

**Western Cape Government
Provincial Treasury**

**Medium Term Budget
Policy Statement**

2017 - 2020

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Foreword

The Western Cape 2017 – 2020 Medium Term Budget Policy Statement is set within the context of a constrained economic outlook and a fiscal framework which reflects the commitment to fiscal prudence and sustainability. This Budget Policy Statement provides the context within which the 2017 Budget is being formulated and communicates the intended budget policy framework to support service delivery. Over the medium term, the Western Cape Government's fiscal policy approach will promote fiscal consolidation, fiscal discipline and fiscal sustainability. This approach is further strengthened through the Province's fiscal strategy which continues to affirm the established fiscal and budget policy principles.

The Provincial Strategic Plan 2014 - 2019 and related Game Changers remains the key medium term budget policy priorities of the Province. Notable strides have been made to achieve the objectives set out in the policy imperatives of the Western Cape Government. However, our focussed efforts are not without challenges which, in the main, relate to the constrained fiscal framework and have a concomitant impact on our service delivery mandate.

In response to the economic and fiscal realities, the Province has institutionalised the notion of ***Integrated Management and Partnering to deliver a Budget for Growth***. To this end, the Western Cape Government remains committed to a more coordinated and integrated approach to government-wide planning, budgeting and delivery, while promoting inclusive, sustainable and smart growth. This implies a more seamless, citizen-centred service delivery through a whole-of-government approach which promotes cooperation, coordination and collaboration within government at all levels.

Notwithstanding the current challenges, it is incumbent upon this provincial government to ensure that public value is created and recognised through better services, enhanced trust, addressing social problems, economic prosperity and social cohesion. The approach will include greater effectiveness in addressing the problems that are most important to citizens and is open to creative solutions and the development of partnerships to collectively deliver public value.



Dr Ivan Meyer

Minister of Finance

24 November 2016

Contents

Chapter 1	Economic outlook	1
	Introduction	1
	Developments in the global economy	2
	Developments in the South African economy	3
	Economic developments in the Western Cape	5
	Socio-economic developments	9
	Budget policy implications of the economic outlook	12
	Conclusion	13
Chapter 2	Fiscal Strategy	15
	Introduction	15
	The Western Cape Government Fiscal Strategy	16
	Provisional fiscal envelope	19
	Provincial government expenditure	30
	2016 Adjusted Estimates	32
	Conclusion	33
Chapter 3	Budget policy priorities	35
	Introduction	35
	Integrated Management and Partnering to deliver a Budget for Growth	36
	Budget Policy Framework	37
	Medium term provincial budget policy priorities	38
	Conclusion	59
Chapter 4	Infrastructure	61
	Introduction	61
	Integrated management for service delivery	62
	Infrastructure Delivery Management System	63
	Infrastructure planning, budgeting and performance management for service delivery	64
	Medium-term spending priorities	67
	Conclusion	76
Annexure	Western Cape Government Fiscal Risk Statement	77
Glossary		81

Tables

Chapter 1: Economic outlook

1.1	Global economic outlook, 2016 - 2017	3
1.2	South African economic outlook, 2016 - 2019	5
1.3	Labour market aggregates, 2011 and 2016	8
1.4	Selected socio-economic indicators for the Western Cape	10

Chapter 2: Fiscal strategy

2.1	Fiscal framework of the Western Cape 2016/17 - 2019/20	20
2.2	Summary of Provincial Equitable Share data updates	21
2.3	Conditional grant baseline allocations for 2016 and 2017 MTEF	23
2.4	Estimated Western Cape own receipts by source 2016/17 - 2019/20	28
2.5	Estimated provincial expenditure from 2015/16 - 2019/20	31

Figures

Chapter 1: Economic outlook

1.1	National GDP growth, 2000 – 2018	4
1.2	Performance of the Western Cape economy relative to the global and national economies, 2006 - 2015	6
1.3	Overview of the Western Cape economy by district, 2016/17 municipal year	7

Chapter 2: Fiscal strategy

2.1	Elements of the Western Cape Government Fiscal Strategy	17
2.2	Budgeted own revenue components over 2017 MTEF	27

Acronyms

AIDS	Acquired Immune Deficiency Syndrome
CASP	Comprehensive Agriculture Support Programme
CBD	Central Business District
CHEC	Cape Higher Education Consortium
CIDB	Construction Industry Development Board
CPI	Consumer Price Index
CPS	Construction Procurement Strategy
CSIP	Community Safety Improvement Plan
ECD	Early Childhood Development
GBCSA	Green Building Council of South Africa
GDP	Gross Domestic Product
GDP	Gross Domestic Product per Region
GIPTN	George Integrated Public Transport Network
HIV	Human Immunodeficiency Virus
ICT	Information Communication Technology
IDIP	Infrastructure Delivery Improvement Programme
IDMS	Infrastructure Delivery Management System
IDP	Integrated Development Plan
IMF	International Monetary Fund
IT	Information Technology
LAN	Local Area Network
MOD	Mass Opportunity and Development
MTBPS	Medium Term Budget Policy Statement
MTEF	Medium Term Expenditure Framework
MVL	Motor Vehicle Licence
NGOs	Non-Governmental Organisations
NHW	Neighbourhood Watch
OECD	Organization for Economic Cooperation and Development
PES	Provincial Equitable Share
PFMA	Public Finance Management Act

PPTIF	Provincial Public Transport Institutional Framework
PRF	Provincial Revenue Fund
PSP	Provincial Strategic Plan
PSTP	Provincial Sustainable Transport Programme
RSEP	Regional Socio-Economic Projects
SA	South African
SAPS	South African Police Service
SBIDZ	Saldanha Bay Industrial Development Zone
SETAs	Skills Education Training Authorities
SIPDM	Standard for Infrastructure Procurement and Delivery Management
Stats SA	Statistics South Africa
TB	Tuberculosis
UK	United Kingdom
US	United States
VPUU	Violence Prevention through Urban Upgrading
WAN	Wide Area Network
WC	Western Cape
WCIDMS	Western Cape Infrastructure Development Management System
WCIF	Western Cape Infrastructure Framework
WoW	Western Cape on Wellness
YeBo	YearBeyond

1

Economic outlook

In summary

- Economic growth in the Western Cape will remain constrained over the short term with more meaningful improvement over the medium term.
- Global economic growth is predicted to slow down as advanced economies output is forecast to weaken but growth in emerging and developing countries is expected to provide a boost to the global economic growth.
- The long term average rate of economic growth for South Africa has fallen compared to a decade ago, due to an uncertain global economy and domestic structural constraints.
- However, certain factors that have constrained South Africa's economic growth are receding, creating an opportunity for an elevated growth path.

Introduction

The Western Cape economy, like the national economy, is expected to remain constrained over the short term. The Western Cape cannot detach itself from risks facing the global and national economies. Global economic growth has been under significant pressure on the back of poorer performance of emerging and developing economies. Advanced economies maintained moderate growth but downward pressure on growth in emerging and developing economies intensified with falling commodity prices. Economic growth in South Africa has weakened. Domestic factors impacting on growth include labour unrest, infrastructure bottlenecks, a persistent current account deficit and political uncertainty which weighs heavily on growth. Drought conditions further impacted on the agriculture sector while the decline in the mining sector reflect the impact of commodity demand slowdown. In facing the challenges of the weak economic and fiscal environment, the Western Cape Government is committed in taking a fiscal policy approach that ensures fiscal consolidation, - discipline and - sustainability.

■ Developments in the global economy

Global economic growth slowed to 3.1 per cent in 2016

According to the International Monetary Fund (IMF), global economic growth is predicted to slow to 3.1 per cent in 2016, from 3.2 per cent in 2015¹. Growth in emerging and developing countries is expected to provide a boost to the global economy while advanced economy output is forecast to weaken somewhat. Global economic growth is expected to rebound to 3.4 per cent in 2017 (see Table 1.1).

2016 United States presidential elections

On 8 November 2016, the United States (US) held its presidential elections with the Republican candidate, Donald Trump emerging victorious, by beating his main opponent, the Democrat Hillary Clinton, to become the 45th president of the US. Based on his election campaign, the US under his presidency, could expect a shift toward nationalist policies which includes protectionist trade policies and stricter immigration controls.

In advanced economies, the United States (US) economy lost momentum despite the less aggressive pace of monetary policy normalisation (i.e. interest rate hikes) than previously expected. However, the most recent estimate for US gross domestic product (GDP), for the third quarter of 2016, showed that the economy expanded by a robust quarterly rate of 2.9 per cent. Nonetheless, weak domestic investment demand remains a concern. Uncertainty in the United Kingdom (UK) following the aftermath of the Brexit² vote is predicted to weigh on the economic outlook via confidence over the short term, with the tangible effect on trade, migration and capital flows which are expected to have a negative impact on growth over the medium term. Overall, the IMF projects that growth in advanced economies will slow to 1.6 per cent in 2016 (from 2.1 per cent in 2015) before recovering to 1.8 per cent in 2017.

Brazil, Russia and Nigeria expected to be in recession in 2016

In emerging and developing economies, growth remains reasonably robust. China, after recording three consecutive periods of growth of 6.7 per cent, looks set to meet its overall growth target for the year. Furthermore, the change to more domestic demand led growth is also taking shape. In the rest of emerging Asia, growth seems to be holding up well led by India. However, in relatively low commodity prices (particularly oil) and political developments, which weighs on confidence, continue to adversely affect growth. Major emerging economies such as Brazil, Russia and Nigeria are

¹ All growth rates are in real terms unless stated otherwise.

² The decision by the United Kingdom to leave the European Union.

expected to be in recession in 2016. Overall, emerging and developing economies are expected to grow by 4.2 per cent (from 4.0 per cent in 2015) and by 4.6 per cent for 2016 and 2017 respectively.

Table 1.1 Global economic outlook, 2016 - 2017

	2015	Forecast		Difference from July 2016 forecast	
		2016	2017	2016	2017
World output	3.2	3.1	3.4	0.0	0.0
Advanced economies	2.1	1.6	1.8	-0.2	0.0
Emerging and developing economies	4.0	4.2	4.6	0.1	0.0

Source: *International Monetary Fund, 2016*

The risks to the domestic and regional outlook posed by the global environment remain tilted to the downside and include:

- A greater than expected economic and political fallout from the UK's exit from the European Union; and policy uncertainty related to the US election outcomes.
- Weaker than expected growth in China, particularly a debt-induced "hard landing" should authorities ramp up debt-fuelled public sector infrastructure investment.
- A faster pace of monetary policy normalisation in the US than currently predicted.

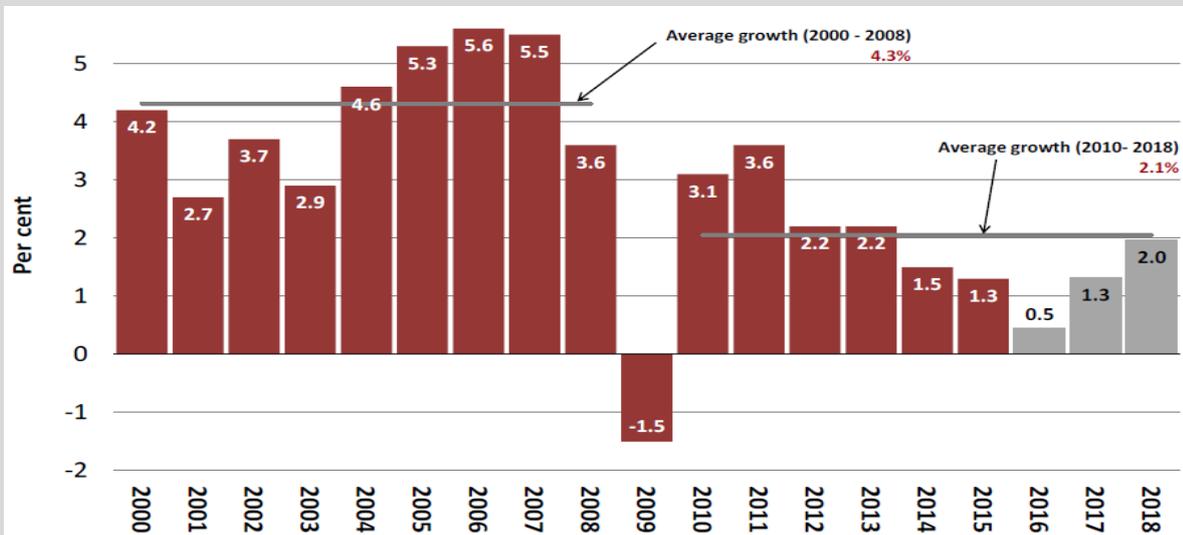
Developments in the South African economy

After expanding by 1.3 per cent in 2015, the growth performance during the first half of 2016 has been mixed. The economy contracted by 0.6 per cent quarter-on-quarter in the first quarter of 2016, but growth rebounded well to 3.3 per cent quarter-on-quarter in the second quarter of 2016. However, growth is expected to slow again during the second half of 2016. Overall, the National Treasury expects GDP growth in 2016 to weaken to 0.5 per cent before accelerating by 1.3 per cent in 2017.

SA economic growth to weaken to 0.5 per cent in 2016 before increasing by 1.3 per cent in 2017

South Africa's lower economic growth trend

Figure 1.1 National GDP growth, 2000 – 2018



Source: National Treasury

The long term average rate of economic growth for South Africa has fallen compared to a decade ago. This partly reflects the persistently weak and uncertain global economic environment of slower trade, lower commodity prices and increased financial volatility. It is also a result of South Africa's structural constraints of low consumer and business confidence, increased political uncertainty, and rising unemployment. Certain factors that have constrained economic growth are receding, creating an opportunity for an elevated growth path, as additional sources of electricity are being produced, agriculture is expected to recover as the drought comes to an end, and tourist levels are growing again. A real, sustained depreciation in the exchange rate has created opportunities for export growth.

Growth in consumer spending moderated to 0.8 per cent during the first half of 2016. A number of factors weighed on spending in this period, including weaker growth in real household disposable income amid rising inflation, and low consumer confidence. In addition, tighter credit standards have inhibited consumers' access to credit. Overall, consumer spending is predicted to slow to 0.6 per cent in 2016, from 1.7 per cent in 2015. More robust growth of 1.3 per cent and 1.9 per cent is forecast for 2017 and 2018 (see Table 1.2).

Fixed investment contracted by 2.6 per cent in the first half of 2016. This was led by a continued decline in private sector fixed investment on the back of low business confidence and weak domestic demand. In addition, expenditure by general government and public corporations is hampered by deteriorating balance sheets and persistent delays in infrastructure delivery. The National Treasury therefore expects gross fixed capital formation to decline by 2.9 per cent in 2016 before returning to growth by 1.1 per cent in 2017. A more meaningful improvement is expected for 2018 and 2019. Included in this is a R987 billion allocation for infrastructure

Fixed investment to decline by 2.9 per cent in 2016 before increasing by 1.1 per cent in 2017

development by the public sector, mainly into energy, transport and telecommunications.

Due to the weaker domestic demand environment, the real value of imports declined by an annual rate of 2.6 per cent in the second quarter of 2016. In contrast, the real value of exports rose by 1.1 per cent over the same period. As a result, the current account deficit of the balance of payments (as a percentage of GDP) narrowed to 3.1 per cent, from 5.3 per cent in the first quarter of 2016. The full year deficit is forecast to narrow to 3.9 per cent in 2016, from 4.3 per cent in 2015. The deficit is predicted to remain relatively stable until 2019 with increased imports, on the back of a recovery in domestic demand, being balanced out by rising exports supported by a relatively weaker rand exchange rate.

Table 1.2 South African economic outlook, 2016 - 2019

	Actual 2015	Estimate 2016	Forecast		
			2017	2018	2019
<i>Percentage change unless otherwise indicated</i>					
Final household consumption	1.7	0.6	1.3	1.9	2.3
Final government consumption	0.2	0.7	0.1	0.0	0.3
Gross fixed capital formation	2.5	-2.9	1.1	2.6	3.1
Exports	4.1	0.5	3.0	4.7	5.2
Imports	5.3	-2.9	2.7	4.1	4.7
Real GDP growth	1.3	0.5	1.3	2.0	2.2
GDP at current prices (R billion)	4 013.6	4 300.0	4 616.9	4 981.1	5 385.3
CPI inflation	4.6	6.4	6.1	5.9	5.8
Current account balance (% of GDP)	-4.3	-3.9	-3.9	-3.8	-3.8

Source: South African Reserve Bank, National Treasury, 2016

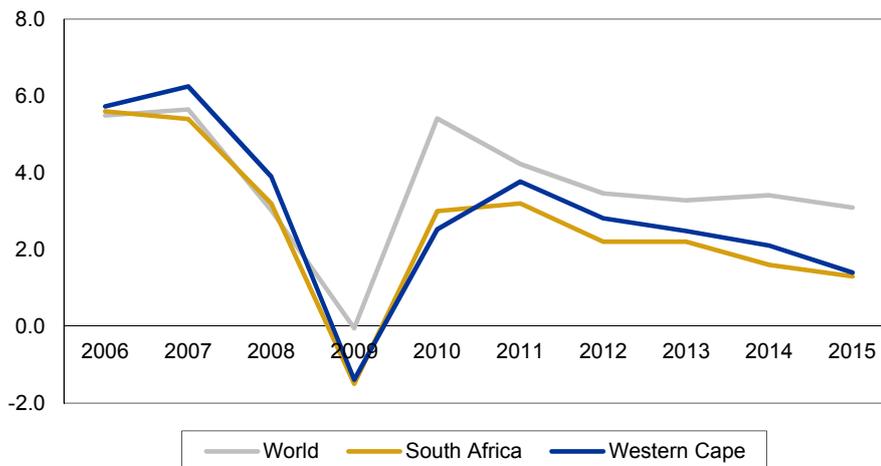
Consumer inflation, as measured by the Consumer Price Index (CPI), moderated to 6.0 per cent during the third quarter of 2016, after averaging 6.4 per cent during the first half of 2016. The higher inflation in the first half of the year was mainly due to rising food and petrol prices. However, while CPI inflation has been more muted lately, it is expected to accelerate during the fourth quarter of 2016. The National Treasury expects headline inflation to rise by 6.4 per cent in 2016 and 6.1 per cent in 2017. For the outer years of the forecast, inflation is predicted to be below the upper limit of the South African Reserve Bank's target band of 3 - 6 per cent.

Inflation to increase by 6.4 per cent in 2016 before slowing to 6.1 per cent in 2017

Economic developments in the Western Cape

Growth in economic activity in the Western Cape slowed to 2.1 per cent in 2014, from 2.5 per cent in 2013. Growth is estimated to have slowed further to 1.4 per cent in 2015. The Western Cape had 15.4 per cent of personal income tax payers contributing 16 per cent towards personal income tax in 2013/14.

Figure 1.2 Performance of the Western Cape economy relative to the global and national economies, 2006 - 2015



Source: International Monetary Fund, National Treasury, Provincial Treasury, 2016

WC economic growth expected to be constrained over the short term

It is expected that economic growth in the Western Cape will remain constrained over the short term, with more meaningful improvement over the medium term. Future economic growth in the Province will likely stem from, but is not limited to the following:

- The finance, insurance, real estate and business services sector is a lagging sector and should benefit from an improvement in the broader economy towards the latter part of the forecast horizon.
- Wholesale and retail trade, catering and accommodation should find support from the expected recovery in consumer spending, but also increased foreign tourism as global economic growth improves.
- Continued investment into property, particularly the residential market, along with government's commitment to developing key social and economic infrastructure should boost the construction sector.

