

**Western Cape Government
Provincial Treasury**

**Medium Term Budget Policy Statement
Adjusted Estimates
2022/23**

Speech

**Minister of Finance and Economic Opportunities
Ms M Wenger**

24 November 2022

Provincial Treasury
Business Information and Data Management
Private Bag X9165
15 Wale Street
Cape Town
tel: +27 21 483 5618

Email: pt.communication@westerncape.gov.za

www.westerncape.gov.za

**Speech by Mireille Wenger,
Minister of Finance and Economic Opportunities,
Medium Term Budget Policy Statement 2022/23
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10:00

“A framework for hope”

Honourable Speaker and Deputy Speaker

Honourable Premier and Cabinet Colleagues

Honourable Leader of the Opposition

Members of the Western Cape Provincial Parliament

Special Guests

People of the Western Cape

1. Our pathway from recovery to growth

When I tabled the Provincial Economic Review and Outlook in this house in September, I made clear the challenging times that we face in South Africa today.

The headwinds that confront us are indeed powerful. Our country is experiencing sluggish economic growth, high levels of unemployment and poverty, significant debt-service costs, a rising cost-of-living, and a debilitating energy crisis.

In that same speech, however, I also made clear that there are promising opportunities that present themselves with a clear pathway ahead for us - from recovery to growth. This is a pathway that will deliver hope and confidence for our citizens.

As the renowned author, Helen Keller, so aptly said, and I quote: *“optimism is the faith that leads to achievement. Nothing can be done without hope and confidence.”*

This 'sober hope', as I call it, is also evident in in the Municipal Economic Review and Outlook, which I tabled today, as we look to identify new opportunities to leverage in every corner of our province – so that no person is left behind.

Armed with the rich data and analyses from these two reviews, and fully aware of the powerful headwinds that we face, it is now for us to navigate this journey - from recovery to growth - so that we reach our destination.

And, as with any difficult journey, we will need to adjust in the face of challenge so that we stay on course, while keeping our eyes firmly on the horizon and the future we hope to realise.

The Medium Term Budget Policy Statement, which I table before you today, is our opportunity to determine that course as we set sail to deliver a better tomorrow.

The Adjustment Budget, which I also put before you today, is our opportunity to adjust the sails – resolute in remaining on that course, and towards our shared goal.

And what is that goal?

To realise a better, more prosperous future for our citizens.

A future with economic growth that leads to opportunity and job creation.

A future which is safe and nurturing no matter where you live.

A future where your life-journey is full of care.

As Premier Alan Winde said to this Parliament, these priorities of growth for jobs, safety and wellbeing are the *'north stars' of this government; together they are the ingredients for real change. They are our reason to hope.*

2. Tough choices and difficult trade-offs

Speaker,

As we pursue this difficult journey, we must do so in the context of an ongoing 'budget crunch' in South Africa, that continues to affect provincial budgets in particular.

Slow-to-no growth, high-levels of government debt, bailouts to failed state-owned enterprises and state capture have meant that South Africa has less money to spend at precisely the time when the demand is greatest.

Over the 2023 Medium Term Expenditure Framework, as a result of changes to how the equitable share formula is calculated, the Western Cape's percentage of the provincial pie is reduced. This equates to **R1.92 billion** less over the period for the horizontal division - and may even be reduced further as these changes are phased in.

Fortunately, over this period, additional allocations for service delivery pressures, as well as conditional grants allocated to provinces, will offset this decline marginally, allowing for a narrow **2.2 per cent** increase in funding for the province over the MTEF.

However, when considering our growing population and the high rate of inflation – which has not been factored in the allocation - it is obvious that we will have to do more with less.

3. Provinces on the frontline being squeezed

Speaker,

This trend is very worrying, and we need to have a frank conversation about it in this house.

The consequences of not doing so – especially for poor residents across the country – will be severe.

Through our “Fiscal Futures” project in the Provincial Treasury, we are now able to forecast our budget into the future, using modelling.

According to this modelling and after adjusting for inflation by expressing the budget in 2021/22 rands, we estimate that the Provincial Equitable Share for the Western Cape will effectively decline from R54.6 billion in 2021/22 to R49.6 billion in 2030/31.

