

**Provincial Government Western Cape  
Provincial Treasury**

**MEDIUM TERM BUDGET  
POLICY STATEMENT**

**2011 - 2014**



PR: 334/2010

ISBN: 978-0-621-39789-5

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Printed in the Republic of South Africa  
For the Government Printers Cape  
by Formeset Printers Cape

# Foreword

The 2011 Western Cape Medium Term Budget Policy Statement (WC MTBPS) is written at a time when the world has just come out of one of the worst recessions since 1929 and although there may be indications that the global economy is strengthening, a number of risks have recently appeared. Amongst these are the possibility of default on country debt (sovereign risk), particularly in advanced economies and the negative spillover this may have on the domestic economy.

As a result, the Province's rolling 3-year budget will continue to be compiled within the constraints of minimal fiscal space and the focus will therefore remain on 'doing more with what we already have' and in all probability 'doing more with less'.

Nonetheless, the 2011 WC MTBPS highlights the medium term objectives and outcomes provincial government wishes to achieve. It also sets out the policy framework within which these are to be realised, outlines the relatively stark socio-economic realities facing communities living in the Western Cape and the resultant key challenges that government needs to respond to. This MTBPS also provides the basis from which fiscal and budget policies for the medium term are derived and contains indications of revenue and the medium term spending capabilities.

The Provincial Government, in pursuit of its vision of an open opportunity society for all, has developed twelve provincial strategic objectives to address the most pressing challenges and obstacles to development. We believe that through the consistent application of these strategic objectives and programmes, we will ensure the necessary synergy and alignment in the priority setting, resource allocation and the attainment of our goals.



**Alan Winde**

**Minister of Finance, Economic Development and Tourism**

**25 November 2010**



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## Abbreviations

BPO	Business Process Outsourcing
Casidra	Cape Agency for Sustainable Development in Rural Areas
CTRU	Cape Town Routes Unlimited
ECD	Early Childhood Development
EPWP	Expanded Public Works Programme
FET	Further Education and Training
GDP	Gross Domestic Product
GHS	General Household Survey
HIV/Aids	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
ICS	Improvement of Conditions of Service
IDP	Integrated Development Plan
MDGs	Millennium Development Goals
MOD	Mass participation; Opportunity and access; Development and growth
MTBPS	Medium Term Budget Policy Statement
MTEF	Medium Term Expenditure Framework
MVLF	Motor Vehicle Licence Fees
NAHI	Non-accidental Head Injury
NLTA	National Land Transport Act
OPD	Outpatients Department
OSD	Occupation Specific Dispensation
PER&O	Provincial Economic Review and Outlook
PERMIS	Performance Management Information System
PES	Provincial Equitable Share
PFMA	Public Finance Management Act
PSCBC	Public Service Co-ordinating Bargaining Council
PSDF	Provincial Skills Development Forum
QLFS	Quarterly Labour Force Survey
RCC	Rolling Continuation Channel

SACENDU	South African Community Epidemiology Network on Drug Use
SHARP	School sport; Health; Advancement of Sport Research and Policy development
SPVs	Special Purpose Vehicles
TB	Tuberculosis
U-AMP	User Asset Management Plan
WC MTBPS	Western Cape Medium Term Budget Policy Statement
WCED	Western Cape Education Department
WCSS	Western Cape Sport School
Wesgro	Western Cape Investment and Trade Promotion Agency



# 1

## What is government responding to?

The Western Cape Medium Term Budget Policy Statement (WC MTBPS) has become an integral part of the Western Cape's budget process.

This year's Medium Term Budget Policy Statement deals with the Provincial Government's medium term objectives and outcomes it wishes to achieve by setting out the policy framework within which this government operates. It also outlines the socio economic realities facing communities living within the Western Cape Province and thereby outlines key challenges that this government needs to respond to. The MTBPS forms the basis from which fiscal and budget policies for the medium term are derived and contains indications of revenue, aggregate allocations and the medium term spending priorities.

### **Addressing our socio-economic challenges**

The Western Cape Provincial Government (since elected in 2009) has undertaken a number of interventions to improve the socio-economic conditions of all the people living in the Province. These were undertaken in the context of less than optimal economic growth, job creation, mismatch between the supply and demand for much needed social services, infrastructure delivery and public safety.

