and services. Furthermore, the current state and outlook of waste management is in the decline. In this regard, the WCG will continue to conduct waste management audit inspections at sites across the Province.

Current Energy Context

There is an ongoing and worsening energy crisis in South Africa, with loadshedding having reached 100 days in 2022. Loadshedding costs the Province around R75 million per stage, while stage 6 loadshedding is calculated at R400 million per day.

The answer lies in low carbon energy which is needed to minimise the negative impact on WC exports and local businesses in terms of carbon taxes. The recent changes in energy policy and system changes will have an impact on municipal revenue and their sustainability, as municipalities rely heavily on energy distribution for revenue. While there is ample available finance from Development Finance Institutions for green energy, creating bankable projects is still a challenge with project preparation, pipelines and capacity required. The regulatory and policy changes have created a diversified and decentralised energy landscape.

Key Challenges

The challenges lie with national electricity planning and implementation, which is poor. IPP preparation, procurement and contracting is very complex and expensive (high risk with 15 - 20 year agreements), and capacity gaps exist. The private sector lacks access to information, policy and regulatory clarity, along with clear pricing. If the energy installed is grid-tied, citizens are still affected by loadshedding even if new energy is added. There is a need for WCG and municipal critical infrastructure systems to be costed and additional funding support is required for SMMEs.

Opportunities

There is an opportunity to explore whether existing embedded generation facilities can feed more electricity into the municipal network. Communication is critical to build trust and to enable businesses to be resilient by improving transparency and updates on the state of energy/loadshedding. Furthermore, the WCG will be identifying businesses interested in wheeling, in particular looking at high energy users and looking at opportunities to incentivise Small Scale Embedded Generators (SSEGs) that could offset municipal revenue losses.

Medium to long term matchmaking (i.e., identifying and connecting businesses with project developers) could be done through an energy platform/trader, whereby the platform or trader charges a fee. Beyond 2023, there is potential for WCG to procure a platform/service to set up multi-site and multi-award for more than one developer in order to expand rapidly or using private sector energy traders.

Source: Western Cape Department of Economic Development and Tourism

■ Theme 2: Safety

Safety requires an enhanced whole of government and society approach

The WCG will continue to implement its approach to building 'safe and cohesive communities' through enhancing its collaborative, whole of government and society strategy. This approach leverages three types of interventions, namely law enforcement, violence prevention and urban design.

An equally important policy decision is the WCG's stance of the devolution of policing powers, and in that regard, the WCG recognises the need to lead safety interventions in the Province to make notable inroads into the reduction of crime and violence.

Law enforcement

The Law Enforcement pillar focuses on: (i) increasing and improving police and law enforcement deployment, (ii) better collaboration between law enforcement agencies, (iii) focusing operations on drivers of crime, and (iv) strengthening the impact of police oversight; the latter being a key provincial constitutional mandate.

Continued support of the LEAP programme

To boost the law enforcement capacity in the Province, through the Law Enforcement Advancement Plan (LEAP) programme, over 1 200 law enforcement officials have been deployed to murder hotspots in the Province. Joint operations with the South African Police Services (SAPS) have led to arrests and the confiscation of unlicensed firearms and illicit alcohol, among other achievements. Areas where LEAP was deployed, have showed an overall 3 per cent reduction in the murder rate from January to June 2022, when compared with 2019. Furthermore, through its partnerships with municipalities, the WCG has enabled the establishment of K9 Units, Reaction Units and Rural Reaction Units to bolster law enforcement efforts in the municipalities across the Province.

Conducting a targeted approach to road safety

To increase road safety, the WCG will continue to conduct targeted data-led and evidence-informed operations to arrest drivers for offences contributing to road deaths, such as drinking and driving, and reckless and/or negligent driving; and contributing to illicit activities, such as the transportation of illegal substances.

The 2022 Premier's State of the Province Address indicated that the Department of Community Safety would expand their monitoring of police stations across the Province with a focus on gender-based

violence and domestic violence responses, police conduct, visible policing, and crime investigation efficiency. In order to do this, the Department has embarked on an organisational design process that will ensure that it is fit to deliver on this renewed mandate of improved police oversight. To this end, the Department will now shift its police oversight and monitoring function from compliance-only oversight to outcome-based metrics to better align to the delivery of its mandate.

Violence prevention

The Violence Prevention pillar focuses on: (i) strengthening the relationships between caregivers and children, (ii) better supporting youth at-risk, (iii) reducing alcohol-related harms, and (iv) reducing gender-based violence (GBV).

Strengthening social protective factors against violence is a critical lever to complement law enforcement interventions in order to increase safety in the long term. Violence prevention interventions strengthen communities' ability to address, in a non-violent manner, the many stressors that lead to violent behaviour in homes, schools and communities. This includes strengthening families through parenting support, which the Department of Social Development and the Department of Health will continue to fund, especially those that commit to being evidence-led. As a next step, violence prevention interventions also support children at risk of being victims or perpetrators of violence through targeted support interventions and divert individuals at risk of becoming in conflict with the law. Violence prevention initiatives for youth at risk will continue through the after-school programmes, YearBeyond Planet Youth, Chrysalis Academy, Community Wellbeing and Shukuma programmes.

Strengthening social protective factors is prioritised to increase safety in the long term

The WCG will continue to strive for the prevention of alcohol related harms through the amendment of the Western Cape Liquor Act. The amendment of the Act, currently being considered, will introduce minimum unit pricing regulations that will ensure that alcohol products are priced based on their alcohol content volumes, to reduce the abuse of cheap alcohol products. The amended legislation will also restrict alcohol trading times. To apply a public health approach to reducing alcohol-related harms, the Western Cape Liquor Authority has increased its monitoring and enforcement capacity with the appointment of additional Liquor Inspectors to assess the compliance of liquor traders in areas most impacted by alcohol related harms.