Agri-processing, tourism and oil and gas are key priority sectors in the WC

Agri-processing and tourism are key sectors to support inclusive growth as both are labour intensive with rising productivity and allow for the creation of sustained jobs for all skill levels in urban and rural areas. Both sectors are also important earners of foreign exchange. The development of the gas sector could allow for a transformation of the energy mix in the Western Cape to include more sustainable, affordable and environmentally friendly solutions. These sectors have been identified as key priority sectors within the Province as they have the greatest potential for sustained and accelerated economic and employment growth over the medium term.

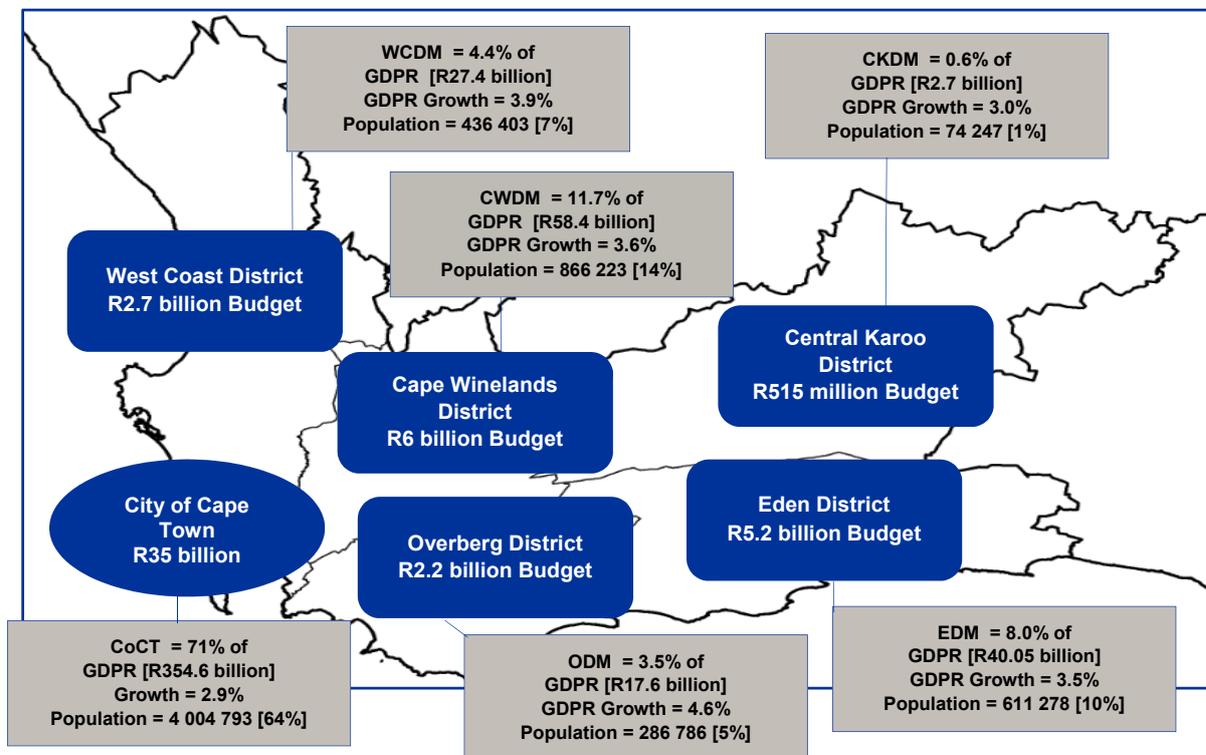
The risk to the economic outlook for the Western Cape economy over the short term is slightly more to the upside. Historically, the Western Cape economy has grown at a faster pace than the rest of the country due to the differing economic structures, as the Province has a bigger services sector and is less exposed to the challenges in the local mining and steel manufacturing industries.

Spatial aspects of the Western Cape economy

Economic activity in the Western Cape remains concentrated in the City of Cape Town accounting for 71 per cent of the Provincial economy, followed by Cape Winelands District (11.7 per cent) and then by the Eden District (8.0 per cent).

71 per cent of WC economic activity in the City of Cape Town

Figure 1.3 Overview of the Western Cape economy by district, 2016/17 municipal year



Source: *Municipal Economic Review and Outlook, Department of Environmental Affairs and Development Planning, 2016*

Labour market trends

The past five-year period has been characterised by weak economic growth following the global financial recession. However, following a period of gradual and uneven recovery in labour market conditions, national employment dropped considerably for the first time in over two years in the first quarter of 2016 with 356 000 jobs being shed in that quarter alone. Employment declined further in the second quarter of the year with another 115 000 jobs being lost.

SA employment declined by 115 000 jobs in the second quarter of 2016

Nationally, employment has expanded at a rate of 2.3 per cent per annum between the second quarters of 2011 and 2016, a rate which is slightly higher than that observed in the Western Cape (2.0 per cent per annum). Unemployment has expanded at a higher average rate of between 3.0 per cent and 3.3 per cent per annum both provincially and nationally, depending on the unemployment definition used.

Table 1.3 Labour market aggregates, 2011 and 2016

	2011Q2	2016Q2	Change	
	Thousands	Thousands	Thousands	Per cent
Western Cape				
Working age population	3 933	4 403	470	2.3 p.a.
Employment	2 064	2 276	212	2.0 p.a. *
Narrow unemployment	559	647	88	3.0 p.a. †
Narrow labour force	2 623	2 923	299	2.2 p.a. *
Expanded unemployment	598	697	99	3.1 p.a. †
Expanded labour force	2 662	2 973	311	2.2 p.a. *
Non-searching unemployed	39	51	12	5.4 p.a.
South Africa				
Working age population	33 698	36 875	3 176	1.8 p.a.
Employment	13 943	15 585	1 642	2.3 p.a. *
Narrow unemployment	4 782	5 635	853	3.3 p.a. *
Narrow labour force	18 725	21 220	2 495	2.5 p.a. *
Expanded unemployment	6 996	8 163	1 167	3.1 p.a. *
Expanded labour force	20 939	23 748	2 809	2.5 p.a. *
Non-searching unemployed	2 214	2 528	314	2.7 p.a. *

Note: An asterisk (*) denotes a statistically significant change between 2011 and 2016 at the 95 per cent level of confidence. A dagger (†) denotes a statistically significant change between 2011 and 2016 at the 90 per cent level of confidence.

Source: Own calculations, Statistics South Africa (2011; 2016)

For the second quarter of 2016, employment in the Western Cape is estimated at 2.28 million, slightly higher than the level a year ago. The labour market does not seem to have changed substantively over the past 12 months. Employment in South Africa is estimated to be 15.6 million in the second quarter of 2016. The national rate of employment growth over the past year is negative with employment having contracted marginally by 0.6 per cent over the last year.

Irrespective of the definition used, unemployment is marginally higher in the Province in the second quarter of 2016 compared with a year earlier. The narrow unemployment rate in the Western Cape is 22.1 per cent, which is somewhat lower than the national average of 26.6 per cent.

WC employment at 2.28 million in second quarter of 2016

WC unemployment rate at 22.1 per cent in second quarter of 2016

Including the non-searching unemployed amongst the unemployed, i.e. using the expanded definition of unemployment, raises the provincial unemployment rate slightly to 23.5 per cent, which is 10.9 percentage points lower than the national rate of 34.4 per cent. Within both the Western Cape and South Africa, the unemployment rate has increased over the past year, irrespective of the definition used.

The burden of unemployment is felt by the youth. Although undesirably high, the Western Cape had the lowest youth unemployment rate in the country amounting to 29.9 per cent in 2015. High levels of youth unemployment relate to low education attainment levels, high secondary school drop-out rates and in general, that most young people are inadequately prepared for employment.

Socio-economic developments

Over the last several years, there have been improvements in several key socio-economic indicators in the Western Cape. However, the weaker economic outlook, coupled with high levels of unemployment, will slow the pace of development in the Province. Understanding the interaction and impact of economic forces is therefore paramount when considering public policies and implementing interventions aimed at promoting inclusive growth and maximising socio-economic development impact.

Statistics South Africa (Stats SA) estimates the Western Cape population at 6.29 million people in 2016. Almost two-thirds (64.1 per cent) of the provincial population reside in the City of Cape Town. Despite varying population growth rates across the Western Cape districts, the population distribution has remained relatively stable over the last several years.

Almost two-thirds of the WC population resides in the City of Cape Town

Poverty has declined nationally since 2011. According to Stats SA, the poverty headcount in the Western Cape declined from 3.6 per cent to 2.7 per cent of households and the intensity of poverty also declined from 42.6 per cent to 40.1 per cent in 2011. However, West Coast and Central Karoo Districts experienced both an increase in the poverty headcount and an increase in the intensity of poverty between 2011 and 2016.

Table 1.4 Selected socio-economic indicators for the Western Cape

Year	Education			Financial year	Health			Financial year	Crime		
	Learner enrolment numbers in Public Ordinary Schools	Learner numbers writing Grade 12	Learner numbers passing Grade 12		Average life expectancy (5 years)	HIV mother-to-child transmission rate (in %)*	Drug-related crime (per 100 000 population)		Murder	Driving under the influence of alcohol and drugs	
				Males	Females						
2011	921 776	37 860	31 160	2011/12			1.9	2011/12	77 035	2 293	17 523
2012	934 992	42 383	34 898	2012/13			1.7	2012/13	82 033	2 575	15 161
2013	947 046	45 231	38 326	2013/14			1.9	2013/14	85 437	2 904	13 583
2014	963 441	45 356	37 019	2014/15	64.2	69.0	1.4	2014/15	88 731	3 186	13 224
2015	984 073	51 162	43 119	2015/16			1.0	2015/16	93 996	3 224	11 725
2016	999 914	*	*	2016/17			*	2016/17	*	*	*

* Data not available for 2016 and for 2016/17.

Source: Western Cape Education Department, Western Cape Department of Health, South African Police Service, 2016

Education

WC learner enrolment annual growth rate increased over the past five years

Learner enrolment has increased from 921 776 in 2011 to 999 914 in 2016 and translates in an annual growth rate increase of 1.4 per cent between 2011 and 2012 to 1.6 per cent between 2015 and 2016.

Systemic testing determines the standard of Mathematics and Language across Grades 3, 6 and 9 and informs the development of key related interventions. Systemic test scores show an overall improvement in Mathematics for all grades from 2014 to 2015 while Language scores remains constant in Grade 3, declined by approximately 1 per cent in Grade 6 and increased by 5.4 per cent in Grade 9.

The year 2015 marked the eighth year of the National Senior Certificate examination with an upward trend in the number of learners who wrote the examination and the number who passed. The pass rate has increased from 82.9 per cent in 2011 to 84.7 per cent in 2015. Similarly, the Bachelor pass rate has increased from 38.1 per cent in 2011 to 41.7 per cent in 2015. Schools with a pass rate of less than 60 per cent decreased between 2011 and 2015 from 30 per cent to 27 per cent.

Health

In 2016, the life expectancy in the Western Cape is estimated at 64.2 years for males and 69.0 years for females compared to that of national at 59.7 years for males and 65.1 years for females.

Infant and child mortality rate declined over the past five years

Other key health indicators, such as infant and child (under 5) mortality rates point to improving health outcomes, having declined over time from 22.9 and 28.4 per 1 000 live births in 2010 to 19.2 and 23.8 in 2015, respectively. In respect of the prevention of HIV

mother-to-child transmission, the transmission rate has declined to 1.0 per cent in 2015/16 from 1.4 per cent in 2014/15.

Non-communicable diseases, which includes hypertension and diabetes amongst others, is a growing burden in the Province. The Department of Health estimates that 3 out of 4 patient visits to emergency rooms at public health facilities are for chronic conditions or their associated complications.

Non-communicable diseases a growing burden in the WC

In 2013, non-communicable diseases accounted for 61 per cent of deaths in the Province. Upon closer inspection of the medical conditions leading to deaths³, ischaemic heart disease was found to be the leading cause of death, followed by cerebrovascular disease and then by HIV/AIDS. However, HIV/AIDS remains the leading cause of premature mortality in the Province, followed by interpersonal violence and Tuberculosis.

Crime

Drug-related crime remains a pertinent problem in the Western Cape. The South African Police Service crime statistics show that drug-related crime has increased over the past five years from 77 035 cases in 2011/12 to 93 996 cases in 2015/16⁴.

Drug-related crime remains a pertinent problem in the WC

The recent crime statistics reveals that the Province has made notable progress toward reducing driving under the influence of alcohol or drugs over the past five years. Crime reported under this category has declined by 18.72 per cent from 17 523 cases in 2011/12 to 14 243 cases reported in 2015/16.

The growth rate for reported murder has declined over the last two years. This is largely due to the reduction of double digit growth rates recorded from 2012/13 till 2014/15 to an almost zero per cent growth rate in 2015/16.

³ Age-standardised death rates are used for this comparison. Since most diseases are age-dependent, with risk rising with age, a crude comparison over time could be misleading. Age-standardised death rate is calculated to remove the impact of age.

⁴ Caution needs to be taken in the interpretation of this crime category since it is one of four crime categories which are detected as a result of police action. The increase in cases reported could therefore either be linked to an increase in drug-related crime or increased effectiveness of the police in the Province.

Budget policy implications of the economic outlook

Due to the weaker economic outlook, the next few years do not show meaningful economic growth, impacting on government revenue collection. The sustainability of the fiscal framework however depends on the recovery of economic activity with National Government's economic reform programme guided by the National Development Plan. The Western Cape economy is slowing in line with the national economy and will continue to be vulnerable to any further international and domestic shocks.

The long term average rate of economic growth of the national economy has fallen compared to a decade ago. This partly reflects the weak and uncertain global economic environment of slower trade, lower commodity prices and increased financial volatility. The existing domestic constraints which include policy uncertainty, infrastructure gaps, drought, rising fiscal pressure, rising interest and inflation rates, high joblessness for youth and rising debt service costs, are key considerations factoring into the formulation of the provincial budget. Furthermore, the country is in a period of fiscal consolidation meaning the focus is on reducing government expenditure and increasing government revenues, requiring a greater focus on allocating resources for maximum impact for socio-economic development.

Despite the weaker economic outlook, trade within the Western Cape needs to be looked at within the context of both constraints and opportunities. Western Cape producers, with the assistance of the provincial and local authorities, will continue to explore how to diversify both the product composition and the destination of exports.

The relatively under-valued rand presents some opportunities for trade and a continued focus on developing sectors and industries where the Province has the comparative advantage, such as agriculture and food, beverages and tobacco sectors, which contribute to the agri-processing sector is key. Furthermore, whilst real growth potential in the export market is currently dominated by agricultural produce and the food value chain, there is still a need to diversify the export base of the Western Cape by growing exports of tradable services and manufactures.

SA is in a period of fiscal consolidation

The under-valued rand presents some opportunities for trade

Drought and the water crisis as well as other issues relating to climate change continue to be risks to the economy and in particular the agriculture sector.

Risks to the agricultural sector are drought and the water crisis

Interventions related to improving education outcomes and aligning the skills requirements to the needs of the private sector by focusing on growing employment in a way that includes a larger proportion of the working age population should be further explored. These interventions should contribute to ensuring that those who have exited the education system early and are currently marginalised in the labour market are able to access effective pathways to develop skills.

The economic environment elevates the imperative to unlock opportunities for inclusive growth. Government should therefore take more innovative and entrepreneurial approaches to economic development. This refers to being more active in creating and shaping markets or developing new skills sets, using technology as an enabler, and investing in and targeting infrastructure spending. The focus should be on building economies that are resilient during tough economic times and will be ready for growth when the economic cycle improves.

Conclusion

The weak economic outlook coupled with high levels of unemployment will likely result in an increase in demand for public services, placing greater pressure on already constrained public resources. The economic outlook serves to inform the process of refining and implementing provincial policies, strategies and interventions, in support of the achievement of inclusive growth policy imperatives. The Western Cape Government continues to seek constant innovation and the use of technology to increase productivity and competitiveness in the regional economy to ensure inclusive growth in the implementation of the Western Cape Provincial Strategic Plan 2014 – 2019 and related Game Changers. The Western Cape Government will further continue to reprioritise limited resources between competing priorities to ensure maximum impact for socio-economic development.

2

Fiscal strategy

In summary

- Balanced fiscal consolidation at a national level aims to address two fiscal challenges: that of avoiding a low growth trap and realising the aspirations of the Constitution within available resources.
- The Western Cape Government Fiscal Strategy emphasises a balanced budget, and a revenue and expenditure budgeting approach that upholds the fiscal principles of fiscal consolidation, fiscal stability, fiscal discipline and allocative efficiency.
- National transfers, comprised of the Provincial Equitable Share and Conditional Grants, accounts for 94.8 per cent of the 2017 MTEF allocation.
- Although own revenue constitutes a relatively small portion (5 per cent) of total revenue, the importance of domestic resource mobilisation to enhance provincial own revenue remains a priority.
- Fiscal consolidation, at a provincial level, will also remain a priority over the 2017 MTEF and since there is no room for fiscal expansion, the focus will remain on expenditure control within budget limits particularly pertaining to personnel budgets.

Introduction

South Africa's challenging economic environment is in part due to global volatilities, but perhaps more importantly low levels of investor confidence, structural constraints and uncertainties in the domestic economy. These issues are reflected by the severe deterioration in South Africa's economic growth trends. Combined with the threat of a possible sovereign debt ratings down-grade, fiscal manoeuvrability available to government to stimulate the economy is becoming increasingly constrained.

To grow faster and generate the revenue necessary to fund government policy priorities, the economy needs to restore business confidence and promote higher levels of private investment. Over the medium term, the Western Cape Government is committed in taking a consistent and transparent fiscal policy approach to ensure fiscal consolidation, - discipline and - sustainability, in response to the need for inclusive growth and creating public value.

Key points from the 2016 National Medium Term Budget Policy Statement

- Government remains committed to working with the private sector, labour and civil society to promote inclusive growth and economic transformation.
- Fiscal policy aims to deliver a measured consolidation that avoids a sharp contraction in expenditure, continues to prioritise capital investment and stabilises national debt.
- Measured fiscal consolidation involves reducing the expenditure ceiling by R10 billion in 2017 and raising an additional R13 billion through revenue measures.
- The fiscal framework maintains real expenditure per capita and supports macro stability.
- A package of actions to restore confidence in the economy include: addressing legislative and regulatory uncertainties that hold back investment in mining, agriculture and key technology sectors; and rationalising, closing or selling off public assets that are no longer relevant to government's development agenda and strengthening those that are central to achieving the National Development Plan, etc.
- South Africa faces two fiscal challenges: that of avoiding a low growth trap and realising the aspirations of the Constitution within available resources. This will require in the medium term balanced fiscal consolidation so as to rebuild confidence for investment. Over the long term, trade-offs are needed to resume the expansion of public resources available for social and economic development.

Source: National Treasury, Medium Term Budget Policy Statement 2016

The Western Cape Government Fiscal Strategy

In preparation for the 2017 Medium Term Expenditure Framework (MTEF), the Western Cape Government will continue to build on its established fiscal and budget policy principles which were tabled in Budget 2016, by ensuring that government's priorities are funded within current aggregate expenditure ceilings and limiting the growth of the wage bill by curtailing growth in personnel spending.