The Western Cape has an open economy, which depends not only on the production of goods and services sold in other provinces but also for export to other countries. Consequently, the economy of the Province closely depends on the state of the global and national economic environment.

### **Provincial Economic Review and Outlook 2010**

The Western Cape Provincial Government Provincial Economic Review and Outlook (PER&O) is a researched publication that provides an overall picture of the Western Cape economy.

In a nutshell, the 2010 PER&O focuses on the Economic Outlook for the period 2010/11 - 2013/14 and reviews recent economic performance, the medium term economic outlook and risks to this outlook for the global, national and regional economy.

The development of the Western Cape economy is taken further in considering the sector context within which production and its growth take place and income is created.

A focus on the dynamics of the labour market includes an investigation on recent labour market trends between the first quarter 2008 to first quarter 2010 in South Africa and, in particular, the Western Cape using the Quarterly Labour Force Surveys (QLFS).

The world has just come out of one of the worst recessions since 1929 and although there may be indications that the global economy is strengthening, a number of risks have recently appeared. The cost of this crisis is reflected in higher unemployment and government debt in a number of countries.

The advice given to countries with fiscal sustainability challenges has been to reduce its government debt and to do so in shorter periods than originally planned. One of the down sides of this fiscal consolidation is that it could dampen domestic demand. However, the negative or constrained growth spill over to other countries and regions could be substantial because of financial and trade linkages.

*South Africa has followed its major trading partners out of the recession*

Nevertheless, the good start to 2010 as well as robust growth in developing economies (e.g. China and India), has resulted in the continued upward revision in the global economic growth estimates. Likewise, the South African economy followed some of its major trading partners out of recession during the third quarter of 2009.

The Gross Domestic Product (GDP) growth for South Africa is projected at 3 per cent for 2010, which is a positive development compared to the 1.8 per cent contraction experienced in 2009. Over the medium term growth is forecast to increase to 3.5 per cent in 2011 and 4.4 per cent by 2013. For the country to facilitate its development needs, it requires faster economic growth and higher levels of labour absorption. This would require improving the competitiveness of South African industries through partnerships with business and labour. Capital inflows have provided an important source of funding but have also contributed to the strengthening of the rand against other currencies, partially due to the US dollar weakness. Monetary policy has adjusted to the strengthening of

the currency and weak demand, with interest rates declining in response to lower than expected inflation. The employment situation, however, remains dire and the risk remain, that the economy continues to shed jobs. However, assuming that the global recovery continues, the outlook for the South African economy is one of a sustained but gradual recovery.

Estimates for 2009 indicate that the Western Cape economy contracted by around 1.2 per cent, somewhat less pronounced than for the South African GDP. Forecasts for the Western Cape expect that real GDP growth will average 2.8 per cent in 2010, increasing to 3.2 per cent growth in 2011 and accelerating to an average above 4 per cent between 2012 and 2015. Western Cape growth is again likely to outperform the pace of growth at national level.

*GDP growth for the Western Cape forecast at 2.8 per cent in 2010*

The growth outlook for the Western Cape economy is influenced by growth in export markets and forecasts anticipate exports of goods and services to grow by an average annual rate of 4.5 per cent during 2009 - 2013. Manufactured exports are projected to grow by 5.7 per cent during this period. In the longer run, growth of the Western Cape economy will depend on the development of the dominant sectors of the regional economy and on the structural changes in changing sector patterns of growth. Much will depend on government's efforts to encourage and facilitate the growth of selected sectors apart from promoting the overall development of the Province.

The Western Cape has increasingly become a service-oriented economy with finance and insurance, business services and trade being the leading sectors. The increase in the relative contribution of services (finance and insurance in particular) to economic activity was matched by a fall in the relative contribution of manufacturing over the period 1995 - 2009. However, it should be emphasised that the fast growth of service industries was not accompanied by falling real output of the goods-producing sectors.

*Western Cape increasingly becoming service-oriented*

Often services are regarded as primarily non-tradable. The experience of the Western Cape, however, reveals that tourism, call centres and Business Process Outsourcing (BPO), financial services, transport and the film industry create growth opportunities by producing services that are exported. As a skills intensive sector, the growth of the services sector increases the demand for skilled labour. Therefore the challenge of skills development is pertinent to unlocking the growth potential.