Shukuma Project

The Shukuma project is an evidence-backed violence prevention programme in schools, facilitated through a Cognitive Behavioural Therapy-inspired curriculum, to help learners slow down their automatic responses, for example, through increased emotional awareness and regulation, deep breathing techniques, conflict management and future orientation.

Why choose a violence prevention initiative in schools?

Strong foundation of evidence that a violence prevention initiative inspired by Cognitive Behavioural Therapy can provide individuals with the socio-emotional skills needed to avoid criminal activity. Youth growing up in low-income parts of the Western Cape are provided ample opportunity to make bad decisions that could lead them to a life of crime and violence. Adolescents faced with these decisions are often heavily influenced by peers, a strong present bias, and a weak link between choices and consequences.

Schools are spaces where the government still has a high level of control, unlike in households or communities. In this regard, the Shukuma schools-based intervention will continue to be prioritised and potentially scaled.

Source: Western Cape Department of the Premier

Urban design

The WCG will endeavour to improve the living spaces of the people of the Western Cape, through the development of livable, accessible, safe and multi-opportunity settlements. Key areas of focus include: catalytic projects, land release, restitution, upgrading of informal settlements, a focus on informality, leveraging community partnerships and new models of delivery.

As important partners in the implementation of the Safety Priority, municipalities play a central role in giving effect to the WC Safety Plan. The WCG will continue to support municipalities to implement their Safety Plans through the JDMA District Implementation Plans.

Safety enablers

The Safety Priority emphasises the importance of being more data-led and evidence-informed in the design and delivery of programmes and services, as well as the importance of transversal collaboration to provide a seamless service to citizens. Key partnerships at the centre of the Western Cape Safety Plan include the Province's partnership with municipalities, communities in the form of community policing forums (CPFs) and neighbourhood watches (NHWs), the SAPS as well as partnerships within the WCG, including the transversal Safety Priority Steering Committee.

The Area Based Teams (ABT) strategy allows for a differentiated approach to combating crime in specific hotspot areas, deepening the coordination of key role players in specific communities. The WCG will continue to invest in the capacitation and resourcing of the community-based stakeholders that constitute the ABTs, and safety networks more broadly.

Continued focus on safety, with strengthening the hotspot approach in order to drive greater impact

Gender-Based Violence

Gender-Based Violence (GBV) is a priority for the government due to its impact on women and children who make up a critical part of our society. The WCG's approach to combatting GBV involves improving law enforcement and the processing of GBV cases, as well as providing victim support, and violence prevention programmes. The Department of Community Safety will continue with its Court Watching Briefs programme to monitor the effectiveness of SAPS investigations and increase the level of oversight over policing with a particular focus on monitoring the efficiency in the handling of GBV cases. The Department of Social Development will continue to fund shelters and psychosocial support services for victims of GBV. Key initiatives such as the WC GBV Implementation Plan, as well as platforms such as the Provincial GBV and Femicide Summit, add more impetus for collaboration on GBV interventions.

Source: Provincial Treasury

The Hospital and Emergency Centre Tracking Information System (HECTIS) is a significant enabler of the Safety Priority. The HECTIS data is captured in a Safety tool that tracks and reports daily and weekly data trends - relating to incidents of violence, injury, and homicide in the Province - at a suburb level. The dashboard enables the integration of data into daily policing and law enforcement operations. A Violence Prevention Unit is being established within the Department of Health and is responsible for identifying and designing interventions to reduce violence in communities through evidence-based public health strategies. The development of these capabilities is a critical component in the strategy to develop bespoke, effective, and localised crime interventions.

Theme 3: Wellbeing

The Wellbeing Priority follows a life-course approach through its different pillars, namely strong foundations, increased wellbeing, building social cohesion and service, and meeting basic needs and protecting human Rights. Strong foundations focuses mainly on a holistic package of support for the 1st 1000 days of life and on strengthening early childhood development outcomes. Increased Wellbeing focuses on holistic child and youth wellbeing through the curriculum delivery in the school environment, strengthened mental wellbeing, after school programmes and youth development services. Building social cohesion and service focuses on building and supporting a youth cohort that is ready to meaningfully contribute to society. The meeting basic needs and protecting human rights pillar focuses on the issues of food security and nutrition, homelessness and the delivery of basic services.

Strong foundations

The 1st 1 000 days of a child's life is a key priority of the WCG. Initiatives over the 2023 MTEF includes a focus on nutrition, responsive caregiving, and opportunities for early learning. Activities includes conducting a baseline stunting survey, a parent/caregiver

Wellbeing focuses on strong foundations, increased wellbeing, building social cohesion, and meeting basic needs and protecting human rights

Strong foundations through improving the 1st 1 000 days of life and supporting ECD

package of support, and interventions to support early childhood development initiatives in communities.

Early Childhood Development (ECD) aims to improve the emotional, cognitive and physical development of the child to ensure school readiness, with the basic and specialised support made available to these learners. The Western Cape Education Department (WCED) aims to provide quality ECD as the basis for improving school outcomes. As part of the Department's efforts to improve access to quality ECD facilities, the Department's planned target is to facilitate the registration of 1 400 ECD facilities in 2022/23.

The WCED embarked on various initiatives to mitigate the risk that contributed to the learning losses identified by the 2021 systemic/diagnostic tests. It is recognised that classroom practice and teacher contact time are important, specifically in the foundation phase. The continued focus going forward would include the following: suitably skilled educators, procurement and distribution of necessary Learner and Teaching Support Material (LTSM), applying the Whole-of-Society Approach (WoSA), and advocating for the inclusion and support of learners who experience barriers to learning or are differently abled.

Increased wellbeing

A key focus will be the recovery and resurgence to re-establish the provision of comprehensive care in the context of managing an active pandemic. Six strategies for actions over the 2023 MTEF includes three recovery strategies and three resurgence strategies. The recovery strategies are mainly related to service re-design with a focus on non-communicable diseases and mental health, governance re-design to enhance the Department of Health and Wellness' ability to govern health, and public policy targeting psychosocial wellbeing and violence and injury prevention in the Western Cape. The resurgence strategies include surveillance to enable proactive responsiveness to ensuing waves of the COVID-19 pandemic, an agile health platform which is able to manage an active pandemic in the context of the existing burden of disease, and vaccination as the main strategy to minimise the socio-economic risks of the pandemic.