The provincial fiscal and budget policy framework is designed to manage risk and maintain stability in a constrained economic environment, while building a foundation for inclusive economic growth.

The fiscal and budget policy principles which will continue to underpin the 2017 planning and budgeting process are:

- **Allocative Efficiency** to achieve a balanced allocation of resources that reflects the priorities of government and considers programme effectiveness based on evidence.
- **Fiscal Sustainability** from a provincial perspective focuses on maintaining stability in key government programmes and managing risks in a constrained economic and fiscal environment. Therefore, the focus is on appropriate balancing of fiscal aggregates in a manner that ensures a sustainable fiscal position in the medium to long term.

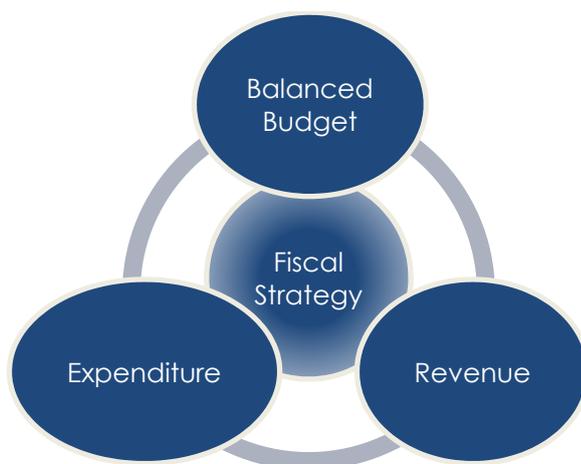
- **Fiscal Consolidation** entails reducing government expenditure and/or increasing revenues. A key mechanism is the reduction of headcounts as personnel budgets are key to ensuring sustainable budgets.
- **Fiscal Discipline** ensures that all provincial departments and entities remain within budget limits and avoids irregular, fruitless and wasteful expenditure.

The Western Cape Government Fiscal Strategy is supported by a set of fiscal rules and targets to affirm the above established fiscal and budget policy principles.

The execution of the Fiscal Strategy is focused on creating consensus in implementing credible and transparent strategies to govern the provincial fiscal framework. The Fiscal Strategy includes a balanced budget, specific rules and approaches to revenue and expenditure budgeting, whilst taking into account the relevant risks as set out in the Fiscal Risk Statement accompanying the Western Cape Medium Term Budget Policy Statement. The aim of the Fiscal Strategy is to ensure sustainability in public finances while providing sufficient policy room to cope with adverse shocks resulting from the current economic and fiscal environment. The strategy is in line with the OECD principle of budgetary governance of managing budgets within clear, credible and predictable limits for fiscal policy.

The Fiscal Strategy also aims to build up, amongst others, the Fiscal Volatility reserve to be utilised as a response to the volatile fiscal environment.

Figure 2.1 Elements of the Western Cape Government Fiscal Strategy



The strategy is based on the following elements:

- **Balanced budget:** which entails a budgeting approach and an adjustment budget process that reflects the priorities of government towards fiscal stabilisation. The processes involved includes the main budget and adjustment budget (roll-overs, reallocation and realignment of funds and retention of surplus own receipts).
- **Expenditure:** which largely involves maintaining the Compensation of Employees containment introduced in the 2016 Main Budget, continued in the 2016 Adjusted Estimates and strengthened in the 2017 Main Budget. It also includes finding the correct mix of expenditure items to achieve sustainability and efficiency of spend.
- **Revenue:** which aims to enhance and optimise, collection scope and use of own revenue within the Province. This approach includes continually engaging with Western Cape provincial departments on determining the most effective ways of enhancing own revenue as well as domestic resource mobilisation initiatives.

Moving forward, it is important that a sustainable fiscal base be established, particularly given the deteriorating economic environment. The Province therefore aims to balance the budget between expenditure and revenue, taking into account transfers from the national fiscus, own revenue and reserves to withstand fiscal shocks. This is to ensure that current government commitments and established priorities are executable over the medium to long term.

The Province is making concerted efforts to improve revenue collection practices. As an incentive, and to prevent under budgeting, unnecessary delays in spending (with concomitant cost inflation) and cash accumulation, departments are required to make accurate and credible revenue forecasts which will then be used to augment their baseline allocations over the new MTEF. This approach to revenue fosters more appropriate revenue budgeting and collection, facilitates quicker and more efficient spending and provides greater certainty in the overall revenue envelope for spending.

In addition, it also accommodates for unforeseen fiscal shocks whilst simultaneously enabling the build-up of a fiscal buffer, through possible revenue over-collection, which is used to offset some provincial fiscal risks. Furthermore, it also has the advantage of

departments being incentivised through the revenue retention policy to access surplus funds collected for key policy priorities.

Provisional fiscal envelope

The Constitution establishes national, provincial and local government as autonomous spheres that are distinctive, interdependent and interrelated. South Africa's fiscal system is based on a revenue-sharing model or intergovernmental fiscal transfers to address, among others, the "imbalances" across the different spheres of government.

Transfers from the national budget to provinces, which dominate provincial budgets, take two forms - the provincial equitable share (without any conditions), and conditional grants which are used to ensure that priorities are adequately provided for in provincial budgets.

The equitable division of revenue aims to provide each sphere of government with the necessary funds to provide the services and perform the functions assignment to it under the Constitution.

Over the MTEF period, national departments are allocated 47.5 per cent of available non-interest expenditure, provinces 43.4 per cent and local government 9.1 per cent. Medium-term allocations to national departments increase by an average annual rate of 5.3 per cent (excluding all indirect grants), provincial and local government allocations by 7.5 per cent and 8 per cent respectively.

Over the 2017 MTEF allocations to local government grow fastest followed by provincial and national allocations

Faster growth in allocations to provincial and local government reflects the priority placed on front-line services such as health, education and basic services, as well as the rising cost of these services due to higher wages, and higher bulk electricity and water costs. Notably, nationally the number of households continues to grow rapidly, exceeding 3 per cent a year for each of the last five years with growth in households fastest in cities and towns due to urbanisation.

Overall Provincial fiscal framework

The magnitude of the revenue which provincial government can raise largely depends on the extent to which legislative and executive competencies have been allocated in terms of the Constitution. Transfers from the national budget to provinces account for approximately 94.8 per cent of provincial budgets over the 2017 MTEF, of which 75.3 per cent is provincial equitable share (PES) and 19.5 per cent is conditional grants. Over the 2017 MTEF period, provincial own revenue accounts for less than 5 per cent of the available fiscal envelope.

Table 2.1 provides the consolidated position of the provisional fiscal framework. National transfers (which include the PES and Conditional Grants) to the Province are calculated to amount to R56.023 billion in 2017/18, R59.796 billion in 2018/19 and R64.083 billion in 2019/20. This amounts to a total of R172.903 billion over the 2017 MTEF.

Table 2.1 Fiscal framework of the Western Cape 2016/17 - 2019/20

Source R'000	2016/17 Adjusted Budget	2017/18 Medium Term Estimates	2018/19 Medium Term Estimates	2019/20 Medium Term Estimates	Total 2017 MTEF
Transfers from National	51 455 694	56 023 339	59 795 908	64 083 477	179 902 724
Equitable share	40 507 273	44 470 213	47 452 275	51 048 600	142 971 088
Conditional grants	10 888 527	11 553 126	12 343 633	13 034 877	36 931 636
Conditional grants roll-over	59 894				
Own receipts	2 494 163	2 448 625	2 561 483	2 704 926	7 715 034
Asset Financing Reserve	436 250	663 852	310 159	307 110	1 281 121
PRF Financing	1 530 690	550 595	240 921	127 551	919 067
Total	55 916 797	59 686 411	62 908 471	67 223 064	189 817 946

Own receipts is estimated at R7.715 billion over the 2017 MTEF whilst financing from the Provincial Revenue Fund (PRF) and for asset acquisition will amount to R919.067 million over the MTEF. The total aggregate fiscal framework over the 2017 MTEF is estimated at R182.485 billion.

Provincial Equitable Share

To ensure that the formula is reflective of inter-provincial changes, the data used in the formula is updated on an annual basis to accommodate population and service delivery changes.

Table 2.2 summarises the data sources used to update the various components of the PES formula and the shares for the Western Cape over the 2017 MTEF. The impact of the data updates on the PES will be phased-in over the three year MTEF period (2017/18 to 2019/20), so as to smooth the impact of data changes on any one province.

The weighting allocated to each of the components is not indicative of how much a province should allocate to a specific area. Provinces Executive Councils, through their budget allocation procedures, determine allocations based on their own prioritisation process and specific circumstances.

Table 2.2 Summary of Provincial Equitable Share data updates

PES component	Key determinants or variables	Data source	
Education (48%)	School age cohort	5 - 17 years from Census 2011	
	School preliminary enrolment data	2016 data from School Realities Survey, Department of Basic Education	
Health (27%)	Uses a risk adjusted capitation index based on the Risk Equalisation Fund and output data from public hospitals	2016 Mid-year Population Estimates	
		Medical Aid Insured population data from the 2015 General Household Survey	
		Risk adjusted index	
Poverty (3%)	Share of households in the lowest two quintiles	Patient load data from the District Health Information Services as well as (average number of primary health care clinic visits between 2014/15 and 2015/16 data) and (average of each province's share of total patient-day equivalents from public hospitals between 2014/15 and 2016/17)	
Economic Activity (1%)	Provincial share of remuneration	2016 Mid-year Population Estimates 2010/11 Income and Expenditure Survey	
Basic (16%)	Provincial share of population	GDP-R 2014	
Institutional (5%)	Equal proportions of operational costs for provincial government	2016 Mid-year Population Estimates	
		Data not used - Distributed equally	
	2017/18	2018/19	2019/20
2017 MTEF PES Percentages (new data updates/phased-in)	10.0	10.1	10.1

Revisions to the Provincial Equitable Share

The changes to the 2017 MTEF reflect the fiscal consolidation strategy from National, impact of data updates as well as new additions to assist provinces with service delivery pressures in key areas.

Additional policy allocations from the PES have been specifically and exclusively allocated for Education and the Health departments. Budget pressures have not allowed provinces to fill some of the education posts becoming vacant or to employ additional teachers to respond to increasing student enrolment which has resulted in a systematic increase in class size. Additional amounts of R301.829 million in 2018/19 and R327.729 million in 2019/20 are therefore added to Education to improve the quality of basic education and deal with educator numbers taking into account population growth.

South Africa's exchange rate has depreciated substantially which impacts medicine prices denominated in foreign currency. In addition, R100.840 million is thus added to Health in 2019/20 to alleviate this pressure.

Despite the Province having taken bold steps to manage and control compensation of employees' expenditure, the sustainability thereof remains a challenge. R715.351 million has been added by the national fiscus to the PES in 2019/20 to compensate for the wage shortfall on the ICS from the 2015 wage settlement that continued in the current year with the 0.4 per cent above budgeted salary increase. These funds will be held in reserve and only be dealt with as part of the 2018 or 2019 MTEF, given the fiscal and economic uncertainty and subject to the outcomes of the new round of wage negotiations.

Provincial conditional grants

Due to the deteriorating fiscal and economic outlook, certain conditional grants to provinces have been restructured to improve policy alignment as well as performance efficiency. This section provides an overview of the indicative conditional grant baselines for the Western Cape provincial departments and highlights some of the fiscal and service delivery risks associated with the transfers.

It is worth noting that these baseline allocations presented below are indicative amounts for the 2017 MTEF based on the current budget baselines as contained in Budget 2016. Actual allocations are still awaiting finalisation by the national departments in consultation with the relevant stakeholders for the 2017 Main Budget.

Table 2.3 presents the conditional grant allocations for the 2016 financial year as well as indicative allocations for the 2017 MTEF.

Table 2.3 Conditional grant baseline allocations for 2016 and 2017 MTEF

R'000	2016/17		2017/18	2018/19	2019/20	Total MTEF
	Main Budget	Adjusted Budget				
Agriculture	220 966	220 966	233 431	244 879	258 592	736 902
Comprehensive Agricultural Support Programme Grant	164 199	164 199	173 720	184 602	194 940	553 262
Ilima/Letsema Projects Grant	50 593	50 593	55 349	55 662	58 779	169 790
Expanded Public Works Programme Integrated Grant for Provinces	2 068	2 068				
Land Care Programme Grant	4 106	4 106	4 362	4 615	4 873	13 850
Cultural Affairs and Sport	233 186	223 952	239 599	253 192	267 371	760 162
Community Library Services Grant	164 162	164 162	173 574	183 386	193 656	550 616
Social Sector EPWP Incentive Grant for Provinces	4 054	4 054				
Expanded Public Works Programme Integrated Grant for Provinces	2 771	2 771				
Mass Participation and Sport Development Grant	62 199	52 965	66 025	69 806	73 715	209 546
Education	1 375 283	1 519 499	1 327 950	1 403 924	1 482 544	4 214 418
Maths, Science and Technology Grant	27 841	27 841	32 439	34 320	36 242	103 001
Education Infrastructure Grant	992 212	1 134 704	944 413	998 143	1 054 039	2 996 595
HIV and AIDS (Life Skills Education) Grant	18 728	18 728	20 028	21 189	22 376	63 593
National School Nutrition Programme Grant	315 305	317 029	331 070	350 272	369 887	1 051 229
Social Sector EPWP Incentive Grant for Provinces	18 677	18 677				
Expanded Public Works Programme Integrated Grant for Provinces	2 520	2 520				
Health	5 181 678	5 246 572	5 473 381	5 901 452	6 231 933	17 606 766
Comprehensive HIV, AIDS and TB Grant	1 267 209	1 267 209	1 471 825	1 655 490	1 748 197	4 875 512
Health Facility Revitalisation Grant	673 472	733 366	582 424	608 921	643 021	1 834 366
Health Professions Training and Development Grant	510 716	510 716	542 703	574 180	606 334	1 723 217
National Tertiary Services Grant	2 706 888	2 706 888	2 876 429	3 043 262	3 213 685	9 133 376
National Health Insurance Grant	17 337	22 337				
Social Sector EPWP Incentive Grant for Provinces	3 732	3 732				
Expanded Public Works Programme Integrated Grant for Provinces	2 324	2 324				
Human Papillomavirus Vaccine Grant				19 599	20 697	40 296
Human Settlements	2 004 237	2 004 237	2 460 899	2 620 336	2 767 075	7 848 310
Human Settlements Development Grant	2 000 811	2 000 811	2 460 899	2 620 336	2 767 075	7 848 310
Expanded Public Works Programme Integrated Grant for Provinces	3 426	3 426				
Environmental Affairs and Development Planning	3 815	3 815				
Expanded Public Works Programme Integrated Grant for Provinces	3 815	3 815				
Community Safety	3 144	3 144				
Social Sector EPWP Incentive Grant for Provinces	3 144	3 144				
Transport and Public Works	1 716 320	1 716 320	1 802 592	1 896 746	2 002 964	5 702 302
Provincial Roads Maintenance Grant	830 729	830 729	879 671	930 698	982 817	2 793 186
Expanded Public Works Programme Integrated Grant for Provinces	14 691	14 691				
Public Transport Operations Grant	870 900	870 900	922 921	966 048	1 020 147	2 909 116
Social Development	9 916	9 916	15 274	23 104	24 398	62 776
Early Childhood Development Grant			15 274	23 104	24 398	62 776
Social Sector EPWP Incentive Grant for Provinces	9 916	9 916				
Net Revisions to baselines	10 748 545	10 948 421	11 553 126	12 343 633	13 034 877	36 931 635

R199.876 million has been added in 2016/17 adjustment conditional grant budget mainly for infrastructure

A net amount of R199.876 million has been added to the 2016/17 Main budget conditional grant baseline allocation with the bulk of the addition being made to the Education incentive infrastructure grants for boosting infrastructure development. For the 2016/17 Adjustment budget, R142.492 million has been added for the *Education Infrastructure Grant* for the purpose of the Accelerated Schools Infrastructure Delivery Initiative (ASIDI) projects.

An additional R12 million in CASP indirect grants for the Western Cape

The *Comprehensive Agriculture Support Programme (CASP) Grant* to the provinces has underperformed and incurred savings as some provinces failed to meet the grant condition of submitting business plans in order to access funds. As a result, an amount of R12 million as an indirect grant has been allocated to the Western Cape to provide relief mainly in the form of animal fodder. This will be administered by the National Department of Agriculture, Forestry and Fisheries on behalf of the Province.

The new baseline allocation takes into account the reduction to the *Mass Participation and Sport Development Grant* for a correction of allocations.

Over the 2017 MTEF, total conditional grants transfer for the Province, based on the 2016 MTEF allocations, is projected at R36.932 billion, with R11.553 billion in 2017/18, R12.344 billion in 2018/19 and R13.035 billion in 2019/20. The *National Tertiary Services Grant* and *Human Settlements Development Grant* are the two largest allocations over the MTEF period in the Province, comprising 46 per cent of the total conditional grant allocation over the 2017 MTEF.

To make resources available for fiscal consolidation and to fund urgent government priorities nationally, reductions and reprioritisation are proposed to the conditional grants. The proposals take into account performance against conditional grants of all provinces. Below presents an overview of the proposed policy changes to 2017 MTEF conditional grants as reflected in the 2016 National Medium Term Budget Policy Statement that will impact on the provincial conditional grant allocations:

- Over the 2017 MTEF, some funds from the indirect *School Infrastructure Backlogs Grant* are converted to direct *Education Infrastructure Grant* for rehabilitation of schools, as well as reprioritised in-year to the *National School Nutrition Programme Grant* to alleviate food inflation pressures.

- The funding for *Maths, Science and Technology* grant is expected to be reduced as its outcomes are slow in gaining traction.
- Allocations for the *Health Facility Revitalisation* Grant over the 2017 MTEF are projected to decline due to fiscal consolidation.
- Comprehensive *HIV, AIDS and TB* Grant is proposed to decline by 0.57 per cent for the 2017/18 financial year as the number of tested and treated patients is below target.
- Funds are reprioritised from the human papilloma virus vaccines component of the indirect National Health Insurance Grant. This grant will remain an indirect grant until becoming a provincial direct grant in 2018/19.
- Funds are expected to be reprioritised over the 2017 MTEF from the *Human Settlements Development* Grant for the Social Housing Regulatory Authority to promote consolidated subsidies for social housing and fiscal consolidation. The balance will in part fund the Housing Development Agency's catalytic projects and operations.
- *Community Library Services* Grant is anticipated to be reduced due to inactive performance.
- The *Early Childhood Development* Grant is reduced and reallocated towards the management and monitoring of this grant.

New Grants

Despite the mounting fiscal challenges, national government is maintaining core economic and social programmes by envisaging new grants.

A new grant for the provision of education to learners with profound intellectual disabilities will come into effect in 2017/18. The final funding allocations and framework of this grant is anticipated to be finalised in the 2017 Main Budget.

Two new grants are proposed for the 2017 MTEF

A new grant for social workers is envisaged to come into effect in 2017/18 to improve the numbers of trained social workers and ensure that trained social workers are employed where they are needed. This grant is funded through a reprioritisation from within the social development sector.

Uncertainties regarding further reductions to the conditional grants, and increases in service load pressures in particularly Health and Education remain the main fiscal risks for the Province over the medium term.