*Manufacturing as a growth sector is important*

Although a dynamic services sector can be an engine of growth in a regional and national economy, the benefits of having manufacturing as a growth sector is important, especially if export-orientation is expected to be a principal driver of economic growth. Manufacturing, unlike services, is virtually exclusively devoted to the production of tradable goods, that is, goods that can be traded in international markets. Furthermore, the ability to develop and transmit modern technology is a notable feature of manufacturing as is the capacity to create employment opportunities. Furthermore, in commodity production the agricultural value chain remains an important sector in which the region has a clear comparative advantage.

Although the effects of the global financial crisis took some time to impact on the real economy in South Africa, it is now clear that the labour market has borne the brunt of the adjustment.

As is the case nationally, important inequalities are entrenched in the provincial labour market. They are perhaps more easily detectable in the Western Cape given the province's unique demographic composition. A consistent labour market disadvantage is revealed for Africans vis-à-vis Coloureds, and for both groups vis-à-vis Whites: Africans are significantly underrepresented in formal employment and significantly overrepresented in both informal employment and unemployment, relative to their share of the labour force, while Coloureds are slightly under-represented in informal employment.

*High rates of unemployment amongst the youth*

At the same time, youth unemployment remains a pressing concern, with almost 70 per cent of the unemployed in the province being under the age of 35 years. High rates of unemployment amongst young people occur despite the fact that younger generations tend to have superior educational attainment profiles.

National government has recently announced the 'new growth path' which is a broad framework that places employment at the centre of economic policy. The new growth path include a focus on at least six key sectors, including infrastructure development, agriculture, mining, the "green" economy, manufacturing and tourism, all of which have been identified as having potential to unlock employment opportunities. A key aspect of the plan is the partnering between key social partners, business and government to address structural challenges in the economy. The plan further aims to have an industrialisation policy that promotes labour-absorbing industrial

sectors, with a particular emphasis on tradable labour-absorbing goods and services, and economic linkages that promote job creation.

China and Brazil have been cited as examples of countries with growth prospects similar to those of South Africa. Brazil has seen significant reductions in poverty levels since 1990 to 2008 and these were explained mainly as a result of economic growth. China is another example of an unprecedented reduction in poverty since 2008. The question is how was this achieved and what are the lessons? Studies of the role of government in promoting competitiveness in Asian countries reveal that the most important factors are the provision of public goods, basic education and health care, systems of innovation support e.g. regional systems of innovation and; university-industry cooperation. These are areas where provinces have a strong role to play in regional development.

*Provinces have a strong role to play in regional development*

The Province has updated the "Growth Potential Study of Towns in the Western Cape". The research aims to provide guidance and support for the provincial framework which identifies areas of growth in the Province and where growth should be emphasised. The research identifies 131 Settlements, which are classified according to development potential and social needs. The development potential, which differs from very high to very low among settlements makes a cogent case for a differentiated approach to development based on the potential for growth.

The engine of economic development lies at the local and regional levels. Cities and regions grow where the conditions are favourable. Evidence of countries such as Brazil and China shows that targeting dynamic regions where the prerequisites for growth exist can accelerate growth and economic development. This will in turn generate faster growth for surrounding regions. The Province therefore has a crucial role to play in identifying and promoting accelerated growth in specific areas, based on comparative advantage for instance through focusing on cities/towns/regions specialising in the export sectors.

*Province has a crucial role to play in promoting accelerated growth*

Government aims to ultimately improve the living conditions of all people in the Western Cape. According to the Community Survey 2007, the Western Cape has an estimated population of 5 278 572 people of which almost two thirds reside in the Cape Metro. The Province is home to 1 770 859 children under the age of 18 years and 1 905 822 youth aged 15 to 34 years. There are 452 881 persons aged 60 years and above and 282 833 of the

population of the Western Cape are reported to have a disability.

*Poverty remains a significant challenge in the Western Cape*

The 2005 Income and Expenditure Survey indicate that 9 per cent of people in the Province have an income of below R238 per month. Of concern is the increase in the official unemployment rate in the Province from 20.5 per cent in the second quarter of 2009 to 21.8 per cent in the second quarter of 2010. According to the 2008 General Household Survey 36.7 per cent of children in the Province were living in income poverty (in households with monthly income of less than R350) and 10.8 per cent of children were living in households without an employed adult. In addition, 13.1 per cent of children in the Province were living in households wherein hunger was reported.