Prioritising the need for both medical and community approaches to protect and nurture psychosocial wellbeing

The pandemic has amplified poor mental wellbeing, which is not limited to people with a psychosocial disability as anyone can experience poor mental health when stressors become overwhelming. Over the 2023 MTEF, the response recognises the need for both medical and community approaches to protect and nurture psychosocial wellbeing. This includes the redesign of not only mental health services in the health system but also the broader social care system in the Province.

As part of the Transform to Perform (T2P) strategy, the Growth Mindset Programme forms an integral contribution to address levels of motivation, attitude, and mindset of learners. This programme will continue to be rolled out in 240 schools.

The After School programme interventions will continue to be a priority in providing access to quality programming, by means of the Mass Opportunity and Development (MOD) Centres and the Neighbouring School Centres active in 315 schools, and the YearBeyond programme in 204 sites. The range of After School programmes provides catch-up support to learners who are struggling academically and need literacy or numeracy support using the concept of youth as 'big brothers and sisters' to learners. These programmes create opportunities for children to find and hone their passions.

Increased wellbeing through supporting After School programmes

The Regional Socio-Economic Projects are linked to spatial transformation and managing urbanisation, and include social cohesion outputs such as splash parks, soccer fields, netball courts and recreation nodes. These projects will continue to make a notable contribution to the quality of life of communities that have access to these facilities.

Building social cohesion and service

The WCG will support social networks that connect groups together and encourage participation and active engagement in safe spaces with people from different backgrounds. Through arts and culture development and promotion programmes, WCG provides opportunities for youth, women, children, and people with disabilities from diverse communities to interact and acquire artistic and life skills.

Support social networks that connect people from different backgrounds

The youth programmes offered, such as the YearBeyond programme interventions, facilitated through Planet Youth and Community Wellbeing Champions, provide a sense of hope and optimism to youth. At the same time, the youth are placed in services which focus on the building blocks of communities, such as reading, oral history, physical and mental wellbeing, and recreation.

Public libraries are also a key programme that not only provide access to books and spaces to convene for particularly vulnerable communities, but provide a safe learning, developmental and creative space for citizens to access. Currently, the Rural Library Connectivity Project is rolled out to 229 public libraries (1 504 workstations) across all rural municipalities to address the lack of access to computers and the internet. Two additional libraries will be added by the end of 2022/23.

Meeting basic needs and protecting human rights

The provincial social wage consists of core, statutory provisions such as childcare and protection, support to families in distress, services to persons with disabilities and services to older persons. In addition to these statutory services, the WCG ensures support to victims of GBV, homelessness, and food relief.

Continued support and strengthening of the NPO sector in order to protect the provision of basic services

As key partners in the delivery of social welfare services, non-profit organisations (NPOs) continue to be a funding priority for the WCG; thereby prioritising the most vulnerable and protecting the provision of basic services. The WCG will develop and implement an enhanced NPO management system, which will enable better collaboration between the NPO sector and government, including capacitating NPOs to become more financially resilient, improving transparency regarding financial management, simplifying compliance, and improving data and information sharing. Strengthening the NPO sector is a transversal priority that can be an opportunity to improve the quality, reach and impact of social welfare services and in particular statutory services.

Child protection is the most significant of the Province's obligations. Children are the future and their safety as well as the nurturing of their developmental potential is critical to our society in every way. The WCG has prioritised the funding of Child and Youth Care Centres, including commitments to infrastructure upgrades and additional staff and professional social work capacity.

Ensuring access to basic needs and fulfilling fundamental rights includes the support of food relief programmes

Over the 2023 MTEF, the Province will continue to fund food relief in form of subsidies to Community Nutrition Development Centres, school feeding schemes and feeding at afterschool programmes, as well as rolling out community, school and household food gardens. Extensive support has been provided to the WCG Food Working Group in developing a Nourish to Flourish Strategy, which is mapping the food system in two locations (Worcester and Langa), developing a governance model for food systems through the Province, and developing a proposal to improve nutrition status in the 2023/24 financial year.

Homelessness is, to a significant extent, a direct result of the poverty and unemployment generated by economic stagnation. The WCG will continue to provide support for homeless adults through funding shelters for homeless persons.

Innovation, Culture and Governance

The three Priority themes within the context of the Recovery Plan, being Growth for Jobs, Safety, and Wellbeing, are supported by the enabler of Innovation, Culture and Governance. The enabler Priority and its related programmes and interventions originates as part of the Focus Areas in VIP 5 of the PSP.

Innovation for impact

Innovation is a key value of WCG, which is defined as being open to new ideas and developing creative solutions to challenges in a resourceful way. As part of the Innovation for Impact Strategic Framework, the key enablers promoted and embedded in WCG are providing staff with the space for exploration and experimentation, equipping officials with the capacity to innovate, and engaging diverse stakeholders to problem-solve initiatives as a means to enhance service delivery.

Embedding the Innovation for Impact Strategic Framework to enhance service delivery

Innovative methodologies, such as the Community Capacity Enhancement Programme, Lean Management, and the Problem-Driven Iterative Adaptation, will inform innovation-inspired webinars and policy briefs, which will be offered to strengthen the capacity to innovate among public sector officials. Key to the Innovation for Impact agenda going forward will be expanding and mobilising the WCG Innovation Network set up in 2022/23, expanding the roles of departmental innovation champions, and establishing a youth advisory group. A redesigned Innovation Portal will be launched to support the development of innovative ideas into fully formed responses.