The main fiscal risk associated with the Health sector is the ongoing real decline in *National Tertiary Services grant* and *Health Professions Training and Development Grant* due to macro volatilities such as exchange rate depreciation and fiscal constraints. Provincial Department of Health is currently exploring the potential of expanding health patient fees collection to ameliorate some of this risk.

Provincial own receipts

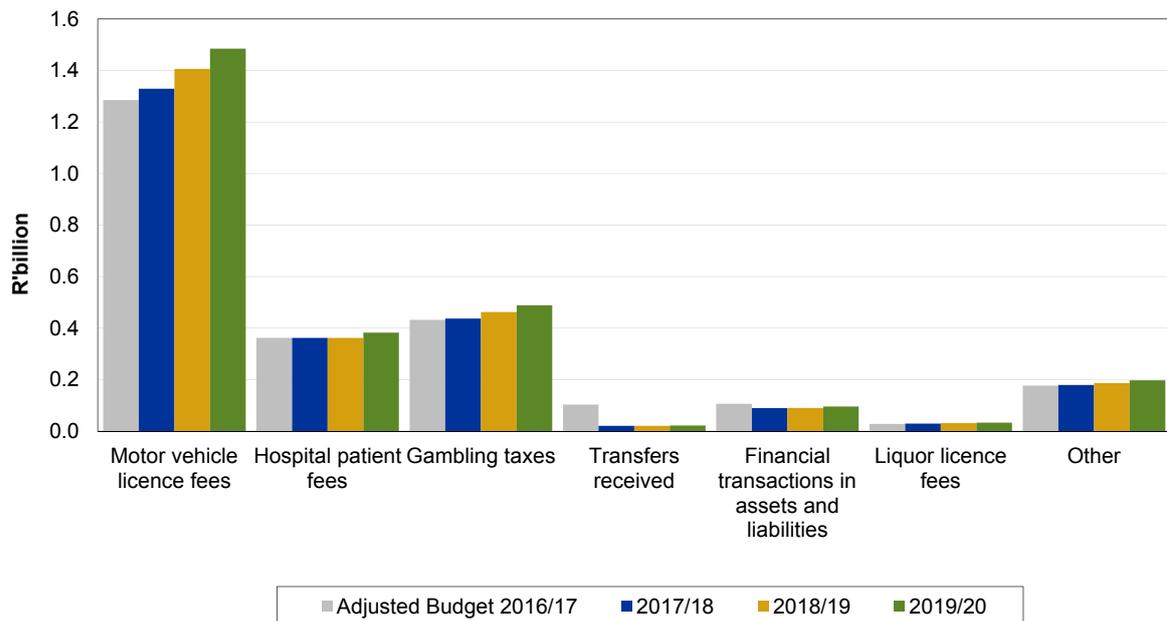
Own revenue comprises less than 5 per cent of total revenue

Of the three main revenue sources available to Western Cape Government departments, own revenue as a source of income, comprises less than 5 per cent of total revenue in the fiscus.

Own revenue is a source of income where provincial departments have the ability to influence its growth over time using measures such as increasing departmental tariffs and improving efficiencies in collection.

In the 2016/17 adjusted budget the largest contributors to own revenue are motor vehicle licence fees comprising 51.5 per cent of own revenue, gambling taxes comprising 17.3 per cent of own revenue, and hospital patient fees comprising of 14.5 per cent of own revenue.

Provincial own receipts are projected to increase at an annual average growth rate of 2.7 per cent from R2.494 billion in the adjusted budget for 2016/17 to R2.705 billion in 2019/20. Most of this growth is attributable to growth in motor vehicle licence fees which is projected to grow by an annual average growth rate of 4.9 per cent over the 2017 MTEF, and gambling taxes which are expected to grow by an annual average growth rate of 4.2 per cent over the 2017 MTEF.

Figure 2.2 Budgeted own revenue components over 2017 MTEF

The above graph provides a representation of the components of own revenue over the 2017 MTEF. Motor vehicle licence fees are projected to grow at the fastest pace followed by gambling taxes. Hospital patient fees' growth trajectory over the 2017 MTEF has been projected to be relatively flat and increases marginally in 2019/20.

Transfers received are projected to decline substantially due to the ending of General Budget Support funding in 2016/17. This will result in reductions in the own revenue budgets of the Departments of Community Safety, and Cultural Affairs and Sport.

'Other' revenue relates to a number of revenue streams resulting from the daily operations of departments and includes revenue such as commission on insurance, services rendered, licences and permits issued, revenue from agricultural products sold, fines issued, as well as income earned from interest, dividends, and rent on land.

Domestic Resource Mobilisation

The current tight fiscal environment presents an opportune time for the Province to investigate new sources of own revenue and could form the basis for engagements with National Treasury in order to foster economic growth. Provincial departments have been requested to review current own revenue sources while also looking into improving efficiencies and finding additional own revenue sources.

Provincial departments are reviewing own revenue enhancement strategies

Some of the policy initiatives being explored by the Western Cape Government include the following:

- Reviewing of tariff structures liquor license fees, gambling investigation fees, National Environmental Management Act (NEMA) 24G fines, etc.;
- Reviewing the effectiveness and efficiency of provincial public entities;
- Engaging national authorities to increase nationally determined tariffs, where applicable;
- Developing better revenue forecasting models;
- Improving debt management and collections of outstanding debtors e.g. relating to staff debtors, bursary debtors, motor vehicle licence fee debtors, etc.;
- Accessing funding from the Skills, Education, and Training Authorities (SETAs);
- Exploring co-funding delivery initiatives with stakeholders;
- Exploring of donor funding; and
- Conducting research to optimise own revenue sources.

Table 2.4 provides an overview of own receipts by source over the 2017 MTEF.

Table 2.4 Estimated Western Cape own receipts by source 2016/17 - 2019/20

R'000	2016/17 Adjusted Budget	2017/18	2018/19	2019/20
		Medium Term Estimate		
Tax receipts	1 745 763	1 796 525	1 900 723	2 007 164
Casino taxes	412 267	417 517	441 733	466 470
Motor vehicle licences	1 285 065	1 329 155	1 406 246	1 484 996
Horseracing taxes	20 000	20 000	21 160	22 345
Other taxes (Liquor licence fees)	28 431	29 853	31 584	33 353
Sales of goods and services other than capital assets	528 258	530 800	538 276	568 417
Transfers received	103 107	20 842	20 844	22 012
Fines, penalties and forfeits	5 305	5 716	6 028	6 366
Interest, dividends and rent on land	5 536	5 180	5 053	5 337
Sales of capital assets	1	1	1	1
Financial transactions in assets and liabilities	106 193	89 561	90 558	95 629
Total provincial own receipts	2 494 163	2 448 625	2 561 483	2 704 926

Motor vehicle licence fees

Motor vehicle licence (MVL) fees are projected to increase by an annual average growth rate of 4.9 per cent from a 2016/17 adjusted budget of R1.285 billion to R1.485 billion in 2019/20. The growth in MVL fee revenue is based on the expected growth in motor vehicle numbers in the Western Cape and the increase in MVL fee tariffs having a carry through effect on MVL revenues over the 2017 MTEF.

MVL fee revenue is expected to increase by 4.9 per cent per annum over the MTEF

The Department of Transport and Public Works will increase MVL fee tariffs by an average of 6.0 per cent across the various motor vehicle tare categories effective from the 1st of April 2017. Increases in MVL fee tariffs are smaller at the lower tare weight categories, while tariff increases are larger at the high tare weight categories to account for the increased damage that heavier vehicles inflict on the road infrastructure.

Expanding the scope for the utilisation of MVL fees

Historically, MVL fee revenue collected was ring-fenced specifically for spending on road maintenance, upgrades and new roads. The scope for the revenue raised from MVL fees from 2017/18 onwards will now be expanded to also include transport and public transport infrastructure, public transport operations, road safety, public transport safety, traffic law enforcement and training, public transport law enforcement and training, transport and road safety awareness and education interventions, transport administration and licensing, agency fees payable to municipalities for the collection of MVL fees, and the enhancement of the capacity of the Department to collect outstanding MVL fees and the improvement of the eNaTIS data.

The scope for the utilisation of MVL fee revenues will be expanded

Health own receipts

The 2016/17 main own revenue budget of the Department of Health increased by R24.569 million to an adjusted budget of R454.042 million due to a first tranche payment received from the Global Fund.

The main own revenue budget for Health own receipts over the 2017 MTEF should be increased to reflect this donor funding from the Global Fund based on a new agreement where the Department will receive USD17.384 million from 1 April 2016 to 31 March 2019 to fund the battle against HIV/AIDS and tuberculosis.

New donor funding arrangement concluded with the Global Fund

Hospital patient fees are projected to increase from R362.342 million in the 2016/17 adjusted budget to R382.633 million in 2019/20 which represents an average annual growth rate of 1.8 per cent. Hospital patient fees are comprised of collections of medical aid payments, road accident fund payments, state department payments, and payments made by individuals.

The tariffs for health patient fees are determined nationally through the Uniform Patient Fees schedule and specify the numerous patient classifications.

Gambling taxes

Own revenue collected from gambling taxes are projected to increase from the 2016/17 adjusted budget of R432.267 million to R488.815 million in 2019/20.

The Provincial Treasury is investigating new initiatives in order to optimise revenue from casino and horseracing taxes and to explore initiatives aimed at creating increased economic opportunities for the Province through its available policy levers.

Liquor licence fees

The budget for liquor licence fees are projected to increase at an average annual growth rate of 5.5 per cent from R28.431 million in the 2016/17 adjusted budget to R33.353 million in 2019/20.

The Western Cape Liquor Authority, which falls under the Department of Community Safety, is responsible for regulating the industry. This Authority is in the process of reviewing its fees structure. Furthermore, revision to the tariffs is to provide for inflationary adjustments in the tariffs, as well as to set the public entity on a path towards self-sustainability.

The liquor authority is reviewing its liquor licence fee structure

■ Provincial government expenditure

The section that follows provides an overview of Western Cape Government's response to the constrained fiscal environment through the 2016 Adjusted Estimates and consolidated provincial expenditure estimates over the medium term. The weak economic environment intensifies the need to ensure fiscal sustainability. In response the 2016 Adjusted Estimates lays the basis for fiscal consolidation and fiscal discipline in preparation for the next three years.

The 2017 Budget is being prepared within the context of a constrained fiscal environment with limited additional resources available for allocation. Limited room for fiscal expansion exists and any additional funding requirements for expansion of current

programmes or new programmes are to be funded from within the current aggregate expenditure ceilings. The 2017 Budget will therefore focus on expenditure control within budget limits.

Stringent management of personnel budgets will continue over the 2017 MTEF. Departments and entities will also continue their cost containment measures and endeavour to strengthen efficiency initiatives. A further focus will be the critical review of programme and project effectiveness to ensure that frontline services are prioritised and value for money is achieved.

The projected provincial expenditure, excluding direct charges, for the Western Cape Government provides for expenditure of R57.650 billion in 2017/18, R60.791 billion in 2018/19 and R64.044 billion in 2019/20. The aggregate expenditure is set to increase at an annual average rate of 4.63 per cent over the MTEF.

Table 2.5 Estimated provincial expenditure from 2015/16 - 2019/20

Province R'000	Audited 2015/16	Adjusted Budget 2016/17	Medium-term estimate			Ave Annual Growth 2016/17 to 2019/20
			2017/18	2018/19	2019/20	
Total provincial payments and estimates by vote	51 553 511	55 916 797	57 650 276	60 790 642	64 043 716	4.63

Fiscal consolidation through personnel management

As part of achieving fiscal consolidation, and to bring public finance expenditure to a sustainable path, one of the mechanisms was to curtail growth in personnel expenditure - the largest cost driver within the provincial budget. Personnel upper limits were set for the first time in 2016/17. This was aimed at reducing or containing personnel headcounts over time as well as maintaining the relative share of the personnel budget as a share of the provincial budget. The impact of the personnel upper limits on departments has meant that departments prioritised have the filling of critical posts. Managing the cost of employees is a key part of the current fiscal objectives of the Western Cape Government with the emphasis on ensuring sustainable and efficient personnel budgets that will continue over the medium term.

Efficiencies in government spending

Departments and entities have made significant progress in applying various forms of expenditure efficiencies to remain within the fiscal envelope. The Province will also continue with the cost containment measures introduced by National Treasury.

*Effective management
of personnel*

Partnerships with local and national government, civil society, private sector and other organisations are a key means of driving

efficiencies in spending. Creative solutions through a partnering approach have therefore become an increasingly important element of the provincial budget process.

The Department of Agriculture is piloting an innovative approach in pursuing cost saving measures through energy efficiency and resource efficiency measures regarding water usage.

The Department of Health has the largest goods and services budget of all provincial departments. A number of established efficiency enhancing projects are underway which include electronic gatekeeping to contain laboratory costs; control measures to reduce after hour blood supply; the Voice over internet Protocol (VoIP) project to reduce telecommunications expenditure; and specific strategies to contain agency expenditure; amongst others.

The focus on controlling personnel budget growth and efficiencies however, are important but not sufficient to ensure a sustainable fiscal path. Therefore the Province is placing a more critical focus on programme and project effectiveness, value for money and service delivery performance and impact.

2016 Adjusted Estimates

The 2016 Adjusted Estimates included a continuation of the approach to contain personnel expenditure set in the 2016 Main Budget. The Adjusted Estimates have to some extent allowed for service delivery challenges to be addressed, whilst still achieving the 2016 Budget principles of fiscal consolidation and fiscal discipline. The 2016 Adjusted Estimates lays the basis for the 2017 MTEF.

The 2016 Adjusted Estimates makes provision for additional net spending amounting to R908.166 million of which R139.982 million has been received from additional national conditional grants. The Adjusted Estimates allocations are in line with provincial policy priorities and are comprised as follows:

- R439.464 million is allocated for infrastructure related projects, in the main to Transport and Public Works (R216.805 million), Education (R142.492 million), Economic Development and Tourism for the acquisition of land for the Saldanha Bay Industrial Development Zone (R100 million), Health (R59.894 million) and Human Settlements (R20.173 million).

- R65.293 million is allocated for various Information communication technology related projects in the Departments of the Premier, Education and Transport and Public works.
- Water security and the spillover effects of drought have been identified as one of the key risks to the Western Cape's economy, employment and environment. In support of measures to address this, the Environmental Affairs and Development Planning receives R5 million to ensure a coordinated approach as part of a climate change strategy, Agriculture receives R10 million for food and water security and Local Government receives R10 million as part of a support package to Municipalities.

Conclusion

The low economic outlook continues to negatively impact on the fiscal environment and possible further deterioration has implications for further fiscal pressures. The main risks to the provincial fiscal framework include: uncertain revisions to both conditional grant and equitable share transfers that may have a negative impact on planning and implementation, further deterioration of the rand exchange rate and the uncertain economic environment. To manage these risks, the Western Cape Government Fiscal Strategy, comprised of balanced budget rules, revenue rules and expenditure rules, is critical.

Fiscal consolidation will remain a priority over the 2017 MTEF and will require the review of programmes and projects in order to identify which should be prioritised. Fiscal consolidation is necessary, however it needs to be balanced, as it may also impose service delivery risks and reverse some of the gains made in improving socio economic outcomes. Since there is limited room for fiscal expansion, the focus will remain on expenditure control within budget limits, in particular personnel budgets, and pursuing initiatives to strengthen the provincial own revenue base.

3

Budget policy priorities

In summary

- The Provincial Budget Policy Statement is shaped by the economic outlook and fiscal context and focuses on ***Integrated Management and Partnering to deliver a Budget for Growth***.
- The Western Cape Government continues to affirm its established fiscal and budget policy principles of allocative efficiency, fiscal sustainability, fiscal consolidation and fiscal discipline.
- Key medium term budget policy priorities are to give effect to the Provincial Strategic Plan 2014 - 2019 and Game Changers and include prioritising inclusive, sustainable and smart growth.
- Medium term expenditure priorities include initiatives to grow the Western Cape economy and create jobs, improve education outcomes, wellness and safety while building inclusive and sustainable living environment.
- All budget policy priorities are underpinned by a strengthened approach to governance, integrated service delivery, partnerships and spatial alignment.

■ Introduction

The persistently weak economic environment increases the need, more than ever, to ensure fiscal sustainability. The Western Cape, as a provincial government, needs to ensure that provincial public finances are on a sustainable path through implementing fiscal consolidation. So while the need for government services is growing, government has to meet development priorities with less. The Provincial Budget Policy Framework is shaped by the economic outlook and fiscal context while outlining how challenges will be mitigated and the importance of ***Integrated Management and Partnering to deliver a Budget for Growth***. The objective is to formulate a budget that delivers on policy imperatives while maintaining fiscal consolidation and sustainability, promotes innovation and creates public value.

■ Integrated Management and Partnering to deliver a Budget for Growth

Given limited resources, a more coordinated and integrated approach in government planning, budgeting and delivery, for maximum socio-economic impact, is required. Integrated Management is centred on providing seamless, citizen-centred service delivery through a whole-of-government approach which promotes cooperation, coordination and collaboration within government at all levels. The approach encompasses a more strategic and coordinated approach to government planning and budgeting through partnering for service delivery impact, while promoting inclusive, sustainable and smart growth.

With a focus on integration, the Province's planning and budgeting process promotes coordination in an identified geographic space, within a specific policy area/sector and on particular strategic issues. Provincial departments are working with each other and municipalities in the Western Cape toward coordinated service delivery, more optimal use of resources and better alignment of objectives and outcomes. Practical elements of an integrated approach includes joint engagements, shared information from common data and intelligence, building collaborative capability and the sharing or pooling of resources.

Integrated approach to planning and budgeting entails a focus on five areas

- **Policy Alignment:** Promotes alignment with departmental annual performance plans and policy priorities, outcomes, objectives and outputs of the Provincial Strategic Plan, OneCape 2040, the National Development Plan and Medium Term Strategic Framework.
- **Monitoring and Evaluation:** In line with the Western Cape Government's Results-based Monitoring and Evaluation approach, emphasises performance towards achieving the desired outcomes, rather than merely focusing on only outputs, and strengthening the use of evaluations of provincial policies, programmes and projects to determine its relevance, effectiveness, value for money, impact and sustainability.
- **Integrated planning and budgeting:** Integration between plans and budgets aims to promote the effective and efficient use of resources in a manner which is responsive to the policy context and considers the economic and fiscal climate.
- **Spatial Governance and Alignment:** Improves the responsiveness of government's plans and budgets to the spatial performance objectives and promotes appropriate prioritisation, spatial alignment and spatial targeting of expenditure.
- **Integrated planning between Provincial and Local Government:** Towards more coordinated, provincial and municipal planning, budgeting and governance processes that strengthens the provincial-municipal interface.
- **Partnering and Partnerships:** Applied through the adoption of a whole-of-society approach, mainstreaming of partnering practices and the development of creative solutions through partnerships in a resource efficient manner.

A **Budget for Growth** focuses on enabling inclusive growth which empowers people and promotes a cohesive society with equal access to markets and resources. It includes growth that is broad-based covering a large part of the labour force and is underpinned by policies that remove constraints to growth. Sustainable growth promotes a more resource efficient, greener and competitive economy. Smart growth builds an economy based on knowledge and innovation for future economic growth and development.

A strengthened approach towards a budget for growth

The Western Cape Minister of Finance hosted the second Western Cape Fiscal Policy Seminar on 28 October 2016 with the theme “**A strengthened approach towards a budget for growth**”. The seminar builds on the premise of shared fiscal and economic ideas across the public and private sectors and academic institutions.