Over this same period, it is estimated that the City of Cape Town will grow by 882 607 people, equivalent to the population of Mangaung, while the Western Cape will grow by 1.25 million people - or the equivalent of the population of the Nelson Mandela Bay Metro.

To put it simply, we will likely be receiving less money to respond to what will be significant pressures on frontline services. The consequences of this gap could be catastrophic.

The hard truth is that the National Government is trying to clean up the mess created by years of state capture, corruption and mismanagement by squeezing the provinces on the frontline. It is a dangerous exercise.

And so, it makes me angry to hear in the National Government's Medium Term Budget Policy Statement that some R30 billion will be provided to “stabilise” State-owned-enterprises.

If that amount had instead been distributed to provinces to deliver frontline services, using the Provincial Equitable Share, the Western Cape would have received **R3.12 billion** more this year – almost equal to our health department's infrastructure budget for the next three years.

This is, quite frankly, unjustifiable.

3.1 PES must move with the times

Speaker,

Another area of concern regarding our Provincial Equitable Share has been the decline in our share of the funds distributed by the health component of the formula.

Instead of acknowledging and incentivising the innovation which our Department of Health has championed, such as through tele-medicine and home medicine deliveries, we are effectively being penalised for it, because this data is excluded in the calculation. Our citizen-centric approach means that we are working hard to prevent the sick from having to wait in long all-day queues at clinics and instead, where possible, take healthcare to them. But this aspect of the formula only counts visits at clinics and therefore incentivises the wrong outcomes in our view.

If you, for example, include our additional data, it is clear that the demand on our health platform is at least equal to what it was in 2019, and our budget should reflect that.

The reality is that healthcare does not just take place in brick-and-mortar buildings, and this is going to be the reality into the future as new technology emerges.

The PES's analysis of health service pressures is therefore outdated and must change, and we will certainly be making this point whenever we can.

4. Our budget principles

Speaker,

While we will be putting more pressure on National Government than ever before to change this trajectory, we must ensure that we face up to this challenge.

We must, as George Washington said, consult our means rather than our wishes.

Making these tough choices and difficult trade-offs will require us to be guided by sound budget principles, so that we can remain on course, from recovery to growth.

These principles, in effect, are the compass that we will use to navigate the stormy seas that await us.

We will do so, firstly, by acting to protect our core mandates so that we deliver lifesaving and life-changing services such as healthcare, basic education, and social services.

Secondly, this government will focus on programmes that maximise impact in our priorities of growth for jobs, safety, and wellbeing. Within the Western Cape Government, this also includes a focus on innovation, organisational culture and effective governance.

Thirdly, we will act to enhance our government's productivity, by relentlessly focusing on doing more with less, delivering value for money projects. We will also continue to review and propose measures to streamline functions and activities across departments and with municipalities through improved coordination and functional reassignment.

And lastly, this government will act to protect the long-term fiscal sustainability of the province, by ensuring that we rebuild reserves over the medium term so that we remain resilient to shocks and by continuing with our Cost of Employment Strategy to manage headcount in the administration.

5. Our Framework for Hope

Steered by these principles, and guided by our 'north star' priorities, we have a framework for hope.

A plan to prepare for the future that we want to realise so that every person can live a life they truly value.

To give effect to this framework for hope, the Medium Term Budget Policy Statement adds a total of **R1.28 billion** to spending over the next three years, bringing the total estimated expenditure for the Western Cape over the 2023 MTEF to **R230.82 billion**.

5.1 Growth for Jobs

Firstly, to deliver on our priority of growth for jobs, we will add **R466.5 million** to the new Infrastructure and Mobility departments over the MTEF, while **R257.3 million** will be added to our Education and Health departments to expand critical infrastructure.

Over the 2023 MTEF we are planning to spend **R31.17 billion** on infrastructure in the Western Cape.

With low levels of economic growth in South Africa, worsened now by load-shedding, it is critical that we help unlock much higher levels of economic growth in the Western Cape, so that we can create opportunity.

It is for this reason that we are currently formulating a new Growth for Jobs Strategy for the province, that will be finalised before the end of this financial year.

At its core will be the understanding that governments do not create jobs, but rather create the enabling environment for entrepreneurs, businesspeople and citizens to succeed.