Citizen-centric culture

A government that is connected to its citizens is in a position to understand and respond to the needs of communities. The participation of citizens in decisions or actions that affect them, is an essential element of good local governance. Over the 2023 MTEF, interventions aimed at enhancing participatory governance and to improve the living conditions of citizens include: Strengthening public participation through civic education programmes; Monitoring the implementation of infrastructure programmes aimed at improving basic services in municipalities; and Strengthening communication in municipalities.

Strengthening public participation and embarking on frontline site visits to improve design planning and service delivery

WCG has embarked on frontline service delivery site visits to public facilities where direct interactions with employees and citizens that use the service are consulted. The intention is to improve business processes and systems at frontline service delivery sites.

Prioritise advancing a data and evidence-based WCG

Governance transformation

As part of governance transformation, business process re-engineering interventions seek to unlock efficiencies in business processes. A key role is driving the implementation of the Combined Assurance Model, specifically to acknowledge the Departmental Internal Control units as assurance providers and enabling the Executive and departments in terms of legally empowered actions and decisions.

Developing a data ecosystem for governance linked to Growth for Jobs, Safety and Wellbeing is prioritised to advance a data and evidence-based organisation in collaboration with partners. The WCG Provincial Data Office conducts evaluations on specific interventions to help departments make judgments on what we are doing right and what we can learn.

The fiscal pressure and rising service delivery demands has placed pressure on supply chain and asset management systems. To ensure effective financial governance and service delivery that responds to demands of the Province, the following four strategic priorities will be implemented: Effective Local Governance; Integrated Provincial Governance; Efficient Infrastructure Investment; and Strategic Supply Chain Management (Further detail on the Supply Chain Management Strategy is provided in Chapter 6).

Integrated service delivery

Promoting co-planning, co-budgeting, co-implementation and spatial planning across spheres of government through the JDMA

The JDMA has been adopted by the WCG as the main delivery mechanism for integrated service delivery in the Province. Over the 2023 MTEF, the Department of Local Government will utilise the JDMA structures to enhance collaboration and maximise impact across spheres of government and in partnership with the private sector. This includes enhancing municipal support strategies to cater and respond to a greater need for support; introduce municipal diagnostics as a standard operating procedure in identifying municipal support packages; and jointly implementing projects to improve basic services and economic development.

Talent and staff development

The WCG aims to be an employer of choice through building a culture that respects talent, particularly that of young professionals, while also enabling staff to develop a career for themselves. Investment will be made in our mid-career staff who are made to be continually aware of the opportunities for exposure to cutting edge national and global knowledge, ensuring that they are part of knowledge networks in their areas of operation, but also that their knowledge is respected and learned from.

It is important to match the nurturing of talent to what is understood as future needs and locking that in with professional development support that is offered as government. To support this, the reconfiguration of the Provincial Training Institute (PTI) into a Provincial Learning and Innovation Centre offering citizen-centric learning opportunities, and a space for generating innovative service delivery solutions is prioritised over the medium term. In this regard, the development of a roadmap and implementation thereof will take the Institute to the desired state of functioning.

Digital transformation

Investment in technology and ICT infrastructure and its exploitation for efficiency is key, inclusive of the need for continuous refresh of outdated technologies, software, and hardware. The Digital Transformation Plan (DTP) outlines the proposed interventions in this regard, and aims to drive the integration, optimisation and transformation of the WCG Service Delivery ecosystem.

Promoting digital inclusion for improved efficiency

The WCG endeavours to drive digital inclusion within communities while narrowing the digital divide, through the continued rollout of Broadband infrastructure to improve internet accessibility and to further contribute to driving down internet connectivity costs of households. In 2023/24, 1 600 WCG sites will be provided with free public Wi-Fi hotspots, while 73 Cape Access Centres will continue to be managed to provide citizens with free access to ICT facilities and digital skills development opportunities.

Despite Cape Town emerging as the tech hub of Africa, much more needs to be done to exploit this opportunity, especially regarding the attraction of skills and much-needed foreign direct investment. The WCG is looking at partnerships with private sector and tech support organisations that is demand-led. Two areas of focus are digital adoption and firm productivity improvements along with technology entrepreneurship. The WCG will leverage partnerships with national and local government to address regulatory issues affecting competitiveness and business start-ups. In this regard, the WCG will foster collaboration and nurture innovation, resulting in improving product development, opening new markets and supply chains, and addressing productivity challenges facing growth-oriented businesses through technology and innovation.

The WCG is looking at partnerships with private sector and tech support organisations to address productivity challenges through technology and innovation

2022 Adjusted Estimates

The key principles of the 2022 Adjusted Estimates of Provincial Revenue and Expenditure, in preparation for the 2023 Budget Process, aims to achieve fiscal sustainability in-year and the carry-through over the 2023 MTEF, address in-year pressures related to the higher inflation rate, the energy crisis, global supply chain

challenges, and to provide for rollover and revenue retention requests.

Provision for a net increase of R490.671 million in 2022/23

The 2022 Adjustments Budget makes provision for a net addition of R490.671 million in expenditure for the 2022/23 financial year, which is summarised in Table 5.1.

Table 5.1 Western Cape 2022 Adjusted Budget

R'000		2022/23		
		Main Budget	Total adjustments	Adjusted Budget
		1	2	1+2=3
1	Department of the Premier	1 825 280	(19 998)	1 805 282
2	Provincial Parliament	176 502	10 673	187 175
3	Provincial Treasury	321 610	(2 790)	318 820
4	Community Safety	776 125	(304)	775 821
5	Education	28 032 601	17 853	28 050 454
6	Health	29 094 331	702	29 095 033
7	Social Development	2 285 335	79 741	2 365 076
8	Human Settlements	2 414 805	63 169	2 477 974
9	Environmental Affairs & Development Planning	568 586	7 006	575 592
10	Transport & Public Works	9 106 398	324 560	9 430 958
11	Agriculture	969 218	23 477	992 695
12	Economic Development & Tourism	514 798	(4 768)	510 030
13	Cultural Affairs & Sport	937 913	554	938 467
14	Local Government	309 301	(9 204)	300 097
Total		77 332 803	490 671	77 823 474
Direct Charge		50 301	0	50 301
Total		77 383 104	490 671	77 873 775