Key messages highlighted that the economic situation is complicated and is influenced by international and domestic factors. Options to address the challenging economic realities include using fiscal policy measures (which cannot be expansionary anymore), monetary policy, but more importantly structural reform (economic transformation) to turn the economy around from the current low-growth path and reduce unemployment.

South Africa has managed to reach a fiscal plateau (relative stabilisation of the fiscus). However, the potential danger of a fiscal cliff requires strong measures of fiscal consolidation as announced in the National Medium Term Budget Policy Statement. There also needs to be a balance between fiscal consolidation and structural reform. Short term fiscal discipline measures should not compromise the long term fiscal policy objectives of inclusive economic growth and development. To meet these longer term economic development objectives requires investment in innovation and consideration of government playing a more entrepreneurial role.

Research also shows that labour and capital contribute positively to provincial economic development. Therefore, the provincial economy will benefit from effective delivery on its basic mandates which include Education, Health and infrastructure. Given the current economic environment, provinces should also investigate potential new sources of own revenue, in addition to strengthening current measures to ensure optimal collection.

Budget Policy Framework

The policy principles of Constitutionalism, Rule of Law, Whole-of-Society, Evidence-Based, Partnerships, Citizen Centric and Public Value inform the Budget Policy Framework. The Provincial Strategic Plan 2014 – 2019 and related Game Changers continue to be the main policy priorities informing the plans and budgets of the Province.

The Western Cape Government continues to affirm its established fiscal and budget policy principles of allocative efficiency, fiscal sustainability, fiscal consolidation and fiscal discipline as outlined in Chapter 2.

Priorities funded within aggregate expenditure ceilings

The Western Cape Government will continue to ensure that this Government's priorities are funded within current aggregate expenditure ceilings while limiting the growth of personnel budgets by curtailing growth in personnel headcounts. This Government has already implemented cost containment measures and improved efficiencies by undertaking related activities that result in savings and the reallocation of resources to critical priorities and will continue to do so over the medium term.

Strong focus on fiscal discipline and continued refinement of efficiency measures

As part of the process of fiscal consolidation and creating and recognising public value, the Western Cape Government departments are considering what programmes and projects should be maintained, where the opportunities for innovation are for constant improvement of programmes and projects, where there are under-performing programmes and projects to possibly terminate, and succession for those that perform well.

Public Value

Given the social and economic challenges facing the country and the Province, finding a way to create public value becomes more critical than ever before and is thus a critical governance goal. Government is therefore committed to create public value and set the conditions where growth in all forms, such as in health, education, social protection, the economy, public safety and the environment, can succeed. Assets such as hospitals, schools, roads and bridges are delivered for social outcomes – raising the standard of living and thus creating public value which has a wider impact on the economy. Public value transforms the role of government from a direct service provider to a generator of public value and the focus is not only about who produced the service, rather, it is a matter of who *consumes* it.

■ Medium term provincial budget policy priorities

Spending proposals for the next three years are shaped by the current weak economic and fiscal outlook, our fiscal and budget policy principles and the policy imperatives of government. The Western Cape Government's strategic and policy framework is comprised of long-term plans such as the OneCape 2040 which outlines the vision of moving towards a more inclusive and resilient economic future for the Western Cape and medium-term plans such as the Provincial Strategic Plan which sets the policy priorities of this Government. The Provincial Strategic Plan outlines the five Strategic Goals, each backed by a plan to maintain continuous improvement in the lives of residents.



Within the Provincial Strategic Plan, the Western Cape Government commits to **seven priority interventions** which are called **Game Changers**. These Game Changers are bold interventions that focus on either leveraging the best opportunities or tackling some of our greatest challenges in the Province. The Game Changers focus on **Apprenticeships, Energy Security; Broadband; eLearning; After Schools Programme; Alcohol Harms Reduction; and a Better Living Model**.

Western Cape Government committed to seven priority interventions called Game Changers

Create opportunities for growth and jobs

The Western Cape Government is committed to creating an enabling environment which is conducive to attracting investment, growing the economy and creating jobs.

Support to key economic sectors

Project Khulisa is the economic strategy of the Western Cape Government and focuses on productive and enabling sectors that contribute to the region's competitive advantage and/or having the potential to be catalytic in growing the economy. The three priority sectors identified by Project Khulisa are Agri-processing, Tourism and the Oil and Gas services sectors. This is the sector driven strategy to drive employment creation.

Saldanha Bay Industrial Development Zone

Investment in key catalytic economic infrastructure is critical for ensuring on-going economic activity and the effective functioning of the economy. One of the major investment initiatives is the establishment of the Saldanha Bay Industrial Development Zone (IDZ). The infrastructure investment in the Saldanha Bay IDZ will provide an opportunity to capitalise on the unique value proposition of an oil and gas, marine repair engineering and logistics services complex, serving the needs of the upstream exploration and production service companies that operate in the oil and gas fields of Sub-Saharan Africa. The Saldanha Bay IDZ Licencing Company (LiCo) is the implementing vehicle of the IDZ together with key stakeholders from all levels of Government including National and Local government and the business sector. The target is to see the completion of the purchase of the Industrial Development Corporation land in 2017/18, incorporating Transnet as partner into the IDZ and the opening up of the development to investors.

The IDZ has been a catalyst to further the industrialisation potential of the West Coast and the West Coast Industrial Plan is adding significant mass for the initiatives of Project Khulisa as well as key bulk infrastructure planning and delivery. The latter includes electricity and water supply upgrades and additional road network investments.

Province will continue to promote agri-processing

The Province will continue to promote agri-processing through its three key focus areas by, growing the Western Cape's share of the global halal market, stimulating local production and supporting the increase of exports of wine and brandy to China and Angola. The implementation of specific agri-processing projects linked to the three main focus areas commenced in 2016 and will continue over the 2017 MTEF period. Projects such as the expansion of the Brandvlei irrigation scheme will contribute to export promotion of wine. The Department of Economic Development and Tourism will undertake a viability study for a Halal Industrial Park. The development of a new residue testing facility by the end of 2016 will provide for increased production by removing a hurdle preventing export of agricultural products to key export markets.

Innovation in the Agriculture Sector

The agriculture sector is a key sector within the Western Cape. The Western Cape Department of Agriculture continues to combine innovative technologies with sound data management practices to benefit the agricultural industry. These innovative initiatives include the Agricultural Information Management System (AIMS), smart pens, Spatial Intelligence (flyover data), Agri Touch, Cape Farm Mapper and the Cape Agricultural Mobile Information System (CAMIS), Fruitlook and the Western Cape Agri Stats portal. To further facilitate food security and job creation, agricultural research will increasingly focus on the improvement of agricultural production and unique technologies. Toward promoting the sustainable use of resources in agriculture, research will be directed toward "Smart agri-production" which forms part of the Green Economy Strategy Framework and has been embedded in the SmartAgri plan towards a climate resilient agriculture sector in the Western Cape. In recognition of the value of sound data management practices and to report on export trends on a quarterly basis, the Department envisages to quantify all exports of animal products from the Western Cape.

Successful land reform also remains a top priority. The Innovative Commodity Approach is a partnership between farmer representatives, industry representatives and the Western Cape Government all working in an integrated manner toward improved land reform outcomes. The unique partnership will ensure smallholder farmers gain access to quality mentorship support from

commercial farmers while also accessing existing marketing networks.



Game Changer: Energy Security

The main goal of the Energy Security Game Changer is to ensure energy security that supports economic growth by incorporating diverse and low carbon sources of energy and improving energy efficiency. This will be achieved through five levers of change namely, enhanced uptake of rooftop photovoltaic (PV); the enhanced uptake of efficient water heating; energy efficiency in government and private buildings; optimal load management of the electricity grid; and increasing the diversity of electricity supply in the Province through the roll-out of Independent Power Producers (IPP) and Liquefied Natural Gas (LNG).

The Game Changer has launched and completed a communication campaign which focused on solar water heaters and winter savings as well as completing the Elsenburg energy audit with recommendations being implemented.

Ease of doing business

The ease of doing business programme will continue to be supported with interventions which seek to reduce red tape, particularly facing businesses within the Province. A particular focus will be placed on improving the legislative process components offered to businesses with interventions to improve the regulatory environment. Business improvement initiatives will continue to be provided to local government to reduce the cost of statutory application processes and improve municipal services to business.



Game Changer: Apprenticeship

The Apprenticeship Game Changer aims to have sufficient, appropriately qualified technical and vocational skilled people to meet the needs of prioritised economic growth areas in the Province. This Game Changer, along with our eLearning and After School Game Changers, focuses on the advancement of young people.

They have been guided by the Western Cape Youth Development Strategy that identifies key interventions to place young people on a pathway to productive adulthood. The Apprenticeship Game Changers will focus on meeting the supply needs of the following prioritised economic growth sectors namely, tourism, agri-processing, oil and gas, renewable energy and ICT.

The two levers to achieve this include the Academic Supply Side which focusses on increasing the number of quality College and School learners; and the Workplace Supply Side which focusses on increasing the number of workplace-based opportunities for learners. Programmes on the Academic Supply Side will include amongst others, increasing the number of learners achieving 50 per cent for maths, by providing academic support to those learners who are achieving between 40 and 49 per cent; using e- Learning as a means of improving maths outcomes; and identifying financially needy learners and matching them with employers in our priority sectors who are willing to support these learners.

On the Workplace Supply Side, programmes include identifying the occupations and specialised/short courses in the priority sectors where there is a skills demand; securing employers in these sectors to take in learners for workplace-based training; as well as assisting employers to access funding from Sector Education and Training Authorities (SETAs).

The Apprenticeship Game Changer has successfully launched and brought together stakeholders from government, industry, and learning institutions. In partnership with public Technical and Vocational Education and Training colleges through co-leadership with industry bodies, the Western Cape Government will drive this initiative to bridge the gap between supply and demand.

Infrastructure investment is a key priority to support growth and socio-economic transformation

Infrastructure for growth

Infrastructure investment is a key priority to support growth and socio-economic transformation. Not only does infrastructure investment add directly to real economic growth, but over the longer term it promotes economic development. Public investment in infrastructure lowers production costs and boosts economic growth by “crowding-in” related private sector investment. Investment in roads and transport has a high economic multiplier effect. The Western Cape Government has identified infrastructure investment as a key lever underpinning growth, providing an effective mechanism to support socio-economic developments and building a new level of economic resilience in an increasingly challenging fiscal environment. More detail is provided on the medium term infrastructure spending priorities in Chapter 4.

Improve efficiency of the region’s transport system

Key focus areas include providing more reliable and affordable public transport with better coordination across municipalities and between different modes of transport. Increasing investment in public transport and resolving existing public transport policy issues includes attracting private sector investment. Extending bus services, refurbishing commuter trains, linking high-volume corridors and integrating all these into an effective service is important. The George Transport Hub will provide a modern, user and environmental friendly facility. The Hub is part of the George Integrated Public Transport Network done in partnership between the Western Cape Government, the George Municipality and National Government.

Provincial Sustainable Transport Programme under development

The Provincial Sustainable Transport Programme is currently under development to support public and non-motorised transport and explore areas for further improvement through various avenues. The Department of Transport and Public Works will work with a select number of municipalities over the next five years to give effect to this Programme.

Improve education outcomes and opportunities for youth development

The Western Cape Government is dedicated to creating opportunities for children to remain in schools for as long as possible and have access to quality education while creating opportunities for the youth to realise their full potential.

Improving Language and Mathematics and the National Senior Certificate Pass Rate

Improving the level of language and mathematics in all schools and increasing the number and quality of passes in the National Senior Certificate continue to be at the forefront of education policy in the Western Cape.

The Language Strategy 2015 - 2019 and the Mathematics Strategy 2015 - 2019 cover the thirteen years of schooling from Grade R up to Grade 12. The strategies offer a single framework to analyse a school/circuit/district context and to devise a comprehensive plan. The improvement plans address the four major elements that enable learning: people development, the use of productive pedagogies, resource/facility provision and use, and monitoring and evaluation. Additionally, the quality of education has been tracked via the programme of systemic testing of Grades 3, 6 and 9 which focuses on Language and Mathematics. Over the past 13 years there has been an improvement in the systemic test results. Results are used by schools to plan academic activities for the year ahead and to develop their individual School Improvement Plans and related targets.

Improvement in the systemic test results

In order to increase the number of learners passing the National Senior Certificate while reducing the number of under-performing schools, the High School Programme applies a differentiated approach to support high schools in the Province. This is linked to performance and support required. Furthermore, a tutoring programme for learners, using skilled teachers, from inside and outside the Western Cape Education Department will be strengthened in addition to the schools served where telematics lessons are beamed.

In order to give effect to the objectives of improving education outcomes it is critical to safeguard resources such as school infrastructure, buildings and equipment to ensure that the resources are available for delivery on key priority areas.

Safeguarding of school infrastructure, buildings and equipment remains critical

Increasing access to quality education in poorer communities

A continued focus will be on increasing the quality of education provision in poorer communities. One of the significant initiatives aligned to this objective is the 'no-fee' school programme. In 2016, 73 264 learners were supported in 551 schools. The Western Cape Education Department also provides transport to learners through the Learner Transport Scheme to about 57 000 learners on 541 routes, in mainly rural areas.

No-fee school programme supported 73 264 learners in 551 schools

Collaboration Schools

The Western Cape Education Department, in partnership with a group of donors, launched the new collaboration schools pilot programme. The Western Cape Education Department aims to test a new model of schooling which involves harnessing strong managerial and training resources from the private sector to strengthen the education outcomes in public schools that need additional support, through school operating partnerships. This approach strongly adopts the notion of partnering and draws on multiple stakeholder resources for the benefit of learners in the Western Cape.

The pilot is being carried out across a range of schools - existing and new - from primary to secondary, and from long established to more recently established schools. This is to provide the most useful evidence-base from which to draw conclusions. The pilot was launched with 5 schools in 2016 and will continue for a period of 5 years subject to the performance of the partners and the schools.

Early Childhood Development and Grade R

ECD programme to reach 92100 children annually by 2020

Having expanded the reach of the Early Childhood Development (ECD) programme to over 86 000 children by 2015/16, the Department of Social Development has refocused on the quality of ECD education, specifically in respect of the provision of a safe environment, nutrition and language development ahead of primary school enrolment. A special pre-Grade R programme for English language and cognitive development, developed in conjunction with the Western Cape Education Department, was launched in April 2016 at 100 sites where school readiness was found to be poor. Parenting programmes will also be rolled out at these sites in support of better ECD outcomes. Access to ECD programmes will continue to be expanded to reach 92 100 children annually by 2020.

The related Grade R to 3 project driven by the Western Cape Education Department aims to improve language and mathematics teaching and learning at a young age by ensuring that all learners have attained the required levels of reading and arithmetic by the end of Grade 3. The pilot project focuses on 105 schools. This focused initiative will be implemented, supported and monitored between 2016 and 2019 with the aim of improving learner outcomes.



Game Changer: After School Programme

The After School Game Changer aims to have regular and sustained learner participation in after-school activities, contributing towards positive youth development. The objective is for 20 per cent of no- and low-fee learners in the province to regularly and consistently attend quality after school programmes, i.e. at least twice a week by 2019. The target for 2016/17 is 65 000 learners.

To achieve this goal, three key levers of change have been identified, namely:

- Lever 1: To create an enabling environment for After School Programmes.
- Lever 2: To ensure learners in After School Programmes access quality programming, including access to a choice of sport and recreation, arts and culture, life skills and academic support programmes.
- Lever 3: To expand the After School Programme through collaboration and partnerships with other spheres of government, donors and civil society.

Social and economic opportunities for the youth

The Western Cape Youth Development Strategy emphasises that the youth are the future of this Province and also the most affected by unemployment. Therefore programmes and initiatives will be strengthened which are aimed at the youth being educated, healthy and productive citizens who take responsibility for themselves.

The Mass Participation, Opportunity and Access, Development and Growth (MOD) programme continues to focus on after school activities for school-going children at 181 school-based MOD centres located within previously disadvantaged communities. The MOD centres provide a structured curriculum and lesson plans which focus on various modified sporting activities. These are complimented by a broader focus on holistic development that encompasses life and skills development.

Youth cafés provide access to skills development programmes, training workshops, seminars, entrepreneurial opportunities and support to young people not in education, employment or training. In partnership with the private sector, the Department of Social Development will continue to empower and upskill youth through the six youth cafes located across the Province in Nyanga Junction, Rocklands, Vangate Mall (Athlone), Oudtshoorn, George and Vrygrond.

Six youth cafes located across the Province

The Chrysalis Academy, which will continue over the medium term, is a youth leadership development organisation as well as a social crime prevention initiative which empowers young people to take responsibility for their personal growth. Students undergo four different stages of training which include Orientation, Outdoor, Skills and Community phases. These are complimented by Life Coaching and Family Integration with a focus on Health Care.

Chrysalis academy to continue over the medium term



Game Changer: eLearning

The eLearning Game Changer aims to revolutionise teaching and learning at our schools. The aim is to use technology to enhance teaching and learning for all Western Cape learners, predominantly in mathematics and languages. This Game Changer focuses on six streams to achieve this aim, namely the creation of an eCulture in schools, backed by eInfrastructure, an eAdmin system to run the school, and well-trained eTeachers using eTechnology and eContent in their lessons.

The intention is to access the opportunities provided through the installation of Wide Area Network (WAN) at every school in the province so that we can implement eLearning to support learner outcomes. In order to structure this approach and ensure that all schools benefit over the next three years, every institution has been categorised as either a Universal, Enhanced or Model school.

- Universal schools: will have basic access to the internet through a Computer Lab or an ICT suite. In these schools, government will provide teachers and learners with access to digital resources through WAN via labs and central Wi-fi Access Points.
- Enhanced schools: the enhanced schools will have access to a Local Area Network (LAN) over the next 3 years. The LAN will connect every instruction room in schools to the WAN, and allows wireless access in classrooms. A technology roll-out will maximise teacher technology in order to introduce and develop eLearning concepts.
- Model Schools: Over the three year period, a small number of Model schools will implement a full eLearning environment, integrating eLearning into their practice, building an eCulture and developing leaders in the field.

Progress is being made in establishing functional labs in schools i.e. both subject specific and general labs to access resources via broadband. Infrastructure is being delivered with 894 schools connected to the WAN, and over 120 LAN installed to date. Smart classrooms are being rolled out in 1 061 classrooms in 79 schools with learner devices in the process of being procured for the first 8 model schools. This is complimented by teacher training aimed at integrating appropriate and available technology into the teaching environment in support of the implementation of new technologies into the teaching and learning process.

YearBeyond (YeBo) is an initiative of the Western Cape Provincial Youth Development Strategy aimed at academic expansion in the MOD programme. A range of government departments and Non-Governmental Organisations (NGOs) partner to run YeBo. The YeBo programme aims to improve educational outcomes in under-resourced schools, and offer bright and motivated young people the chance to develop their own skills and expand their networks over the course of a year. It is the academic addition to the MOD programme offering technology assisted, peer facilitated literacy and numeracy support. The full YeBo programme is currently operating in 22 no-fee schools where approximately 100 learners benefit at each school, with YeBo-Lite (eLearning and life skills only) operating in 5 schools in Kraaifontein. The volunteer tutors are afforded an opportunity to engage in a leadership and self-development initiative engaging young leaders to develop innovative solutions to social challenges facing South Africa's youth. 2016 marks the second year where over 100 volunteers graduated.