Through this strategy, we want to achieve break-out economic growth and realise a provincial economy that is jobs-rich and inclusive, so that citizens across the province, no matter where they live, can benefit.

And we want to do this through enablement – by providing the foundations for growth, by investing in infrastructure, energy and water, transitioning to carbon zero, unlocking housing opportunities and building reliable, safe roadways, as well as delivering skills for the economy, all the while making it easier for businesses, big and small, to trade in the Western Cape.

As we shift to this new strategy over the MTEF, we will look to “adjust our sails” so that we achieve this objective, and I look forward to making further announcements in my Main Budget in March next year.

5.1.1 Energy Resilience

Speaker,

I was informed this morning, that according to the EskomSePush app – which I am sure you all closely follow as I do - South Africa has now experienced 2 932 hours of load-shedding or the equivalent of 122 days of interrupted power supply.

Let me repeat that. We have deprived our country's economy of the energy it needs to grow for one third of this year – and the year is not yet over.

As we enter Stage 5 load-shedding this week, it is clearer than ever before that we face a national emergency, on the same level as the COVID-19 pandemic.

And like the COVID-19 emergency, it requires an urgent response.

We therefore welcome Premier Alan Winde's establishment of a Cabinet-level Energy Council to coordinate immediate action over the next year, as the energy crisis worsens.

This council brings together government, citizens, businesses and civil society – leveraging the lessons we learnt during the pandemic.

This coordination, with interventions over the short-term, will be key, while we continue to put the foundations in place, over the medium term, for an energy resilient future through our Municipal Energy Resilience (MER) Initiative.

This programme is making important strides in unlocking energy opportunities by enabling municipalities, businesses, and households to generate, procure and sell power.

I would like to use this opportunity to share some updates with you on this programme.

A key component of the MER Initiative is to enable and unlock municipal independent power producer (IPP) procurement in candidate municipalities.

Following a pre-feasibility analysis, Stellenbosch Municipality – as one of those candidates - will soon be supported with transaction advisory services to take the work from the pre-feasibility stage through to feasibility, procurement and contract finalisation.

In parallel to this process, a business case for a pooled buying mechanism is being developed, aimed at providing a lower risk and lower cost municipal IPP procurement solution to multiple Western Cape municipalities. This was a key finding that came out of our Energy Workshop, which I hosted after being appointed in this position.

To enable the private sector, work is also underway to map out large private sector energy users' current energy use and demand growth projections as well as their alternative energy supply interventions and plans. During early 2023, the intention is to map this information against municipal grid capacity to enable the fast tracking of private sector implementation of small-scale embedded generation and electricity wheeling solutions where possible.

And to support municipal readiness, in the last year, the Western Cape Government has provided funding to 10 municipalities for 16 foundational energy studies including the development and updating of electricity master plans and cost of supply studies. We are now also in the process of having standardized legal agreements drafted for the use of municipal grids in wheeling transactions.

Day by day, these efforts by our MER team are helping ensure that we have the systems in place to generate an additional 500 MW of power for the Western Cape by 2025, and we will constantly be looking at ways to focus, innovate and scale-up so that this moves quicker.

5.2 Safety

Speaker,

Secondly, to deliver on our safety priority, we will allocate an additional **R200 million** over the MTEF to continue the Law Enforcement Advancement Programme, ensuring that boots-on-the-ground in crime hotspots continue to save lives. This brings the full allocation for LEAP over the 2023 MTEF to **R900 million**.

This is because areas where LEAP officers were deployed, showed an overall 3 per cent reduction in the murder rate for the first half of this year, when compared with 2019.

In the context of chronic police under-resourcing and high levels of policing inefficiencies, this data-led intervention remains a strategic priority for this province.

We, however, know that law enforcement is only one side of the equation and that we need to address both the causes and the consequences of crime.

That is why we will also focus on the violence prevention pillar of our safety response by strengthening relationships between caregivers, better support for youth at risk, reducing alcohol-related harms, and preventing gender-based violence.

We will do this by using our rich health data so that we can develop targeted responses that work in our communities.

I am also pleased to note that another critical element of our safety response, which is to leverage our constitutionally mandated police oversight role, is being ramped up with an organisational redesign underway in the Department of Police Oversight and Community Safety to enable this new emphasis.