Source: Western Cape Provincial Treasury

The 2022 Adjusted Budget exemplifies a government that cares

The 2022 Adjustments Budget demonstrates the commitment of WCG to building the foundation needed for a prosperous future, and exemplifies a government that cares. The 2022 budget adjustments mainly relates to:

- R51.724 million for the impact of the 3 per cent public service wage increase in 2022/23, allocated to the departments of Social Development, Human Settlements and Environmental Affairs and Development Planning. A differentiated funding approach was applied after considering the current financial position and headcount levels of departments;
- The allocation for the National Health Insurance Grant as provided to the Province in the 2022 Main Budget was

overstated by R8.641 million, as a result of a formulae error. The national Department of Health therefore informed the provincial department that the Grant must be decreased accordingly;

- Rollovers of expenditure to the amount of R278.224 million from 2021/22 are included in this Budget, of which R100.712 million relates to roads, public transport and public works, Health Facility Revitalisation Grant, R56.500 million, and Health infrastructure and equipment of R40.678 million;
- R120.345 million in additional expenditure financed from 2021/22 over-collected own revenue in the current financial year, mainly for transport related issues, R97.263 million, and agriculture related expenditure of R9.298 million;
- Increased expenditure to be covered by in-year own revenue amounts to R109.863 million, and is mainly transport related;
- R34.745 million for the Department of Human Settlements for the facilitation and provision of housing opportunities;
- R60.344 million to be added to departments' budgets from the Provincial Revenue Fund and is mainly for Health and Education property acquisition, R25.553 million; food relief, R25 million; R4 million for institutional refresh integration; and R2 million for the design of the transport voucher scheme for unemployed youth; and
- A decrease due to realignment and surrendering of R155.933 million, is mainly related to the postponement of Broadband and Capex expenditure of R54 million, and R56.030 million for co-payment obligations in terms of the building of the new Tygerberg Hospital.

Further details on in-year spending adjustments for Western Cape departments are set out in the 2022 Western Cape Adjusted Estimates of Provincial Revenue and Expenditure.

■ Conclusion

The medium term budget policy priorities reflect the WCG's commitment to promote Growth for Jobs, Safety and Wellbeing, with the public service being enabled to ensure effective and informed service delivery, while governing for growth, which is further outlined in the next chapter. The final phase of the 2023 Budget Process will result in the tabling of the WCG 2023 Budget, which will give effect to the budget objectives and responses to improve socio-economic development and promote inclusive and sustainable economic growth; thereby building a better future of hope for our citizens.

6

Governing for growth

In summary

- Western Cape Government (WCG) has progressively and methodically increased its governance maturity over time. Good governance is central to all our endeavours and critical for effective service delivery, value addition, and growth; especially in the context of navigating an unpredictable environment, emerging from a worldwide epidemic, and facing a global economic slump.
- The WCG's good governance agenda over the medium term will critically focus on leveraging the WCG governance system to enable growth within the Province i.e., *Governing for Growth*.
- A strategic supply chain management focus includes accelerating the ease of doing business with WCG by reducing red tape and improving access to provincial procurement opportunities.
- Business Process re-engineering is an absolute necessity as we drive towards a digital transformation agenda.
- Optimising assurance and oversight are critical areas of focus to enable governance transformation to deliver citizen-centric services and to enable growth within the Province.
- The implementation of combined assurance will enable maximising assurance coverage, control efficiencies and the optimisation of overall assurance to the provincial Executive and oversight bodies.

Introduction

Over the past decade the WCG has institutionalised its commitment to leveraging good governance for citizen-centric service delivery. Consequently, good governance principles anchor the WCG's strategic priorities, policies, processes, systems and people.

The Priority of Innovation, Culture and Governance in the Provincial Strategic Plan has "governance transformation" as one of its focus areas. The Report on Corporate Governance for South Africa, 2016, (or King IV for short), defines governance as the exercise of ethical and effective leadership towards achieving an ethical culture, good performance, effective control and legitimacy. In addition to this, the Corporate Governance Framework for the WCG adds that corporate governance is the system of rules, practices, and processes by which an organisation is directed and controlled.

■ Good Governance Agenda

Good governance has resulted in a reliable system of accountability, resilience, and performance

Good governance has been at the heart of the WCG's operations and has resulted in a reliable system of accountability, resilience, and performance. It further assisted with the WCG's response to the COVID-19 pandemic and provides a robust steer for the Province in its pathway from recovery after the COVID-19 pandemic to growth and inclusive development.

Over the medium term, the WCG's good governance agenda will focus on leveraging the WCG governance system to enable growth within the Province. The *Governing for Growth* focus forms a critical part of the governance transformation agenda in ensuring that the WCG's collective governance efforts translates into citizen centric-service delivery.

Leveraging the WCG's good governance principles required to protect basic service delivery outcomes

As part of building a better future for the citizens of the Province *Governing for Growth* also means taking responsible and immediate steps to prepare for, and respond to, hardship. A key component of this approach is leveraging the WCG's good governance principles to implement difficult but necessary trade-offs which will be required to protect basic service delivery outcomes in a fiscally constrained environment. The protection of education, health and social development outcomes exemplifies a government that cares.

The message from the Premier in the WCG Strategic Plan for 2019 - 2024 states the WCG's commitment, is "*to finding ways to improve the lives, livelihoods and experiences of our residents*". This aligns to the commitment by the Auditor-General of South Africa (AGSA) to improve the lived realities of the citizen and presents an opportunity to achieve service delivery transformation.

The WCG's good governance agenda is an essential foundation for effective service delivery, value addition and growth within the Province, particularly amidst navigating an uncertain environment, emerging from the global pandemic, and experiencing a global economic downturn. The pandemic placed increased pressure on health and social systems with deep economic impacts, and a sharp decline in resource availability.