Increase wellness, safety and tackling social ills

The Western Cape Government is committed to promoting safe, healthy and inclusive communities, where citizens take active ownership of their personal safety and wellness and, that of their families.

Inclusive and healthy communities, families and children

Guided by the Healthcare 2030 strategy, the Department of Health remains committed to transforming public health care services by delivering a superior patient experience of quality health services that ultimately results in improved health outcomes and wellness. This will be pursued by, amongst others the further strengthening of the primary health care platform, and redesigning the service to streamline patient flow and improve integrated care.

The First 1000 Days, Western Cape on Wellness (WoW) and Integrated Service Delivery Model initiatives are integrated programmes aimed at treating and managing all aspects influencing the wellness of patients. The First 1000 Days initiative provides education, awareness and support to communities to improve health and development outcomes of children. In collaboration with other provincial departments, academia and NGOs, the Department of Health will continue to raise community awareness and participation in improving children's health outcomes; provide education and support on parenting, nutrition and mental health; and improve the diagnosis of disabilities amongst children.

Raising community awareness and participation in improving children's health

The WoW campaign, which partners with provincial departments, the City of Cape Town, NGOs, academia and the private sector, aims to promote healthy lifestyles through improving eating habits and increasing physical activity. Although relatively new, the campaign has already seen some success, with reductions in weight, waist circumference and resting blood pressure recorded amongst participants. Going forward the WoW campaign will continue to raise awareness in communities, assist in the establishment of new worksite clubs, community clubs and school clubs, and provide support to established clubs across the Province.

Western Cape on Wellness (WoW) campaign showing success

A further priority is the HIV/TB 90-90-90 campaign. This campaign provides that, by 2020, 90 per cent of all people living with HIV will have tested and know their HIV status; 90 per cent of all people with a diagnosed HIV infection will receive sustained antiretroviral therapy; and 90 per cent of people receiving antiretroviral therapy will achieve viral suppression. At the end of 2015/16, approximately 1.4 million people had been tested, 210 000 were on antiretroviral

therapy and 140 000 had achieved viral suppression. By 2020, 421 000 people in the Province will be tested annually, of which an anticipated 379 000 will be on treatment and 341 000 would have achieved viral suppression.

Focused on farmworkers and their families, the Department of Agriculture will continue to drive the Farm Worker Development initiative which aims to enhance the image and the socio-economic conditions of agri-workers and their family members through facilitation of training and development initiatives, to improve their quality of life.

Integrated Service Delivery Model

Integrated Service Delivery Model will be expanded over next 2 years

The Integrated Service Delivery Model, currently being piloted in Drakenstein, is being utilised to develop and test a model of integrated service delivery grounded in the specific needs of the area. The model aims to embed and institutionalise a collaborative approach to service delivery that includes local and provincial government, non-profit organisations and community-based organisations. Based on the work and learnings from the Drakenstein Integrated Service Delivery Model, it will be expanded to Gunya, Khayelitsha and Saldanha Bay over the next 2 years.

Persons with disabilities

The Province supports and funds various structures and services aimed at empowering and improving the socio-economic conditions of persons with disabilities, including protective workshops, residential care facilities and the Disability Desk within the Ministry of Social Development, amongst others. A partnership between the provincial Departments of Health, Education and Social Development and NGOs has realised the initiation of referral pathways for children and youth with disabilities. This initiative aims to improve the efficiency of services to these vulnerable children, improving their retention in schools and enabling the completion of their education. The Department of Social Development will also continue to provide support to the families and caregivers of persons with disabilities through appropriate psychosocial support programmes, including family strengthening, parenting and cognitive behavioural programmes.

Children and Older Persons

The Department of Social Development will continue to provide services for older persons, guided by the Older Persons Act, through funded independent and assisted living facilities and residential care facilities, and service centres. The Department will also continue to provide child care and protection services, as per the Children's Act and Child Justice Act.

In light of escalating substance abuse amongst youth in the Province, a community-based substance abuse treatment model has been introduced at all provincial secure child and youth care centres, while school-based drug treatment programmes will be expanded to 10 high risk schools.

Arts and Culture

The Department of Cultural Affairs and Sport continues to create opportunities for arts and culture to flourish within communities. This is achieved through collaboration with multiple stakeholders and established partnerships with funded organisations. The broad service delivery offering of the arts and culture space provides a clear lever and strategic imperative for alleviating social ills.

Library Services instils and promotes a culture of reading, library usage, and lifelong learning. Department of Cultural Affairs and Sport continues to support and provide library material which includes e-resources. The Department also funds the building of new libraries and provides extension services to rural areas through the provision of mini-libraries. The utilisation of public libraries further promotes reading and learning which can lead to improved educational outcomes.

Library Services promotes a culture of reading, library usage and lifelong learning

Inclusive and safe communities, families and children

Increasing Safety

A key strategic priority is to enhance safety mechanisms in the Province. The Department of Community Safety has developed a service delivery model called the Community Safety Improvement Partnership (CSIP) as its blueprint for increasing safety. The outcomes of the CSIP are promoting professional policing through effective oversight; promoting safety at all public buildings and public spaces; establishing viable safety partnerships within communities; and reducing alcohol-related harms. The Western Cape Government will continue to facilitate partnerships with religious fraternities, local governments, local communities and the South African Police Service (SAPS) to further its whole-of-society approach.

*Western Cape Police
Ombudsman is unique to
the Province*

The Department of Community Safety will ensure that the SAPS conduct itself to the highest standards in this Province. To this end, the Western Cape Police Ombudsman is an institution unique to the Western Cape and deals with police complaints related to service delivery or lack of communications. The bar is raised in respect of the quality of investigations and reporting of complaints from communities about policing – with the legal mandate fully supported by SAPS. Another innovative initiative is court watching briefs which is the first of its kind and will ensure appropriate disciplinary steps being instituted against police officers who have not performed their duties as required. A total of 340 cases have already been monitored in the 2016/17 financial year. In terms of inspections of police stations and reporting, the Department is taking the lead in terms of process, format and content including national reporting.

In 2016, the Western Cape Liquor Authority moved to the Department of Community Safety where it is now strategically placed to regulate the liquor industry in the Province. It is envisaged that the Entity will play an important role in this Governments' battle against the misuse of alcohol.

Safety on our roads

*Enforcement technology
to improve road safety*

Road crashes and fatalities cost the Western Cape economy approximately R21 billion per annum. Transport Regulation, inclusive of Transport Law Enforcement, is dependent on human resource capacity to deliver frontline services to clients. The Department of Transport and Public Works will strengthen innovative solutions to make roads in the Province safer. This includes the introduction and maintenance of enforcement technology such as the networks of Automatic Number Plate Recognition cameras on key national and provincial routes which enable the enforcement of average speed over distance. The Evidentiary Breath Alcohol Testing, commonly known as the draeger machine, is being piloted as an attempt to speed up the prosecution of those driving under the influence of alcohol.

Road safety awareness and education interventions continue to be implemented throughout the Province with a focus on schools and communities at risk.



Game Changer: Alcohol Harms Reduction

The Alcohol Harms Reduction Game Changer aims to reduce alcohol-related harms through the strengthening of communities and co-ordinating state resources to secure safer neighbourhoods.

This Game Changer is a highly focused intervention that draws together the multiplicity of government agencies at all levels of the state and other key role-players, to work directly with and within affected communities. As such, it is a new approach to reducing the damage to individuals, society and the economy that alcohol causes. The Game Changer is targeting a few high risk areas - Khayelitsha, Gunya and Paarl East - with the aim of reducing intentional injury and death related to alcohol. The objective is to achieve at least a 10 per cent reduction in alcohol-related injuries and fatalities by 2019 in these areas.

The aim is to achieve this through three key levers of change namely:

- Lever 1: Reduced Access to Alcohol.
- Lever 2: Enhanced participation in recreational alternatives and facilitating access to alternative economic pathways.
- Lever 3: Enhanced quality of alcohol-related health and social services.

Enable resilient, quality, sustainable and inclusive living environment

The Western Cape Government is committed to improving the resilience, sustainability, quality and inclusivity of the urban and rural settlements in the Province.

Integrated human settlements

The Western Cape Government policy priorities for integrated human settlements include well-located land release, the timeous transfer of title deeds, and the implementation of Catalytic Projects which are projects located close to areas of economic activity.

Priorities for the unlocking of well-located land, especially state-owned land, for affordable housing include amending provincial legislation to provide the Department of Human Settlements with powers to acquire and develop other land for human settlements development. Further areas include the Department devolving its land holdings to municipalities to expedite the release of land for human settlements development, collaborating with other provincial government departments to enable access to other provincial land for human settlements development as well as entering into Land Availability Agreements with relevant property developers.

Priorities for the timeous transfer of title deeds to beneficiaries include:

- The strengthening of systems of governance for reformed tenure and issuing of title deeds;
- The timeous transfer of title deeds to housing beneficiaries in New Greenfield projects; and
- Amending the project approval administrative process and payment milestones to encourage developers to complete the transfers of properties timeously.

Priorities for catalytic projects expected to yield over 100 000 units by 2022

Priorities for Catalytic Projects include strategically chosen interventions which is expected to yield over 100 000 units by 2022. While the majority of these projects are still in the planning stage, some have commenced with construction such as Thembaletu in George and Forest Village in the City of Cape Town.

Spatial and development planning

The Provincial Spatial Development Framework (PSDF) communicates government's spatial development intentions to the private sector and civil society while conveying the Western Cape's spatial agenda to municipalities. This assists in informing their Integrated Development Plans (IDPs), Spatial Development Frameworks (SDFs) and Land Use Management Systems (LUMS) while ensuring consistency with this Government's spatial agenda of balancing the space-economy. The Department of Environmental Affairs and Development Planning therefore has a critical spatial co-ordination function to ensure spatial alignment in the Province.

The Spatial Logic of the Provincial Spatial Development Framework

- **CAPITALISE** and build on the Western Cape comparative strengths (e.g. gateway status, knowledge economy, lifestyle offering) and leverage the sustainable use of its unique spatial assets.
- **CONSOLIDATE** existing and emerging regional economic nodes as they offer the best prospects to generate jobs and stimulate innovation.
- **CONNECT** urban and rural markets and consumers, fragmented settlements and critical biodiversity areas i.e. freight logistics, public transport, broadband, priority climate change ecological corridors, etc.
- **CLUSTER** economic infrastructure and facilities along public transport routes (to maximise the coverage of these public investments) and respond to unique regional identities within the Western Cape.

Regional Socio-economic Programme/Violence Prevention through Urban Upgrading

The Regional Socio-economic Programme/Violence Prevention through Urban Upgrading (RSEP/VPUU) programme speaks to the whole-of-society approach of partnering with active citizens, communities and stakeholders to promote social and economic inclusion. This approach provides practical application to building safe and sustainable neighbourhoods, reducing social, cultural, economic and institutional exclusion of former townships and

improving the quality of life in these areas. The RSEP/VPUU Programme is being rolled out in the following municipalities: Saldanha Bay; Swartland; Drakenstein; Breede Valley; Theewaterskloof; and the City of Cape Town Metropolitan Municipalities.

Management of the ecological and agricultural resource base

The Western Cape is historically prone to rainfall variability, unseasonal dry spells, and droughts. Severe droughts reduce production, employment and social welfare. Furthermore, climate change projections indicate significant warming and drying (particularly in the western parts) with a heightened risk of droughts.

This has underlined the need for new approaches to resource management such as the launching of the Western Cape Climate Change Response Framework and Implementation Plan for the Agricultural Sector (the "SmartAgri Plan"). This initiative has emanated from a collaborative effort between the Department of Agriculture, Department of Environmental Affairs and Development Planning as well as the private sector and academia.

The Department of Agriculture will continue to provide drought assistance to farmers in the form of supplementary fodder support as well as supporting farmers with operational expenses such as worker compensation. The recently held drought dialogue identified 32 actions to be addressed to make the sector more drought and disaster resilient. Five top priorities were identified and will receive urgent attention, these include bridging finance to keep farmers on farms; optimising water usage; more accurate predictions of droughts and disasters; developing a social security net to support mostly rural communities and agri-workers adversely affected by drought; and revisiting water management and policies currently hampering new infrastructure.

Continued drought assistance to farmers

The Department of Environmental Affairs and Development Planning continues to drive projects in support of climate change prevention which include Sustainable Procurement (which links to Green Economy); municipal support on sustainability interventions, including human settlements and other infrastructure; feasibility study for Alternative and Sustainable Infrastructure and Services for Settlements; and mainstreaming the 2Wise2Waste internal resource efficiency programme.

Water has been identified as an enabler for sustainable economic growth and development. Furthermore, the Western Cape Government in partnership with various other role-players will continue to promote and facilitate optimised water usage in

agriculture through a coordinated approach. Over the medium term innovative projects such as the Fruitlook project; the SmartAgri project and the Ebenhaeser irrigation project, will contribute towards sound water management and remains a key priority to the Province. Key focus areas include the implementation of the Sustainable Water Management Plan, the Berg River Improvement Plan and the development of the Breede River Environmental Resource Protection Plan.

The Western Cape Government has identified drought relief as a priority. Funding has therefore been allocated in 2016/17 and carried through to 2017/18 to address the impact of climate change and drought, and toward efforts of ensuring water security in the Western Cape. The Departments of Agriculture, Environmental Affairs and Development Planning and Local Government are the key role-players in this regard with the coordination of drought relief and water security being led by the Department of Environmental Affairs and Development Planning.



Game Changer: Better Living Model

The Conradie Better Living Model Game Changer has been prioritised by the Western Cape Government to address the spatial legacies of apartheid and improve the lives of citizens in the Province. This Game Changer envisages the development of the 22 hectare former Conradie Hospital site into an integrated, sustainable, and affordable residentially-led, mixed-use neighbourhood.

This project will be developed through a partnership between the Western Cape Government, the City of Cape Town and the private sector. There is currently a shortage of well-located affordable houses close to employment and economic opportunities in the City of Cape Town. This challenge is compounded by the thousands of people moving from rural areas and other provinces to the City each year in search of a better life. The project will provide affordable, integrated housing opportunities close to the Cape Town CBD. The project will also serve as a model when it comes to how we optimise government assets, and unlock the economic potential of state-owned property in the future.

Embed good governance and integrated service delivery

The Western Cape Government continues to remain committed to building a capable state and developing the tools, structures and processes that support and improve departmental service delivery initiatives.

Enhanced Governance

Enhanced governance refers to improving the maturity levels or standards attained by provincial departments for Corporate Governance, Service Excellence with people, ICT Governance and Financial Governance and Systems.

Good governance, and in particular good financial governance, translates into improved service delivery through ensuring that taxpayers money is spent in an effective, efficient and transparent manner. Provincial Treasury has established a Chartered Accountant Academy which affords prospective chartered accountants the opportunity to receive accredited training within the public sector which will assist improving standards for financial governance.

Good Financial Governance to improve service delivery

Good Financial Governance

The intent of Good Financial Governance is to commit to sound public financial management and governance practices as part of a broader fiscal reform and consolidation process throughout the Western Cape. This commitment will promote a continued culture of fiscal discipline, consolidation and allocative efficiency amongst the various provincial sector departments, local authorities and public entities. The objective is to ensure that public financial management in the Western Cape remains outcome-based and results orientated by ensuring the optimal application of resources that will translate into improved socio-economic development and opportunities. Good Financial Governance focuses on and is underpinned by the normative, technical and political economy dimensions. The Western Cape Government proposed a Good Financial Governance Incentive Grant at the Budget Council with further work to be done by the Technical Committee of Finance in terms of development and possible agreement by all provinces. The proposal aims of to institutionalise a culture of organisational performance, enabled by a transfer system with strong performance-based incentives and coupled with ex post monitoring and assessments.

Procurement of goods, services and infrastructure represents approximately 30 per cent of the provincial budget. Due to the significance of government procurement it is generally accepted as a policy tool to redistribute wealth, promoting social justice or to stimulate domestic economic development. South Africa is no different and various initiatives such as Broad Based Black Economic Empowerment, preferential procurement and local content have been put in place to reach the above-mentioned objectives.

It has therefore become necessary for the Western Cape Government to become more specific in the use of its procurement budget to enhance the Provinces' economic development agenda. As such this Provincial Government is in the process of developing a sustainable procurement policy with a focus on stimulating the regional economy to target service providers and the labour force in those areas.

Developing a sustainable procurement policy that focuses on stimulating the regional economy

Supporting local government

The Department of Local Government remains focussed on providing municipal support primarily on service delivery and governance-related support. This entails strategically aligning provincial and municipal plans and in light of the new electoral cycle, the provision of training to newly elected councillors on municipal legislative processes, procedures, systems and structures.

The Back to Basics Programme is premised on implementing the 10 point plan, which contains priority initiatives such as assisting with municipal capacity building as well as developing and implementing a shared services model. Projects and initiatives which address the strengthening of local government include providing ICT-related support to municipalities.

Development and maintenance of firefighting capacity remains a priority

The development and maintenance of firefighting capacity (hosted at the Wolwekloof Training Facility) remains a priority issue which involves developing firefighting capability and placing new firefighting vehicles at identified Local and District Municipalities.

The Provincial Treasury will continue to support municipalities through the Financial Management Support Grant. The Grant provides financial assistance to municipalities to improve financial governance, inclusive of optimising and improved administering of revenue; improving credibility and responsiveness of municipal budgets; improving municipal audit outcomes; and addressing institutional challenges.

Integrated Management

The Province is currently undertaking a mid-term review of the Provincial Strategic Plan 2014 – 2019. The preliminary findings indicate that the strategic goals and their related Game Changers and projects are appropriate to address some of the most pressing economic and social challenges in the Western Cape. All Provincial departments have made significant improvements to align their annual performance plans and budgets with the objectives and projects of the Provincial Strategic Plan. This ensures that the core business and mandates focus on the needs of the residents of the Western Cape and enables better coordination of plans and budgets in a transversal manner.

Increased use of quality data and information as evidence for better planning, monitoring and evaluation

The Data Governance initiative, driven by the Department of the Premier aims to improve the overall management of the availability, usability, integrity and security of data assets within the Western Cape Government. The objective is to facilitate better development outcomes and service delivery. Data Governance contributes toward the increased use of quality data and information as evidence for better planning, monitoring and evaluation, informed citizenry, policy development, decision-making and governance.

The four streams of data governance include:

- **Stream 1:** Effective coordination of data sources across sectors in terms of a logical data warehouse.
- **Stream 2:** Better policy design in terms of strategic frameworks/plans, standards for data management, privacy, compliance and security.
- **Stream 3:** Effective Implementation in terms of consistent application of indicators, data quality and metadata standards.
- **Stream 4:** Advocacy (Information, Communication, and Learning).

The Province is strengthening the use of evaluations which are informed by the Provincial Evaluation Plan (2016/17 - 2018/19). The use of evaluations promote cost saving of government programmes, the improvement of policy or programme performance, the redesign of programmes, the improvement of accountability and decision-making as well as knowledge generation. Planned evaluations include the Expanded Public Works Programme and the Youth, Safety and Religion Partnership Programme as well as the efficacy of specific grants relating to provincial roads maintenance and public transport operations.