There has been some progress towards alleviating poverty in the Western Cape, but rising levels of unemployment continue to counteract social cohesion and is exacerbated by social ills, which include amongst others: high levels of substance abuse, child abuse, gender-based and domestic violence, and gangsterism.

Although health and education expenditure per capita has risen over the past ten years, it is not clear that government has been successful in its efforts to improve the lives and the long-term prospects of the communities and individuals in the Province.

In terms of the key resources for education and health, which is its human resources, the Western Cape's educator-learner ratios are in line with those of the rest of the country and there are more doctors and nurses per capita in the Province than in other provinces. The Western Cape tends to outperform the other provinces on health and education indicators.

*The majority of children in the WC are not achieving their full academic potential*

Despite the seemingly more favourable outlook, the majority of children in the Western Cape are as yet not achieving their full academic potential. This is largely due to inadequate time and attention paid to reading, writing and counting in the first three grades of school and issues with accountability for performance from education officials and educators, school management and leadership. Furthermore, pressures on the education system arise as a result of social ills such as poverty and crime; backlogs in school building and classroom provision and maintenance; and the pressure posed by inward migration to the Western Cape.

The combination of these factors has led to less than optimal learner performance:

- The Grade 12 pass rate is declining. In 2004 there was an 85 per cent pass rate, but this has dropped over the last five years to 75.7 per cent in 2009;
- Literacy and numeracy results as measured by Grade 3 and 6 tests show that learners are still not reading, writing and calculating at the appropriate levels for these grades and to support learning in later grades;
- Of the 94 784 learners who enrolled in public schools in the Western Cape in 1997, only 43 470 eventually reached Grade 12. Of those learners who remained in school, only 33 per cent qualified for admission to a Bachelor's Degree; and
- The number of under-performing schools (schools with less than 60 per cent Grade 12 pass rate) in the Western Cape has increased, from 36 in 2006 to 85 at the end of 2009.

*Challenges with learner performance*

Ill-health has two components both of which government seek to address. The first concerns the “upstream causes” of ill-health. These drive what is known as “the burden of disease”. The second concerns the quality of care provided by the public health service and the efficiency with which that care is rendered, in other words, the quality, efficiency and effectiveness of the state's response to managing the burden of disease.

The Western Cape suffers from a burden of disease that primarily consists of HIV and Aids; tuberculosis; injuries from violence and road traffic accidents; non-communicable diseases, including cardio vascular disease, hypertension, asthma, cancers, mental illness and childhood illnesses. The majority of factors contributing to the burden of disease, such as substance abuse, unemployment and poverty lie outside the direct influence of the health sector. Therefore addressing the burden requires an intersectoral approach that focuses on implementing interventions to address the upstream factors, which focus on society as a whole, and also provide quality health care services.

*HIV and Aids, TB, injuries from violence and road traffic accidents and non-communicable diseases are major contributors to the Burden of Disease*

Compounding the pressure on healthcare resources is the expanding population within the Western Cape. Between 2001 and 2004 approximately 73 per cent of the Western Cape population of about 4.5 million was uninsured. By 2007 this number had increased to approximately 78 per cent of a population of approximately 5.2 million. This has resulted in

increased volumes in the primary health care headcount in primary healthcare facilities of 21.6 per cent, level 1 outpatients department (OPD) headcount in district hospitals of 16.7 per cent and OPD headcount in regional and central hospitals of 10.9 per cent between 2007/08 and 2009/10.

A shortage of appropriately skilled doctors, nurses, health workers and support staff remains a critical challenge, coupled with private sector salaries being higher than what is paid in the public sector. Some progress towards the retention of professional health staff within the public health system has been made through the implementation of staggered roll-out of the Occupation Specific Dispensation (OSD).

*Constraints in the provision of housing opportunities*

Government faces a number of constraints in the provision of housing opportunities. These include limited finance and a shortage of well-located land. Demand for housing consists of families living in informal settlements and backyards with limited or no access to basic services. Various data sources estimate the current housing backlog at between 400 000 to 500 000 units. The General Household Survey (GHS) indicates that the Western Cape has the second highest percentage of households (17.1 per cent) whose main dwelling was informal in 2009.

One of the major national issues in housing is the 'gap market'. A large sector of the South African economy does not qualify for home loans in the competitive property market from the commercial and private banking sector, while at the same time they also do not qualify for State-funded housing. The gap therefore exists with people earning between R3 500 and R7 500 (household income) per month. Amongst this group are nurses, teachers, and middle management.