The WCG's governance system supports and enables the four key fiscal principles of the Western Cape Fiscal Strategy, namely, protecting basic services outcomes, unlocking allocative efficiency, enhancing productive efficiency, and enabling long-run fiscal sustainability with the focus on innovation in business processes and approaches, integration and collaboration across and within the spheres of government to effect results.

In addition, the six concluding reports of the Zondo Commission provide recommendations on how to further give effect to public accountability and transparency.

The following principles emanating from the Zondo Commission reports are embedded in WCG's institutionalised processes to enhance the effective functioning of Public Entities:

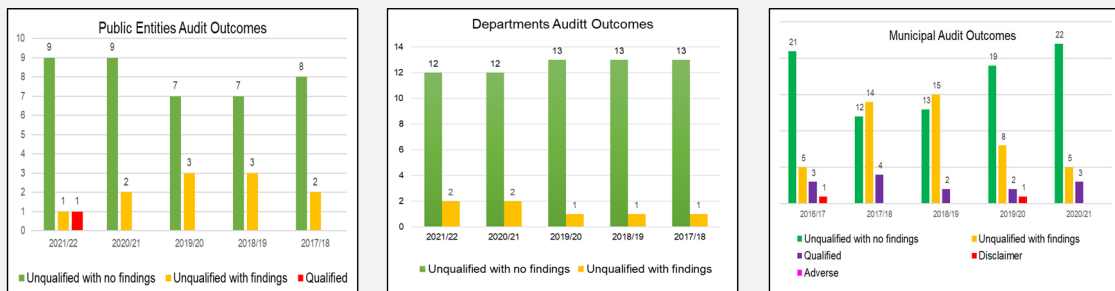
- A competent and independent Board;
- The role and independence of the Chairperson of a Board;
- The accountability of the Chairperson to the Board in terms of decisions made;
- The role and responsibility of the secretary of the Board and the importance of following proper procedures;
- Ethical leadership;
- Above-board tender processes being followed without the interference of the Board or its Chair;
- The importance of ensuring adequate internal controls and procedures are in place to manage processes within an entity;
- The competence and integrity of management and other team members;
- Adequate audit procedures implemented to identify risks; and
- Effective consequence management.

As the WCG strongly adheres to the rule of law, and continually strives to improve, these recommendations, where applicable, have and will further be considered to strengthen the WCG's institutionalised processes. Certain recommendations have already been considered in the WCG self-assessment for managing the Province's public entities and government business enterprises, as well as enhancing Provincial Supply Chain Management (SCM) practices. The Zondo Commission recommendations are responded to in the following existing WCG mechanisms to strengthen accountability and transparency within SCM practices:

- WCG SCM strategy and system of procurement adopts an agile and adaptive approach and supports a robust control and risk mitigation environment;
- Provincial Treasury Instructions providing a uniform standard way of doing business in compliance with relevant prescripts;
- A Blueprint Accounting Officers System for SCM and Code of Ethics;

Principles emanating from the Zondo Commission report are considered in the WCG's institutionalised processes to enhance the effective functioning of Public Entities

- Anti-Corruption and bid rigging clauses included in Western Cape standard bidding document – zero tolerance for corruption;
- Fraud hotline and whistle blowing policies in place and redress is managed through the SCM helpdesk;
- Embedded good governance platforms to continuously improve SCM practices;
- Capacity Building Programmes supporting departments, municipalities, and suppliers;
- Central Supplier Database, Western Cape Supplier Evidence Bank and in house e-Procurement System; and
- Procurement Disclosure Reports and SCM Insight Performance reports.



A byproduct of the WCG's good governance approach is evident in the audit outcomes as depicted in graphs above.

Strengthening structures, systems and processes for integrated service delivery

The WCG implements an integrated service delivery approach that supports joint planning and collective impact in an identified geographic space or within a specific strategic policy area between all three spheres of government and relevant organs of state.

This requires a significant cultural shift away from silos in mandates, fragmentation in policy development and service delivery. It acknowledges the complexity and interconnectedness of policy issues and provides a holistic approach to planning, budgeting, and implementation.

The focus is on leveraging and enhancing established systems and structures of good governance to support and enable an integrated approach to service delivery, laying the foundation for moving from recovery to growth.

As referred to in Chapter 4, a key part of the integrated service delivery approach is the effective implementation of the Joint District and Metro Approach (JDMA). The JDMA was also used to enable a collective and collaborative response to the COVID-19 pandemic within the different districts, articulated within the Hotspot Management Strategy.

The effective implementation of the JDMA is a key component of the integrated service delivery approach

The WCG will continue to use and enhance its institutionalised integrated management processes and structures to enable effective integrated service delivery, value for money and to serve as a catalyst for a positive trajectory in the growth agenda.

Strategic Procurement to deliver services and enable local economic development

The value of procurement for the Western Cape Provincial Government over the past 5-years is reflected in Table 6.1.

Table 6.1 The value of procurement for the Western Cape Provincial Government

FINANCIAL YEAR	BUILDINGS & OTHER FIX STRUCT	GOODS AND SERVICES	MACHINERY AND EQUIPMENT	SOFTWARE & INTANGIBLE ASSETS	TOTAL
2017/2018	R3 898 100 597.23	R12 642 607 402.67	R724 111 026.68	R34 100 196.97	R17 298 919 223.55
2018/2019	R4 120 385 355.04	R12 158 153 543.49	R948 321 351.93	R30 063 073.28	R17 256 923 323.74
2019/2020	R4 091 665 385.09	R12 774 817 654.75	R811 414 178.41	R37 491 099.14	R17 715 388 317.39
2020/2021	R2 810 374 363.27	R14 375 892 470.47	R968 266 318.94	R68 996 555.48	R18 223 529 708.16
2021/2022	R2 931 090 675.09	R14 853 172 480.45	R970 910 795.57	R65 155 270.27	R18 820 329 221.38
2022/2023	R1 782 904 904.16	R6 641 497 083.61	R340 572 241.66	R23 442 084.92	R8 788 416 314.35
TOTAL	R19 634 521 279.88	R73 446 140 635.44	R4 763 595 913.19	R259 248 280.06	R98 103 506 108.57

The economic impact of the pandemic and a constrained fiscus requires that a recovery strategy uses public procurement as a lever for change that results in value for money purchasing (efficiency) and achieves the desired results (impact). Additionally, a rise in global inflation significantly due to supply chain shortages aggravated by the Russia-Ukraine war adds to the conundrum.