The Western Cape Government has partnered with the four provincial universities through the Cape Higher Education Consortium (CHEC) to advance research and further explore areas that promote development. Building on the Memorandum of Understanding previously signed between the Western Cape Government and CHEC, the five Provincial Strategic Goals now form the basis for a common research agenda. Working together with academia to entrench evidence - based decision making, the Western Cape Government is also undertaking reviews of policies and projects in collaboration with CHEC.

Integrated Provincial and Municipal Planning, Budgeting and Implementation

A more coordinated and strategic approach to government planning, budgeting and delivery between the Province and the Western Cape municipalities and the process to achieve it has been developed through an Integrated Work Plan. The overarching aim is to ensure that when engaging with municipalities, the relevant processes are more integrated, avoiding the duplication of services, ensuring optimal use of resources and aligning objectives. The theme of the 2016 Integrated Municipal Engagements is an “Integrated Approach to enhance Sustainable Local Government”. There is increasing recognition that sustainable Local Government in its broader sense is dependent on economic development within the localities and regions. Municipalities are at the forefront of service delivery and policy implementation which affirms the strategic location of municipalities to drive socio-economic objectives. However, regional and local economies are interconnected and delivering on development objectives cannot be done independently of each other. Therefore integrated management across provincial and local spheres is seen as a catalyst for service delivery impact and inclusive growth. Identifying common strategic initiatives, exploring economic and spatial intelligence, enhancing strategic partnerships are key focus areas.

Inclusive Society

The Service Interface Strategy of the Department of the Premier aims to improve the citizen's satisfaction levels when engaging government by listening and reacting to citizens' needs, addressing service levels and the quality of frontline service delivery facilities and services; increasing the information and service access channels; and strengthening those programmes that aim to take services to the people.

The Cape Access Programme provides free e-mail, internet access and ICT training to citizens, targeting poorer and disadvantaged communities. This ensures public access to online government information, services and products. Cape Access eCentres have been rolled out within the majority of municipalities. In addition, the Thusong Centre Programme along with the Community Development Worker Programme continues to play a crucial role in ensuring that information and government services are accessed by the intended beneficiaries.

Game Changer: Broadband

The Western Cape Government has adopted a five-stream approach to implementing broadband:

- **Stream 1:** A scalable high-bandwidth network connecting all provincial government buildings (including schools) through a long-term contract.
- **Stream 2:** Responsible for delivery on a suite of projects to grow and develop the provincial economy through the support of broadband usage and readiness by business and citizens in order to improve competitiveness.
- **Stream 3:** Focuses on applications to improve the efficiency and effectiveness of the provincial government.
- **Stream 4:** Consists of sector-specific initiatives which will leverage off the three streams as highlighted above.
- **Stream 5:** Driving broadband infrastructure provision to Local Government to ensure that municipalities across the Western Cape will benefit from the investment made by the Western Cape Government, by being able to access broadband services in the municipalities of the Western Cape.

This approach aims to leverage the full capacity of all relevant departments to ensure that provincial and local government fully benefit from having a world-class broadband infrastructure. The majority of Western Cape Government sites are envisaged to have broadband connectivity by the end of the 2017/18 financial year as per Phase 1 of the Broadband Strategy. A total of 699 km of fibre-optic cabling has already been deployed for Western Cape Government sites (connected to Neotel's existing fibre network) within the City of Cape Town. An additional 201 km of site related fibre work has been allocated for the remaining corporate sites in the City of Cape Town. To date 50 WiFi hotspots have gone live in the Western Cape, with an additional 100 hotspots expected in 2016/17.

■ Conclusion

Budget policy priorities continue to be premised on creating public value which involves greater effectiveness in tackling the problems that are most important to citizens. The constrained fiscal environment has also necessitated a change to the usual approach of government. This change involves an approach which promotes integration, is open to innovation, new ideas and the development of creative solutions through partnerships in a resource efficient manner.

4

Infrastructure

In summary

- Infrastructure investment is one of the key components underpinning economic growth. It provides an effective mechanism to support socio-economic transformation and aids in building a new level of economic resilience in an increasingly challenging fiscal environment.
- Infrastructure projects follow the end of stage deliverables as defined in the control frameworks for infrastructure delivery management and infrastructure procurement of the Standard for Infrastructure Procurement and Delivery Management.
- A key area of intervention is in maintenance as this will assist to derive maximum value from assets, protect the investment made in public sector immovable assets and ensure business continuity through the ongoing availability of such assets at reasonable cost and within acceptable risk parameters.

Introduction

Infrastructure investment is one of the key components underpinning economic growth. It provides an effective mechanism to support socio-economic transformation and aids in building a new level of economic resilience in an increasingly challenging fiscal environment.

Infrastructure investment a key component of economic growth and socio-economic transformation

The scale of the infrastructure investment responsibility facing the Western Cape Government is substantial and comes at a time of slower growth in revenues and a renewed commitment to fiscal consolidation and fiscal discipline. Hence, innovative solutions are required to ensure the continued utilisation of infrastructure as a lever for economic growth.

This Chapter highlights the integrated approach to infrastructure delivery, focussing on the continued and strengthened integration between provincial departments; and across the provincial and municipal sphere for impactful citizen-centric service delivery aiming to create public value.

Integrated management for service delivery

The Western Cape Government, has adopted a more coordinated, integrated and strategic approach to planning and budgeting. This is further underpinned by the framework for an integrated work plan for provincial and municipal planning, budgeting and governance. Integrated infrastructure delivery drives economic development through a more spatially focussed approach within the Western Cape Government and across the spheres of government.

Partnerships

There will be a strong focus on building partnerships in infrastructure delivery over the medium term, to boost inclusive growth, job creation and socio-economic transformation. Due to the complex nature of infrastructure delivery a number of partnerships exist, some of which are mentioned below:

- National Treasury and Provincial Treasury through the Infrastructure Delivery Improvement Programme (IDIP) Technical Assistance Agreement. The aim is to support the institutionalisation of the Infrastructure Delivery Management System and capacitation units at provincial and municipal sphere.
- A mid-term review by the National Treasury has shown that the sustainability of the Western Cape Infrastructure Development Management System (WCIDMS) has been enhanced through the implementation of various initiatives. The outcome of these assessments would assist in developing appropriate interventions to support the roll-out of the Infrastructure Delivery Management System.
- Strategic Partnerships between National Treasury and Departments of Education and Health through the Performance-Incentive Grant to reward proper planning performance and governance for infrastructure.
- The Departments of Environmental Affairs and Development Planning and Transport and Public Works in the planning of the Two Rivers Urban Park (TRUP).
- Development of partnerships with municipalities to improve public and non-motorised transport and transport infrastructure.
- Strengthening the partnership with the Passenger Rail Agency of South Africa (PRASA) in order to identify opportunities for cooperation.

Governance

The Western Cape Government remains committed to improving efficiency and effectiveness in the delivery of public sector infrastructure. As such, several governance structures have been developed and institutionalised to monitor and coordinate progress in the implementation and delivery of Infrastructure in the Province.

These governance structures are tasked with:

- Reviewing progress with the implementation of provincial projects or programmes and resolve issues in terms of budgets, quality standards and timelines.
- Monitoring, review and address bottlenecks to improve the overall performance and impact of infrastructure delivery.
- Providing strategic planning and alignment of multi-sectoral planning of infrastructure; based on a high level review of the impact of infrastructure.

The Western Cape Ministerial Infrastructure Coordinating Committee (WCMiCoCo) under the chairmanship of the Provincial Minister of Finance provides the necessary leadership at a political level for the efficient and effective delivery of infrastructure in the Province.

Infrastructure Delivery Management System

The Infrastructure Delivery Management System (IDMS) is a good practice model that describes the processes that make up public sector delivery and procurement management, as it applies to the construction industry.

The system presents interrelated processes and sub-processes that are inherent in any public infrastructure project, namely: Portfolio Management, Programme and Project Management as well as Operations and Maintenance.

During 2012, the Western Cape Government published Provincial Treasury Instruction Chapter 16B, Supply Chain Management for the Delivery and Maintenance of Infrastructure. This requires Accounting Officers to establish and implement an IDMS in accordance with the Western Cape Standard for an IDMS as well as a Construction Procurement System in accordance with the Western Cape Standard for a Construction Procurement Strategy.

WCIDMS & Provincial Treasury Instruction Chapter 16B adopted in order to improve standardisation and quality of infrastructure

During 2015, the National Treasury issued an instruction in terms of section 76(4)(c) of the Public Finance Management Act (PFMA), which requires the implementation of the Standard for Infrastructure Procurement and Delivery Management (SIPDM) by all organs of state that are subject to the PFMA, as from 1 July 2016.

Standard for Infrastructure Procurement and Delivery Management (SIPDM)

The Standard for Infrastructure Procurement and Delivery Management (SIPDM) reflects supply chain reforms that establishes a control framework for infrastructure delivery that endeavours to assist accounting officers and authorities to maintain financial management and delivery capability. It is linked to multi-year budgeting with a strong focus on outcomes, value for money and the effective and efficient functioning of the entire value chain of infrastructure delivery.

The control frameworks for infrastructure delivery management is comprised of applicable stages and gates. Decisions to proceed to the next stage shall at each gate be based on the acceptability or approval of the end-of-stage deliverable. The control framework for infrastructure procurement which contains procurement gates; framework agreements gates and reporting points, where applicable for interfacing with the Construction Industry Development Board's (CIDB's) register of projects; and a gate relating to the interface with a financial management system.

The National Treasury published both the SIPDM and the Model Supply Chain Management Policy in 2015. The Departments of Health, Education and Human Settlements will be allowed to develop their own Model Supply Chain Management Policy in accordance with the SIPDM for their respective areas of responsibility as defined in the WCIDMS (Routine, day-to day and or emergency maintenance only for Health and Education), with the proviso that they comply to the CIDB rules and regulations. It is proposed that the Department of Transport and Public Works (implementing agent) review its current Accounting Officer System against the minimum requirements of the SIPDM and to implement measures to close any gaps that may exist, as it relates to the WCIDMS. A full review of the WCIDMS will be undertaken once the review of the IDMS has been concluded by the National Treasury.

This development has been welcomed by the Construction Industry Development Board (CIDB). The CIDB is responsible for assisting government in delivering social and economic infrastructure and facilitating and promoting the improved contribution of the construction industry to South Africa's economy and society. The CIDB promotes amongst others:

- Uniformity in construction procurement;
- Efficient and effective infrastructure delivery;
- Construction industry performance improvement; and
- Skills development.

Infrastructure planning, budgeting and performance management for service delivery

The progressive improvement in planning, budgeting and delivery of infrastructure delivery has necessitated several policy reforms, including reforms in respect of stakeholder accountability, human resource optimisation and systems enhancement.

Information and Communication Technology and office accommodation infrastructure delivery

The Departments of the Premier and Transport and Public Works are mandated to deliver infrastructure. The former provides Information and Communication Technology (ICT) infrastructure, while the latter is responsible for building infrastructure in various forms such as construction, maintenance, adaptation and modernisation. Both delivery systems have common goals, namely to deliver quality and functional general building infrastructure. The provision of ICT infrastructure is an integral component of the general infrastructure delivery system. From the supply side both Departments have a dependency on each other to meet user demands.

The effective and efficient delivery of public sector infrastructure programmes and projects albeit IT or office accommodation, can only be assured if it is preceded by rigorous planning processes. This is underpinned by a comprehensive set of legislation, policy planning and implementation documents in order to achieve better value for money.

Furthermore, the current fiscal constrained environment reiterates the need for an integrated approach towards planning, budgeting and resource allocation.

It is recognised that the partnership between the Departments of the Premier and Transport and Public Works needs to be reinforced and that further reform work needs to be done to deliver ICT and office accommodation infrastructure in an integrated manner. This is envisaged through the strengthening of policy, processes, procedures, tools and templates, procurement models, asset management, joint planning (both financial and non-financial), budgeting, allocation efficiency, integration, coordination, collaboration, reconciliation and implementation. In this regard work has already commenced between the parties concerned.

Joint planning for improved ICT and office accommodation infrastructure delivery

Minimal sustainability

Immovable assets should be planned and budgeted for throughout their lifecycle, irrespective of limited budget growth, to ensure their minimal sustainability. A key area of intervention is infrastructure **maintenance** as this will assist to:

Maintenance of existing assets is key to ensuring minimal sustainability of infrastructure

- Derive maximum value from assets.

- Protect the investment made in public sector immovable assets and ensure business continuity through the ongoing availability of such assets at reasonable cost and within acceptable risk parameters.
- Support economic development, social upliftment and environmental sustainability for the benefit of people.

Budgeting for maintenance must be on the basis of established current cost to achieve stated maintenance objectives. Maintenance and deferred maintenance for public buildings shall be based on condition assessments should be prioritised as follows:

- Preventative and condition-based maintenance for highly critical components.
- Preventative maintenance of moderately critical components. To the remaining corrective maintenance and deferred maintenance stemming from previous financial years.

Over the 2017 Medium Term Expenditure Framework (MTEF) the Western Cape Government will be working towards the implementation of a maintenance management standard.

Strategies to optimise human resource capacity

Governments are under pressure to improve public sector performance whilst containing expenditure growth. The increasing use of performance information in budgeting processes is an ongoing process that seeks to shift the focus of decision-making in budgeting away from inputs (how much money) towards measurable results (what can be achieved). To optimise the application of human resource (in particular professional services) inputs in infrastructure delivery the Western Cape Government has committed to the following reforms:

- Standardisation in procurement documentation, designs specification, procurement pricing, contracting and targeting strategies within particular infrastructure programmes and the introduction of framework agreements and term service contracts to enable faster procurement of construction and related services. This can bring about significant efficiencies in the time and cost of delivery of projects and improvement in project outcomes and can significantly reduce the internal and external professional inputs required to deliver projects.
- Economies of scale principle by packaging projects into larger multi-year contracts to address the critical skills shortages as the client/implementer would require fewer skilled and experienced

Policy reforms in support of optimal human resource utilisation

people to procure, manage and administer a smaller number of contracts. This can bring greater efficiencies in professional inputs required in the design and supervision of construction works.

- Organisational restructuring to be brought in line with critical service delivery requirements.

Systems enhancement

The Western Cape Government is committed to systems that effectively improve project and programme management, performance planning, performance measurement and cash-flow management. Furthermore, business processes with particular emphasis on integration of systems and prevention of duplication of data entry. To this end the full integration of reporting systems which includes Enterprise Project Management (EPM), based on the requirements of the WCIDMS, national Department project/portfolio systems, and the Infrastructure Reporting Model (IRM) is envisaged.

Incentive Grant

The National Treasury's performance-based incentive system rewards good performance measured against the quality of planning documentation, governance and infrastructure expenditure for the Departments of Health and Education and further roll-out over the 2017 MTEF to transport services. For the 2017/18 financial year, the focus of the performance incentive grant process will be on performance, human resource capacitation and infrastructure expenditure; Governance Improvement Plan on audit outcomes and planning documents such as the User Asset Management Plan (U-AMP); Infrastructure Programme Management Plan (IPMP); Construction Procurement Strategy (CPS) and Strategic Briefs/Concept Reports.

Significant progress made in qualifying for incentive grants

The Western Cape has made significant progress towards fulfilling the requirements set out by the National Treasury to qualify for such an incentive for both the education and health sectors.

Medium-term spending priorities

The Western Cape Government continues to invest in infrastructure in key social sectors including education, healthcare, and human settlements. Investment in economic infrastructure amongst others includes the upgrading of roads and support infrastructure for the Saldanha Bay Industrial Development Zone, the roll-out of broadband infrastructure across the Province and upgrading of N1 and N2 routes and other key road links.

Education

The User Asset Management Plan of the Western Cape Education Department confirms the “width intervention” strategy as outlined in the Education Action Plan 2019. The User Asset Management Plan focuses substantially on the most urgent replacements. This implies budgetary shifts towards maintenance, achieving significant impact in the process.

Accelerated delivery of schools in poorer areas

This strategy will see schools in poorer areas reached sooner. Building a strong infrastructure platform, by developing and refining an education Geographic Information System (GIS) together with methodologies for conducting broad strategic analysis, has proved to be an excellent investment which fundamentally transformed the efficiency of planning.

A key strategic shift by combining maintenance, the width initiative and norms and standards, which was initiated in the past two years, will see the number of new schools reduced during the current MTEF. The focus over the 2017 MTEF will be on the replacement of schools built of inappropriate materials and other infrastructure.

The following infrastructure projects are planned on over the medium term:

- 8 new secondary schools;
- 6 new primary schools;
- Scheduled maintenance at 213 schools;
- 21 replacement primary schools;
- 2 schools for learners with special needs;
- 45 Grade R classrooms at 23 primary schools; and
- 5 replacement secondary schools.

Health

The Western Cape Department of Health's Healthcare 2030 strategy plots the way forward in respect of the re-organisation of health services. The planning therefore takes into account how changes will impact on other sections of the service platform. Seven key principles have been identified to give effect to Healthcare 2030 namely:

- Person-centred quality of care
- Moving towards an outcome-based approach

- Primary Health Care philosophy
- Strengthening the District Health System Model
- Equity
- Efficiency
- Building strategic partnerships

In addition to the above, the Service Transformation Strategy has crystallised over the last few months of 2016, with the "5 WHATs" and "3 HOWs" having been identified. These provide a clear roadmap for the next 18 months to 3 years towards 2030, i.e. Health will focus on the following:

- Patient-centred care
- Service pressure mitigation
- HIV and TB outcomes (90-90-90 strategy)
- Maternal, Neonatal and Child outcomes (First 1000 days strategy)
- Non-communicable disease outcomes (Integrated Chronic Condition Management)

This will be achieved through:

- Population-based approach
 - a. Geographic, population-based approach
 - b. PHC approach
- Service Design
 - a. Streamlining patient flow
 - b. Integrated care
- Enabling and Responsive critical support services

Infrastructure will support this through modernisation, management, and maintenance of health infrastructure and technology in an economical, efficient, cost effective manner; while at the same time taking cognisance of the continuous development of medical technology.

The following priority areas for the 2017 MTEF have been identified:

- To develop and implement a Health Technology Strategy and standard equipment list per facility type;
- To strengthen and improve the primary healthcare infrastructure and medical equipment in all Geographic Service Areas;
- To modernise emergency centres at hospitals;
- To provide/upgrade acute psychiatric units at hospitals;
- To focus on maintenance and fire compliance of existing health facilities;
- To focus on the Tygerberg Hospital upgrading and rehabilitation projects; and
- To finalise strategic briefs and conduct peer reviews for the new Helderberg and Klipfontein hospitals.

Transport and Public Works

The Western Cape Government owns and maintains approximately R200 billion worth of immovable assets and roads through the Department of Transport and Public Works. This portfolio of assets is critical to the realisation of the Province's socio-economic, service delivery and growth objectives. A country's competitive economic advantage depends on the quality and accessibility of its critical infrastructure.

Transport

Roads infrastructure a key prerequisite for social and economic development

Roads infrastructure is considered to be a key pre-requisite for social and economic development and is of vital importance to increase provincial economic performance. An efficient roads system gives the Province a competitive edge in moving goods economically and also helps attain an efficient distribution of population, industry and income.

Key strategies on which the 2017/18 Roads Asset Management Plan (R-AMP) is based includes the envisaged Roads System Management Strategy and the Roads Investment Strategy. These strategies intend to demonstrate the alignment between the location of settlements and roads infrastructure investment. It is aimed at articulating the priorities and effectiveness of capital investment in the capacity of the road system.