The GHS reports that more than 30 per cent of households in the Western and Eastern Cape reported problems with the quality of State funded housing, which includes the quality of the walls and roofs. In addition, recent housing and service delivery protests, xenophobic disasters and increased competition for services within areas are an indication of general dissatisfaction with government service delivery. The general perception is that some are benefiting at the expense of others or that some are benefiting unfairly due to the perceived inconsistency and lack of transparency of the beneficiary selection process which varies across municipalities. This is exacerbated by the poor quality and integrity of the housing demand database which also varies across municipalities.



A number of further socio-economic challenges confront the Province in the provision of housing: social, crime, health and environmental risks that are linked to inadequate housing conditions and the short supply of suitably located land close to economic opportunities and social amenities. Further challenges arise from the housing backlog being a moving target since beneficiaries often rent out or sell state-funded housing and move back into informal settlement housing as the house acquired is viewed as an additional source of income; and low collection rates from state-subsidised rental units.

*Housing backlog: a moving target*

Adequate provision of much needed social services is further challenged by rapid levels of urbanisation and inward migration to the Western Cape. These also contribute to the challenges in the provision of both social and economic infrastructure. With urbanisation comes the development of a large number of informal settlements, which necessitates the provision of basic services and housing opportunities.

Inadequate provision of basic services such as sanitation in informal settlements has a dire impact on the health of the informal settlement inhabitants. In instances where these have been left unattended, it has resulted in the pollution of rivers and in farming areas this has resulted in agricultural produce being contaminated and not meeting export standards. On the economic front these have resulted in the forfeiture of opportunities for sustaining and growing the Provincial economy.

The availability and cost of suitable land for human settlements, located in close proximity of economic opportunities or accessible to safe and reliable public transport constrain the development of integrated and sustainable human settlements. This in turn will bring about economic inefficiencies and contribute to the relatively high expenditure by poorer households on transport. Given the current socio-economic conditions within these areas, it is also imperative that public transport is reliable and safe.

*Safe and reliable public transport constrains the development of integrated and sustainable human settlements*

The number of households with inadequate shelter is likely to double to a backlog of over 800 000, over the next thirty years. This has further implications for South Africa not being able to meet the Millennium Development Goals with respect to access to basic services over the next five years.

Ensuring that communities are safer, reducing the opportunities and incidence of crime are important factors contributing to the strengthening a socially cohesive society. There is

considerable evidence that security, amongst others, constitutes a necessary foundation for urban regeneration, economic development and education. Unacceptably high levels of insecurity impact this foundation negatively. Government has to acknowledge that up to now it has been ineffective in applying its resources to remove the longer-term root causes of crime and to improve the safety of its citizens.

*Strategy to make safety everyone's responsibility*

Therefore as part of a strategy to increase safety the focus is on "making safety everyone's responsibility". The strategy will mobilise the resources, knowledge, creativity and concern of all role players including the three spheres of government, civil society, business, and individual citizens – to build safe communities on a partnership basis. The approach should provide sufficient attention to the longer-term root causes of crime, such as poverty and inequality, unemployment, social disintegration and poor education.

*Youth and children vulnerable groups in society*

Youth and children are particularly vulnerable groups in society. Key challenges relate to child abuse, youth exposure to violence, teenage pregnancy and associations between substance use and youth involvement in criminal activities. A review of children presenting to the Red Cross Children's Hospital trauma unit with non-accidental head injury (NAHI) found that the majority of perpetrators of physical child maltreatment were male and household members. In 65 per cent of the intentional assaults, the perpetrator was the child's father or another family member. Data also revealed that 85 per cent of the assaults were committed in the child's own home.

Youth in the Western Cape face a high risk of exposure to violence. Young men in particular; face the risk of fatal homicide as the rate of violent death increases significantly from the age of 15 years.

Results from the 2008 Youth Risk Survey indicates that high school learners in the Province are exposed to various forms of violence. For example, 33.9 per cent reported being involved in a physical fight one or more times during the 6 months preceding the survey, while 23.8 per cent revealed that they were injured in the fight. In addition, 14.3 per cent were assaulted by a boyfriend or girlfriend, and 8.8 per cent were forced to have sex. Sixteen per cent of youth were threatened or injured by someone with a weapon at school and 22.5 per cent felt unsafe on the way to and from school while 25.3 per cent indicated that they felt unsafe on school grounds.