Because we know that if the SAPS have the resources that they need to do their job properly, many more lives will be saved in the Western Cape.

5.3 Wellbeing

Speaker,

Lastly, to give effect to this framework of hope, we will add **R246.54 million** to the wellbeing priority over the MTEF to support a comprehensive response to the very real social distress being experienced in our communities. This includes funding for an additional 170 social workers in the Western Cape.

Overall, Health and Education will receive the lions-share of the Western Cape's budget, with a combined allocation of **R168.69 billion**, or **73.1 per cent** of the total budget over this period.

Our approach to this priority is to ensure the wellbeing of every citizen throughout their life journey – so that they have dignity, so that they are cared for when they are ill or in distress, and so that they have the opportunity to pursue a better future.

We will do this by ensuring strong foundations, building social cohesion, meeting basic needs, and protecting human rights.

We will also improve access to ECD facilities, respond to learning losses in our education system, while protecting and nurturing psychosocial wellbeing in our communities.

A key focus area will also be to re-establish comprehensive healthcare in the context of the normalization of our COVID-19 response, with a new emphasis on non-communicable diseases such as mental health.

I am particularly excited to note the progress made in the preparation for a new tertiary hospital on the Tygerberg Hospital site, with the first National Treasury approval granted in terms of the public-private-partnership regulations under the Public Finance Management Act. To prepare for this multi-billion-rand partnership, we have ringfenced **R995 million** in the Asset Finance Reserve over the MTEF so that we are prepared to deliver on our financial commitments.

6. Governing for Growth

Speaker,

As we set course to realise this better future, and face the powerful headwinds ahead of us, we also need to ensure that our vessel – our vehicle for delivery – can rise above the swells and sail through the storms.

This is precisely why Premier Winde has put a strong emphasis on a fourth, guiding priority for the Western Cape Government – that is, to ensure innovation, a thriving organisational culture and effective governance in our public service.

By leveraging technology, through encouraging a citizen-centric approach to our work and by finding new and better ways to solve problems, we want to empower our employees in the provincial government to make an even bigger difference.

And, in doing so, we want to ensure that our systems and processes help, and not hinder, the growth we have set out to achieve.

With an exemplary clean audit record in this province, again demonstrated in the audit results of this last financial year, we now also need to step-up a gear by ensuring that we move, with speed and scale, in improving the quality-of-service delivery in the Western Cape.

The province's procurement planning toolkit and in-house developed e-Procurement Solution will play a critical role in achieving this objective and is a demonstration of how we are embracing technology to improve supply chain management.

6.1 The Zondo Commission

Speaker,

As the damning Zondo Commission reports on State Capture proved, corruption is the enemy of progress. Corruption, as Pope Francis so powerfully put it, *is paid by the poor*.

While the Western Cape's clean-governance record is excellent, we know that we must continually find ways to strengthen our governance platform ensuring strong oversight mechanisms and transparency. Corruption must never be allowed to rear its ugly head in this government.

And to this end, we have and will continue to consider the Zondo Commission recommendations emanating from these reports, finding new ways to implement them, where they are applicable, so that we strengthen our institutional processes, remain ahead-of-the-curve, and continue to be the best-run government in South Africa.

7. A budget that cares

Speaker,

As I mentioned at the start of my address, staying on our course, from recovery to growth, will require that we adjust our sails in the face of challenge.

In the budget process, this is enabled through the tabling of the Western Cape Adjustment Budget, which is before you today.

This is a budget that cares, making provision for a net addition of **R490.67 million** in expenditure for the 2022/23 financial year.

In the face of higher levels of unemployment brought on by the pandemic, there are many citizens who are battling across our province. They do not know where their next meal will come from, and they are unable to find work to provide for their children.

As a mother, the thought that a malnutrition induced death of a child is now a real risk in our country horrifies me – it must motivate us all to act.

To ensure that we respond to these pressures, and provide the care our citizens deserve, **R43.92 million** will be allocated to fund additional social workers and alleviate the pressure on caseloads.

A further **R25 million** has been allocated in the short-term to fund food relief initiatives.