A recovery strategy that uses public procurement as a lever for change is required given that SCM is a friction point and is hence a focus area

At the same time, the flooding in KwaZulu-Natal, the electricity crisis and persistent constraints on certain industries have severely affected economic activity. Further slower global growth from supply chain disruptions and stringent lockdown restrictions in China, surging inflation and tighter monetary policy stances have placed severe constraints on domestic supply chains and the ability of government to sustain procurement activity that meets service delivery objectives.

Areas most likely to achieve rapid high-impact results requires prioritisation

This requires strategically prioritising areas that are most likely to achieve rapid high-impact results, and which do not add significantly to the administrative burden and/or costs. A strategic supply chain management focus therefore includes:

- Sustaining a resilient governance platform that includes appropriate surveillance and transparency mechanisms in provincial procurement processes;
- Focusing on continuous service delivery improvement through client support and supplier management services;
- Accelerating the ease of doing business with Western Cape Government by reducing red tape and improving access to provincial procurement opportunities; and
- Utilising technology as an enabler to improve SCM and asset management capability maturity and performance.

These key result areas are imbedded in the existing provincial SCM Strategy that focuses on SCM governance, capacitation and development, technology, and strategic procurement.

Figure 6.1 Supply Chain Management Strategy



Strategic Procurement

Government procurement is centered around the citizen through effective and efficient service delivery

The primary objective of government procurement in South Africa is centered around the citizen through effective and efficient service delivery. A critical secondary objective is the principle of value for money, which entails getting the right product at the right time and right place, supports these objectives.

The Province utilises opportunities for alternative strategic sourcing initiatives (commodity and project focused initiatives). This approach requires robust evidence-based commodity and market analysis, understanding the profile of strategic and scarce

commodities and their procurement options, as well as strategic partners and a detailed analysis of the supplier base.

The approach is to shift procurement from being rules driven to using a collaborative and structured approach to critically analyse public procurement spending and using the analysis to acquire commodities and services more effectively.

The value for money principle focuses efforts to utilise procured resources optimally, striking a balance between economy, effectiveness, and efficiency.

Organs of state in the Western Cape do not function independently when it comes to service delivery. It is essential that a uniform strategy and approach be followed that cut across the spheres of government, and that resources be pooled to ensure procurement providers are on board as a matter of urgency and that a transversal approach be followed with the acquisition of the necessary equipment.

SCM Technology and Business Intelligence

The intent is to connect procurement planning to actual procurement processes via e-Procurement enablement. This ensures that:

- All governance requirements are managed appropriately and met;
- Ease of doing business and institutional memory to support evidence-led decision-making process are addressed;
- Service delivery objectives are efficiently and effectively achieved; and
- Value for money is met.

Supply chain management deals with the efficient coordination of enterprises along a value chain to provide goods and services to end-users. The emergence of information technologies has created innumerable opportunities for businesses to develop and streamline their supply chains.

Leveraging of technology is fundamental to building a robust, re-imagined and responsive supply chain that is cost effective, efficient, equitable and transparent. The Province's procurement planning toolkit and in-house developed e-Procurement Solution (ePS) enabling institutions to undertake procurement planning more efficiently, as well as streamlining delivery and reporting. In addition, the analysis of data extracted from systems and the use of business intelligence tools provide performance information to institutions to

Building a robust, re-imagined and responsive supply chain requires the leveraging of technology

support governance requirements and to improve management decision-making.

The Province's ePS is in line with the National Treasury's overall strategy to achieve continuing 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, are able to identify and exploit business opportunities. An ePS for quotations has been implemented in WCG since 2002 together with a central supplier database. Departments utilise the ePS for invitation of price quotations (competitive and limited), the receipt thereof, and the adjudication of bids submitted by suppliers. The intention is to bring all municipalities on board to benefit from these innovative developments.

The data visualisation drive in procurement has shown great promise in enabling and assisting the Province to develop, execute and measure the performance of SCM strategic and operational projects. This is driven by powerful self-service spend analysis software that depicts expenditure and procurement data in easy-to-comprehend, on-the-fly dashboards. Managers view the dashboards and are provided with visual business intelligence to make rapid and informed business decisions, resulting in improved costs, efficiencies, better service delivery to constituents and higher customer satisfaction.

Governance and Capacitation

Enhanced transparency and accountability due to the progressive expansion of the WCG Procurement Disclosure Report

The content of the WCG Procurement Disclosure Report has been progressively expanded to enhance transparency and accountability. Making sustainable procurement choices requires accounting for the full value of a service or product over its whole lifecycle, including the costing of social and environmental risks and opportunities. Key initiatives include specific commodity sourcing strategies that improve efficiencies within the provincial procurement environment; procurement planning improvements; utilisation of South African suppliers and suppliers within the Western Cape to render goods and services; supplier development initiatives; promoting the use of small business in procurement activities; and e-Procurement and supplier database management.

■ Process optimisation and data enablement

The WCG governance efforts are supported and underpinned by the transversal financial management systems for which the Provincial Treasury is the custodian. The WCG agreed to support the piloting of the national Integrated Financial Management System (IFMS). The WCG realises however that this effort may still take some

time for National Treasury to implement and therefore has focused its attention on the modernisation and enhancement of the current suite of financial systems.

The Provincial Treasury, in partnership with the Department of the Premier's Branch: Centre for e-Innovation (Cel), will undertake a full review of financial systems in the Province to enhance efficiencies within an integrated ecosystem.