Data from the Western Cape Department of Health indicates that the birth rate to mothers under the age of 18 years in the Province is declining, although it is still a concern. During the period 2006 to 2010, the proportion of births to mothers under the age of 18 years decreased from 8.8 per cent to 7.3 per cent.

Official statistics indicate a sharp increase in substance abuse in the Western Cape over the past 5 years. A recent study by the provincial Department of Social Development found strong associations between substance use and youth involvement in criminal activities. The South African Community Epidemiology Network on Drug Use (SACENDU) indicated that the primary drug of abuse as reported to treatment centres in the Western Cape for 2008 was methamphetamine (tik) at 35 per cent, followed by alcohol at 28 per cent.

*Substance abuse on the increase*

The focus of provincial fiscal policy in its broadest sense is to improve the welfare of society and specifically to address the problem of poverty. This is a dynamic problem covering many facets of economic and social development. More and more it is becoming evident that the most sustainable means of alleviating and reducing poverty is to create an environment for economic growth, which will favour sustainable job creation.

Resources have to be more productively used for accelerated economic development and poverty reduction. That implies that more of it has to go where capacity exists if it is to be channelled to its most productive and beneficial use from a regional perspective.

### **The outcomes approach to achieving the highlighted challenges**

Both national and provincial governments have revisited their approaches to addressing the challenges highlighted in this chapter. This approach focuses government's efforts on the identification of outcomes and the monitoring of the related chain of inputs-activities-outputs and government's focus on the end product of service delivery. The focal point of this new approach will be on sectors and the achievement of their outcomes and the intergovernmental implications, as opposed to the focus on individual department's activities. An outcome-orientated government is able to better coordinate different plans, activities and budgets across spheres and departments to ensure that all of these areas are aligned.

*Focus on outcomes to be achieved*

The National Government has identified 12 targeted outcomes, which have been detailed in the Presidency's 2010 Measurable Performance and Accountable Delivery document. These outcomes are to:

1. Improve the quality of basic education;
2. Create decent employment through inclusive economic growth;
3. Develop a skilled and capable workforce;  
Improve healthcare and life expectancy among all South Africans;
5. Build a safer country;
6. Support an efficient, competitive and responsive economic infrastructure network;
7. Develop vibrant, equitable and sustainable rural communities that contribute to adequate food supply;
8. Protect our environment and natural resources;
9. Create sustainable human settlements and improved quality of household life;
10. Build a responsive, accountable, effective and efficient local government system;
11. Create a better South Africa, a better Africa and a better world; and
12. Generate an efficient, effective and development orientated public service and an empowered, fair and inclusive citizenship.

National Ministers and Premiers have signed performance agreements with the President on service delivery targets, and this process will help to increase accountability around the measurement, monitoring and achievement of targets, as well as to increase the clarity of purpose in budgeting. Much attention will be given to monitoring progress against identified outcomes and service delivery in the areas of other departmental and agency mandates.

### **Provincial Strategic Objectives**

To pursue its vision of an open opportunity society the Provincial Government of the Western Cape has developed twelve strategic objectives to address the most pressing challenges and obstacles to development. It is hoped that the consistent application of these strategic objectives and programmes would ensure the necessary synergy and alignment in the priority setting, resource allocation and implementation by Government. These 12 Provincial Strategic Objectives link fairly closely to the national outcomes, particularly in relation to concurrent functions. Table 1.1 provides a synopsis of the twelve Provincial Strategic Objectives and its focus areas.