The Western Cape Government continues to work towards the delivery of safe and integrated transport systems that facilitate economic opportunity and also connect communities to places of work and improve access to social services. In this regard, the

Western Cape Government is cognisant of the fact that an improved public transport system means an improvement of all modes of transport with the ultimate goal of making public transport more attractive and ensuring a modal split between private and public transport where public transport is the mode of choice.

Key priority projects to support economic growth are:

- The Borchers Quarry Interchange on the N2. This includes constructing the interchange on the Borchers Quarry Road and extending the 3rd lane on TR2/1 to NR020. The rehabilitation and upgrade of TR2/1 from 13.8 km to 20.5 km between the Borchers Quarry and Swartklip interchange is under construction.
- N1/N7 upgrade – This includes the upgrading of the Wingfield interchange and bridges on N1 and N7. The planning of the project is currently nearing completion. The design phase is to commence immediately thereafter.
- An addition of a 3rd lane to the N1 at Durban Road interchange. This project extends a 3rd lane on TR09/1 west of Durban Road interchange to the NR0101. This project is currently under construction.
- Extensions to the road network in support of the Saldanha Bay Industrial Development Zone (SBIDZ). This includes Road Network Improvements in support of the SBIDZ (Extension of MR 559 and Port Access). This is the first phase and has just been awarded. The second phase (Extension of TR85 Greenfieldslink) has gone through the design phase and is currently in the process of expropriation.

The Western Cape Government has also commenced with the development of a Provincial Public Transport Institutional Framework (PPTIF) to incrementally implement public transport within the rural context. Within this Framework the public transport environment is contextualised and an implementation response developed. The PPTIF is a strategic project which aims to address the barriers to improved public and non-motorised transport in the non-metro areas of the Western Cape and drives improvement in partnership with local government. The implementation of the PPTIF will be focused on potential growth areas in support of industrial development.

The continued support of the roll-out and management of the George Integrated Public Transport Network (GIPTN) is one of the key transport projects of the Western Cape Government. The GIPTN project is a joint initiative between the Western Cape Government

Continued roll-out and management of the George Integrated Public Transport Network

and the George Municipality to transform public transport in George through the introduction of a high quality, scheduled bus system owned and operated by former minibus taxi operators and employees - the lessons learnt from this project will assist the Western Cape Government in the formulation of appropriate policy interventions.

Public Works

The Public Works Branch of the Department of Transport and Public Works is the implementer of social infrastructure for the Departments of Health and Education as well as tourist and office accommodation for CapeNature, and general office accommodation for all user departments across the Province. Selected new provincial buildings will continue to be constructed to comply with the 4-star Green Star Green Building Council of South Africa (GBCSA) standard. Following the certified 5-star Green Star SA Office Design rating for the Khayelitsha Shared Services Centre, the new office accommodation project for the provincial Department of Health at the Karl Bremer Hospital site which is currently in construction, achieved a certified 5-star Green Star SA Office Design rating from the GBCSA.

Maintaining minimal sustainability levels in immovable asset portfolio

Similarly, it is critical that the Province ensures that those tasked with the construction and maintenance of the provincial immovable asset portfolio reach, and where already achieved, maintain a minimum level of sustainability. Leveraging of the immovable asset portfolio, whether through the building or maintenance of schools, hospitals, clinics or general office accommodation is critical in the achievement of our provincial growth and job creation imperatives. It is within this context that alignment between the financial resources committed to this purpose and the requisite human capacity and critical systems to implement be maintained.

The Department of Transport and Public Works, as custodian of the provincial property portfolio, is called upon to utilise assets to further the aims of government, creating opportunities for growth and jobs and enabling a resilient, sustainable, quality and inclusive living environment. The Custodian Asset Management Plan is based on the 2011/12 Property Efficiency Report which highlights the importance of rationalising Western Cape Government office accommodation by implementing a 15 m² per full time employee office space standard, which is significantly lower than the actual 2011/12 average of 28 m² per full time employee reported for Cape Town CBD offices. Whilst cost and utilisation is important, it is only one factor measured. Energy and water consumption should be managed downwards.

Key strategic initiatives/projects pertaining to the Provincial Property Portfolio are as follows:

Cape Town Central City Regeneration Programme

The Western Cape Government aims to leverage its provincial assets to achieve the socio-economic objectives of the Province and achieve greater levels of efficiency through this programme.

Office Accommodation Modernisation Programme

Efforts to optimise office space utilisation across the Province will continue in the form of the Modernisation Programme, which aims to align office space allocations with the latest national norms and standards and to develop effective and efficient workplace environments that contribute positively to staff performance and productivity. This Programme is expected to improve space utilisation efficiency by up to 40 per cent. Modernisation projects will be executed in the Cape Town, Cape Winelands and Eden regions.

Optimising office space utilisation will continue across the Province

Human Settlements

Key for Western Cape Government is developing sustainable integrated human settlements in the Western Cape that will allow its residents to access social and economic opportunities close to where they live.

The Department of Human Settlements has set three priority areas, on which to focus for the MTSF period. They are:

- Direct more resources to the Upgrading of Informal Settlements Programme;
- Increase Affordable/GAP Housing; and
- Prioritise the most deserving people in relation to the allocation of free Breaking New Ground houses.

Upgrading of Informal Settlements Programme

In order to improve living conditions of many people in informal settlements and in backyards who continue to wait for houses, the Department is conducting rapid appraisals of 120 informal settlements. Implementation of 60 informal settlements has commenced. The information gathered from this exercise will be used to determine the human settlement need per household, and identify priority areas for upgrading.

Increase Affordable/GAP Housing

The gap housing market comprises people who typically earn between R3 500 and R15 000 per month, which is too little to enable them to participate in the private property market, yet too much to qualify for state assistance. The Department has implemented 16 land release projects, with an estimated yield of 8 250 by 2019. In addition, Land Availability Agreements (LAAs) have been entered into with the relevant developers to cater for this specific market.

Allocation of free Breaking New Ground houses

Provision has been made for this market (households earning between R0 – R3 500, and who are over 35 years of age) through the IRDP, PHP and Individual Housing Subsidies Programmes and provides serviced sites for those who fall outside of this bracket. A policy has been developed in this regard.

Departmental priority projects are as follows:

Private Public Partnerships

A draft Partnership Strategy has been developed, which aims to maximise affordable housing opportunities by building sustainable relationships, streamlining access to resources, and a partnership focus on provincial priorities. The intention is to harness opportunities through the formalisation of partnerships.

Catalytic Projects

The Department has identified a number of catalytic projects, which intends to yield over 100 000 housing opportunities by 2022. These projects will be submitted to National Cabinet by end November 2016 for final approval. A list of these projects and their estimated yield is listed below:

- Southern Corridor: 51 540 opportunities (phase 1 in construction, phase 2 at tender stage)
- Transhex: 8 000 opportunities (to commence in 2017/18)
- Vlakkeland: 6 000 opportunities (At tender stage, tender to be awarded in January 2017)
- Belhar: 3 000 opportunities (currently in construction, phase 1 comprising of 627 social housing units complete)
- George: 15 000 opportunities (to commence in 2017/18)

Maximising affordable housing opportunities through partnerships

Belhar CBD project

The Belhar CBD project is a mixed-use, high density residential project. This phased development will consist of approximately 3 000 units that comprises various types of residential units and forms of tenure. It targets the specific economic markets of social housing (subsidised rental), open market rental units, student accommodation, open market GAP units as well as a small number of freestanding open market bonded units.

This project is aligned to the Better Living Concept of Live, Work, Play, by housing tenants in more centrally located hubs, rather than having to commute to work from the outskirts of an urban area.

In addition to the Belhar CBD project, is the Conradie Site, which proposes the development of the 22 hectare former Conradie Hospital site into an integrated, sustainable, and affordable residentially-led, mixed-use neighbourhood. This multi-million rand project will be developed through a partnership between the private sector, the Western Cape Government and the City of Cape Town.

CapeNature

The purpose of the Marketing and Eco-Tourism programme of CapeNature is to develop and maintain unique tourism product offerings that contribute to the sustainability of biodiversity management. The objective is to establish a positive and credible CapeNature brand by ensuring effective and efficient communication and marketing support to both internal and external stakeholders. CapeNature also develops and maintains a range of tourism products.

CapeNature's infrastructure priorities over the 2017 MTEF include improvements at the following reserves:

- Kogelberg Nature Reserve, phase 2;
- Keurbooms Nature Reserve;
- Limietberg Nature Reserve;
- De Mond Nature Reserve; and
- Minor maintenance relating to various infrastructure projects.

Key stages and gates of the IDMS process would be applied to infrastructure projects.

Conclusion

The IDMS as the delivery strategy for the Western Cape requires absolute commitment from all role players in ensuring that the maximum level of efficiency is derived from and value realised through the provincial asset base. Embedded in the IDMS is an integrated approach to planning and budgeting. In the context of fiscal consolidation and limited human resource capacity, the rationale for all provincial processes to be aligned has never been more astute. Hence, the Western Cape Government's capacity to select, plan, appraise and build projects of an infrastructural nature will continue to be strengthened over the 2017 MTEF.

ANNEXURE

Western Cape Government Fiscal Risk Statement

■ Introduction

The National Treasury for the first time included a Fiscal Risk Statement as part of the 2016 National Medium Term Budget Policy Statement. The Fiscal Risk Statement provides additional detail on several risks the national fiscus is currently facing. The 2016 National Medium Term Budget Policy Statement highlights lower-than-expected economic growth, higher-than-expected increases in compensation budgets as a result of higher than expected CPI and the deteriorating financial positions of some state-owned enterprises and public entities as the most significant risks impacting on the fiscus. Given that approximately 95 per cent of the Western Cape's revenue is transferred from National Treasury, some of these risks will directly and indirectly impact on the Western Cape fiscal framework. The **Western Cape Government Fiscal Risk Statement** acknowledges the national risks, contains additional detail on further provincial risks and provides the provincial response to mitigate these risks.

■ Fiscal and budget implementation risks

The 2016 National Medium Term Budget Policy Statement highlights the fragile economic growth over the medium term as a key macroeconomic risk. The downward revisions in global and national economic growth highlights the prevailing uncertain and volatile economic environment. Political uncertainty has increased in advanced economies such as the United States, due to an unexpected presidential election outcome, as well as in the United Kingdom, due to the Brexit decision to leave the European Union. Nationally, political uncertainty, electricity constraints, water shortages and drought has adversely impacted the domestic economic environment. Like the national economy, the Western Cape faces some of the same macroeconomic risks.

The fiscal environment is related to and affected by the weak economic environment. Lower national tax revenue growth is a key fiscal policy risk. A further downward revision to national economic growth may result in tax revenue collection underperforming against forecasts. This will make fiscal targets more difficult to achieve. With little room to expand further borrowings at a national level, this may create uncertainty in respect of provincial equitable share and conditional grant transfers. In addition, the 2016 National Medium Term Budget Policy Statement has signalled further reductions to the expenditure ceiling over the medium term, placing greater pressure on the resources allocated to the Western Cape.

The uncertainty faced by the Western Cape in terms of national transfers, coupled with the need to implement the Provincial Strategic Goals and associated Game Changers, whilst maintaining service delivery, has necessitated trade-offs in the allocation and reallocation of resources. This is a key budget implementation risk.

The changing demographic profile in the Western Cape has placed greater pressure on front-line services which are personnel intensive. This is particularly evident in the increased learner numbers at public ordinary schools and increasing patient numbers at public health facilities. The increased demand for services, coupled with personnel expenditure limits, places client access and responsiveness to services under severe strain, but also the well-being of public service personnel. Similarly, with reduced administrative capacity, the achievement and maintenance of good governance standards will be put at risk.

The sustainability of personnel expenditure levels is at risk. Given that the current three-year wage agreement is coming to an end in 2017/18, a further risk is that the new wage agreement may potentially exceed current estimates for government wage bill growth over the medium term. A further depreciation of the exchange rate will continue to adversely impact on the Western Cape Government, particularly in departments procuring goods and service in foreign currencies, such as software licences, Information and Communications Technology (ICT) equipment, medicines and medical equipment, amongst others.

The reduced borrowing capability of national government and uncertainty surrounding the conditional grant transfers is also a risk. In particular, the uncertainty surrounding the infrastructure grants, placing the Western Cape's infrastructure budgets at risk. This could result in a slowdown or postponement of infrastructure programmes and the provision of infrastructure maintenance, potentially shortening the useful lifecycle of capital assets and increasing the long-term costs of replacement infrastructure. Grants in support of public transport operations are also at risk and may result in reductions in public transport subsidisation of the needy.

Water security and the spill-over effects of the drought currently experienced in the Province has also been identified as a risk to the provincial economy, employment and the environment. Current climate change projections point to a heightened risk of droughts, further compromising food and water security in the Province.

Western Cape Government mitigation response

The macroeconomic risks, and concomitant fiscal and budget implementation risks have resulted in the development of a **Western Cape Government Fiscal Strategy**. Founded on the fiscal and budget policy principles of allocative efficiency, fiscal sustainability, fiscal consolidation and fiscal discipline, this Fiscal Strategy is designed to ensure sustainability in public finances whilst providing sufficient policy room to manage adverse shocks.

The fiscal consolidation package implemented by the Western Cape Government as part of the Fiscal Strategy includes both cost containment measures as well as revenue enhancement and optimisation initiatives. The Western Cape Government has taken the bold step of implementing personnel expenditure ceilings to reduce and contain personnel numbers and ensure the sustainability of personnel budgets. Provincial departments have prioritised personnel budgets to provide for critical posts only. The implementation of the cost containment measures linked to procurement reforms has also been successfully applied to reduce and contain expenditure on non-essential goods and services.

The Fiscal Strategy aims to build up, amongst others, the Fiscal Volatility Reserve to be utilised as a response to the volatile fiscal environment. This is to ensure that the Western Cape Government's policy priorities and commitments are executable over the medium to long term.

The Western Cape Government is pursuing several initiatives to enhance current revenue streams and explore new own revenue sources. These include, amongst other, a review of the effectiveness and efficiency of public entities, the review of provincial tariff structures and engaging with national authorities in nationally determined tariffs, improving debt management and collection, accessing funding from SETAs, exploring donor funding and co-funding initiatives with stakeholders and research into optimising own revenue sources.

The Province is implementing an integrated planning, budgeting and delivery approach, which has been driven under the auspices of Provincial Strategic Goal 5: Embed good governance and integrated service delivery. This approach promotes intra- and intergovernmental coordination in an identified geographical space, within a specific policy area or sector and on a particular issue. Practically, it enables for greater information sharing collaborative capability and pooling of resources to improve service delivery.

In response to the impact of climate change and the ongoing drought experienced in the Province, a coordinated water security plan, as part of the climate change strategy, will be developed. Resources have also been committed to mitigate the impact of the drought.

Conclusion

Over the medium term, the economic and fiscal outlook highlights weaker than anticipated economic growth, directly influencing the Western Cape fiscal framework. This will directly impact on budgets (revenue and expenditure) and service delivery mandates. The fiscal policies outlined in the Western Cape 2017 - 2020 Medium Term Budget Policy Statement, in part, intends to mitigate these risks and to ensure that the Western Cape Government continues to deliver on its core mandates.

Glossary

Baseline	The initial allocations used during the budget process, derived from the previous year's forward estimates.
Brexit	The decision by the United Kingdom to leave the European Union.
Conditional Grants	Allocations of money from one sphere of government to another, conditional on certain services being delivered or on compliance with specified requirements.
Consumer Price Index (CPI)	The main measure of inflation, charting the price movements of a basket of consumer goods and services.
Domestic resource mobilisation	A comprehensive strategy targeted at identifying new or additional sources of revenue from domestic revenue bases and shifting these resources to investment in provincial and fiscal priorities.
Division of revenue	The allocation of funds between the spheres of government as required by the Constitution.
Financial year	The 12 months according to which companies and organisations budget and account.
framework/envelope	A framework for integrating fiscal policy and budgeting over the medium term by linking a system of aggregate fiscal forecasting to a disciplined process of maintaining detailed medium term budget estimates by ministries reflecting existing government policies.
Fiscal policy	Policy on taxation, spending and borrowing by government.
Fiscal space	The ability of a government's budget to provide additional programme resources without jeopardising fiscal sustainability.
Fiscal Volatility Reserve	An amount set aside, but not allocated in advance, to accommodate changes to the economic environment and transfers from National Government.

Gross domestic product (GDP)	The Gross Domestic Product is the monetary value of all the finished goods and services produced within a geographic area for a specific time period.
Inclusive Growth	Embodies the commitment to strategic imperatives to growth the economy, create jobs, and provide opportunities for socio-economic inclusion. It emphasises the importance of structural transformation for economic diversification and constructive competition.
Indirect grant	A grant allowing a national department to perform a function on behalf of a province or municipality. No funds are transferred, but the end-product of the grant, such as infrastructure built, is generally transferred to provincial or municipal ownership.
Infant mortality	The probability of a child born in a specific year dying before reaching the age of one, expressed per 1 000 live births.
Infrastructure Programme Management Plans (IPMP)	Includes the Construction Procurement Strategy (G2 in the Gateway System of the IDMS). The IPMP describes how the work listed in the prioritised MTEF work list is packaged; managed and controlled from the client's perspective.
Medium term Expenditure Framework (MTEF)	The three-year spending plans of national and provincial governments published at the time of the Budget.
Medium term Strategic Framework	Defines the strategic objectives and targets of National Government over a five year period, coinciding with the electoral term.
Narrow unemployment rate	Rate of unemployment that does not take into account the discouraged employment seekers from the labour force.
Non-searching unemployed	Individuals who want to work and are available to work, but who are not actively looking for work.
Poverty gap	Is the average distance of the population from the poverty line and is expressed as a percentage of the poverty line. The smaller the percentage the easier it is for individuals/households to graduate out of poverty as they are closer to the poverty line.
Poverty headcount	The proportion of the population below the poverty line, expressed as a percentage.
Poverty Intensity	Measured by the poverty gap Index.

Premature mortality/ Years of life lost	Premature mortality, or years of life lost, is an estimate of the average years a person would have lived if he or she had not died prematurely, i.e. before the estimated life expectancy.
Provincial Equitable Share	The allocation of nationally raised revenue to provincial government as required by the Constitution.
Provincial own receipts	Refers to taxes/fees and/or user charges, which a provincial department receives.
Provincial Strategic Plan	The WCGs five year strategic plan, coinciding with the 5 year electoral term, that gives effect to the National Development Plan and Provincial Strategic Goals.
SIPDM	The Standard for Infrastructure Procurement and Delivery Management reflects supply reforms that establishes a control framework for infrastructure delivery that endeavors to assist accounting officers and authorities to maintain financial management and delivery capability.
Child (Under 5) mortality	The probability of a child born in a specific year dying before reaching the age of five, expressed per 1 000 live births.
User Asset Management Plan (U-AMP)	In terms of the Government Immovable Asset Management Act (GIAMA), all national and provincial departments are required to complete an Asset Management Plan that will form part of the planning and budgeting process of Government. Users of immovable assets completes a U-AMP, and includes all assets controlled or used, or intends to control or use. The custodians and users of jointly conduct a strategic planning process and submit the plan to the relevant treasury on an annual basis.
Western Cape Infrastructure Framework (WCIF)	A strategic framework intended to align the planning, delivery and management of infrastructure, provided by all stakeholders (national government, provincial government, local government, parastatals and the private sector), to the strategic agenda and vision for the Province.