A full review of financial systems in the Province will be undertaken to rationalise financial systems of the Province

The Provincial Treasury further realises the need to improve its digital landscape. Financial systems that support the core corporate functions of government are prioritised. These include:

- **Modernising the inefficient, highly manual and document-intensive Human Capital systems.** Introducing e-Administration to support Human Resource practitioners and empowering WCG employees with Self Service tools will enable interactions in goal settings, leave management, talent management and general workforce management.
- **Implementing the Procure to Pay Initiative** enables the end-to-end procurement lifecycle, namely from procurement of goods and services, supplier performance management and payment of such supplier through one digital platform. The Procure to Pay initiative will be subject to approval by National Treasury in line with the National Treasury Instruction 5 of 2017/18.
- **Improving certain functionalities in the Basic Accounting System,** notably financial planning, Enterprise Resource Management, revenue, project costing, automation of financial statements, amongst others, will assist financial management across the Province.
- **Analysing and visualising provincial financial and non-financial data** for easier reporting and decision making through a partnership between WCG and the Cel. Data cleansing will also feature as part of the strategy to ensure quality of the data that is ingested in the data lake.

Advancing innovation and digital transformation within the Provincial Treasury requires developing digital platforms that allow for interaction with the broader supplier community, municipalities and various other stakeholders that derive services from the Provincial Treasury. These digital platforms will include e-Administration tools for Municipal (eg. TIME, SIME, etc) and Provincial Government (e.g. MTEC, etc.), self service tools and Customer Relationship management tools to manage queries, Communication of Audit Findings (COMAFs), supplier information dissemination, to name a few.

Development of digital platforms required to advance innovation and digital transformation within the Provincial Treasury

Business Process re-engineering is vital in driving towards a digital transformation agenda

Business process re-engineering is a critical underpinning of effective digital transformation. Both policies and standard operating processes are most likely to change as technology is introduced in the WCG, hence the review of business process to simplify models for delivery of service. With any modernisation of business process, the impact of such a change must be managed properly to ensure adoption and sustainability of the change initiatives.

■ Optimising assurance and oversight

Good governance informs the timing and appropriate focus of decisions within an organisation. It is based on an understanding of the exposure to risk and the assurance that decisions are formed using reliable information. The interplay between governance, risk management and assurance are mutually dependent since silo responses lead to duplication of functions and multi-layered processes.

Optimising assurance and oversight are critical focus areas to enable governance transformation to deliver citizen-centric services and to enable growth within the Province.

Adopting a combined assurance approach

Governance, risk management and assurance are most effective when adopting a combined assurance approach. The integration and alignment of assurance processes in provincial departments, public entities and municipalities will enable maximising assurance coverage, control efficiencies and the optimisation of overall assurance to the provincial Executive and Audit Committees.

The interplay between governance, risk management and assurance are mutually dependent

Institutionalised oversight processes within the Province will ensure that proactive governance, performance challenges and risks are identified and addressed through a collective and coordinated response by departments, municipalities and relevant stakeholders. These processes allow for the continuous improvement of governance practices and accountability towards effective internal control systems, and a culture of accountability and innovation within departments and municipalities that enable the effective delivery of services.

Combined assurance considers that the Province has institutionalised its corporate governance review and outlook programme (CGRO) in the PFMA environment, and similarly, in the MFMA environment that have driven the municipal governance review and outlook programme. These initiatives consider:

- The foundation laid by accounting officers, together with innovative measures to improve on previous governance assessments;

- The gap between the current and desired states, taking into consideration any changes in the environment;
- Critical risks and steps to reduce/treat the risk in its current form in order to minimise its impact on the stated objectives;
- Implementation of mechanisms to address compliance/conformance issues; and
- The implicit understanding that each role-player in the accountability process must play their part.

This approach is further underpinned by leadership having a strong will to drive effective governance, appointing skilled and competent staff, and implementing effective consequence management. This results in a continuous cycle of improvement contributing to the systematic improvement of higher levels of governance.

Key partners in the successful implementation of the above approach are managers of departments and municipalities, National Treasury (NT), the Auditor-General of South Africa (AGSA), the South African Local Government Association (SALGA), National Parliament and Provincial Parliament, assurance providers and identified stakeholders.

Local Government Context

The effective functioning of municipal audit committees, internal audit activities and the implementation of enterprise risk management within municipalities are critical requirements to the effective implementation of combined assurance in municipalities. The following focus areas have been identified to ensure that the required building blocks are in place to achieve the readiness for combined assurance implementation within local government:

- The provision of a Provincial Treasury combined assurance guideline for utilisation by municipalities, informed by a pilot implementation study;
- Paving the way for functional risk management and internal audit units as providers of assurance to the municipality in the short term, and then transitioning to effective risk management and internal audit; and
- Effective Audit Committees as a key contributor to good governance. Emphasising the role of the Audit Committee in harnessing the review of the adequacy and effectiveness of risk management, internal audit and ensuring that the combined assurance received is appropriate to address all the significant risks facing the respective municipalities.

The successful implementation of a combined assurance approach involves multiple stakeholders

Conclusion

The focus over the medium term is, ensuring that the WCG unlocks the value from the good governance system to deliver citizen-centric services and steer the Province on the pathway from recovery to growth. This is underpinned by the three priority areas of Growth for Jobs, Safety and Wellbeing, supported by the enabler of Innovation, Culture and Governance.

The WCG's Integrated Governance Approach will focus on the following areas over the medium term:

- Sustaining a resilient governance platform that is inclusive of oversight mechanisms and transparency in provincial and local government governance practices;
- Strengthening structures, systems and processes for integrated government and service delivery;
- Implementing Strategic Procurement to drive efficiencies and enable value for money. Undertaking process optimisation, change management and data enablement to realise efficiency and improve decision-making;
- Optimising assurance and oversight for public value; and
- Creating a culture for innovation and accountability.

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