Other key focus areas covered by this adjustment budget are our infrastructure and mobility priorities, which are critical for job creation.

R196 million is allocated to the Department of Transport and Public Works to amongst others, improve transport safety and cover the operational cost of Go George. A further **R128 million** will be included for infrastructure programmes, including for the upgrading of road infrastructure.

Overall, in 2022/23, to keep us on our course, from recovery to growth, we will have allocated:

- **R54.75 billion** to our wellbeing priority;
- **R15.87 billion** to our growth for jobs priority; and

- **R2.65 billion** to our safety priority.

8. A budget that prepares

Speaker,

Embarking on this difficult journey will also require that we prepare to respond to the storms that we had not foreseen emerging, by making sure that our vessel is robust and can weather any challenge.

After experiencing a once-in-a-century drought, and then a once-in-a-century global pandemic, we know too well that being prepared is essential.

It is for this reason that that we will re-charge our provincial reserves, with **R1.46 billion** being allocated for unforeseen and unavoidable expenses, which includes a contingency for unforeseen disasters, enabling a rapid and decisive response should they occur.

8.1 Wage negotiations

One of the risks that we will need to manage is the uncertainty created by the ongoing wage negotiations with public sector unions, led by the National Government.

While we welcome the commitment by National Government to cover the cost of any wage agreement reached, and to not pass the cost to provinces, the current allocation for the wage increase is only for the 2022/23 financial year.

This means that we have been forced into one-year budgeting, unable to plan for spending over the MTEF. This creates high levels of uncertainty for our departments.

We are closely monitoring developments and will continue – through the Budget Council – to engage with the National Government to ensure more certainty can be provided into the future.

8.2 Personnel Strategy

For our part, we are also ensuring that we manage our Cost of Employment spending, which is our largest spending item.

If left unchecked, it will result in less money going towards programmes that will make a difference in the lives of our citizens.

So far, prudent COE management has resulted in the Western Cape Government having the lowest number of employees, per capita, in comparison with other provinces, yet offering undoubtedly the best service packages.

We will continue to implement our COE strategy with care, by taking a differential approach across departments so that they can manage their own headcounts, and effectively deliver on our key service delivery priorities.

9. A better future for you

Speaker,

I have today shared how this government will set out on a pathway from recovery to growth, so that we realise a better future for our citizens.

There is no doubt that the course ahead of us will have many challenges, and the headwinds will be strong.

But there is every reason to have hope and confidence.

We have, to guide us, our north star priorities, of delivering opportunity, safety and wellbeing for our citizens.

We have, to steer us, our budget principles, so that we stay on course during the challenging times ahead.

We have a vessel that is being strengthened to do more, with less, so that we provide the quality services our citizens deserve.

We can adjust our sails, as we have done now, so that we respond to the needs of our communities.

And we are ensuring that we can withstand storms that have yet to come, so that we will, in the end, reach our destination.

This is our framework for hope. A plan to realise a better, more prosperous future for our citizens.

In closing, I would like to recite one of my favourite poems by Emily Dickinson, to inspire us on the journey ahead.

*'Hope' is the thing with feathers –
That perches in the soul –
And sings the tune without words –
And never stops – at all.*

10. Tabling

Speaker,

It is my immense pleasure to table before the Western Cape Provincial Parliament today:

- The Western Cape Adjustments Appropriation Bill, 2022;
- The Western Cape Adjusted Estimates of Provincial Revenue and Expenditure, 2022;
- The Western Cape 2022 Draft Notice: Additional and Amended Allocations to Municipalities;
- The Overview of Adjusted Provincial and Municipal Infrastructure Investment, 2022; and
- The 2022 Western Cape Medium Term Budget Policy Statement, for discussion and deliberation in the Western Cape Provincial Parliament and its committees.

I would like to thank our 'captain,' Premier Alan Winde, for his wisdom and leadership, and to extend my heartfelt gratitude to fellow cabinet colleagues for their support during this budget process.

I would especially like to extend a big thank you to our world-class Provincial Treasury team, who have burned the midnight oil, to ensure we present such excellent documents for your consideration. We applaud their efforts today.

And I would like to thank and acknowledge the wonderful support I receive from my family, who are my inspiration.

Thank you.