### *12 Provincial Strategic Objectives to address challenges and obstacles to development*

**Table 1.1 Provincial Strategic Objectives**

<b>Provincial Strategic Objectives</b>	<b>Focus areas</b>
1. Creating opportunities for growth and jobs	<p>A vision and brand for sustainable growth</p> <p>A corruption free, efficient public sector</p> <p>A regulatory environment characterised by administrative efficiency</p> <p>An Infrastructure and asset development strategy</p> <p>The Micro Economic Development Strategy and sector support</p> <p>Enterprise development</p> <p>Skills development</p> <p>Local economic development</p>
2. Improving Education Outcomes	<p>Improving literacy and numeracy outcomes</p> <p>Improving school, management and education district performance</p> <p>Improving responsiveness of the Western Cape Education Department (WCED) to support teachers and schools</p> <p>Reducing administrative workload on teachers - freeing up more time for teaching</p> <p>Providing quality textbooks and materials</p> <p>Providing food and other poverty alleviation measures to address needs of learners</p> <p>Providing school infrastructure maintenance</p>
3. Increasing access to safe and efficient transport	<p>Reclassification of the road network in the Western Cape</p> <p>Support to the implementation of the national and regional rail plans</p> <p>Support the National Land Transport Act (NLTA) implementation</p> <p>Support the City of Cape Town with Integrated Rapid Transport roll-out and transform current subsidised public transport system</p> <p>Implement rural transport interventions</p> <p>Advocate interventions to shift freight from roads to rail</p> <p>Reduce road fatalities</p> <p>Improved and coordinated law enforcement activities</p>
4. Increasing wellness	<p>Interventions to manage the burden of disease</p> <p>Improving the quality of public health care response</p> <p>Implementing Health care 2020</p> <p>Decreasing the incidence of infectious disease (HIV and TB)</p> <p>Decreasing the incidence of injuries</p> <p>Decreasing the incidence of non communicable diseases</p> <p>Decreasing the incidence of childhood illness</p> <p>Commitment to achieving the MDG's related to Health</p>
5. Increasing Safety	<p>Making safety everyone's responsibility</p> <p>Optimising security services for government assets, personnel and visitors</p> <p>Optimising civilian oversight</p> <p>Optimising road safety</p>

Provincial Strategic Objectives	Focus areas
<p>6. Developing integrated and sustainable Human Settlements</p>	<p>Upscale the implementation of serviced sites                      Reduce bulk infrastructure as a constraint to human settlement development                      Reduce institutional/human resource capacity constraints                      Acquisition of well located land                      Provide a fair allocation of housing opportunities                      Educate beneficiaries in respect of rights and responsibilities of ownership and rental housing                      Promote security of tenure                      Increase densities of new human settlement developments on well located land                      Closing the gap in the property market through private investment                      Enhancing the supply of new rental housing opportunities to encourage improved property management of rental housing stock</p>
<p>7. Mainstreaming Sustainability and Optimising Resource-use Efficiency</p>	<p>Climate change mitigation                      Water management                      Pollution and waste management                      Biodiversity management                      Land-use management and agriculture                      Built environment</p>
<p>8. Increasing Social Cohesion</p>	<p>Creating an environment conducive to social cohesion                      Repairing the social fabric by addressing the causes and effects of social disintegration                      Strengthening the social fabric by building social capital</p>
<p>9. Poverty reduction and alleviation</p>	<p>Promoting employment/ job creation                      Increasing food security                      Providing basic health services                      Providing education                      Improved living environment and access to basic services</p>
<p>10. Integrating service delivery for maximum impact</p>	<p>Integrated planning and budgeting                      Coordinated provincial support to municipalities                      Integrated service delivery                      Coordinated intergovernmental reporting and engagement</p>

Provincial Strategic Objectives	Focus areas
11. Increasing opportunities for growth and development in rural areas	Agricultural production Market access to all farmers Natural resource management Delivery on infrastructure and integrated service delivery Maintaining and developing the necessary scientific, technical and sanitary environment Focus on regulatory environment Enterprise development Skills development Rural development
12. Building the best-run provincial government in the world	Provincial vision, mission, values, brand, strategy, structure, systems and people

Each strategic objective has associated programmes and projects and a provincial department assigned as the main implementing agency or department. These strategic objectives are programmatic areas consisting of clusters of projects that together are significant public sector commitments that have to bring about a new Western Cape developmental trajectory.

It is noted that the strategic objectives referred to in this chapter represent the objectives for the entire Provincial Government and that departments have started to align their strategic and annual performance plans to the Provincial Strategic Objectives.

### Funding government's response

The current economic environment and changes to the budgeting approach and funding government's interventions pose a number of challenges for the sustainability of current budgets. It is therefore also required that government reprioritise funds towards identified outcomes. This would require a thorough interrogation of current service delivery outputs, budget allocations and alternatives. In other words, more critically, what budgets are and what it should be buying.

*Government continues to focus on value for money*

Government will also have to continue identifying savings on non-core service delivery items to ensure that funds are directed on an ongoing basis to fund core service delivery and priority areas. Attaining value for money and efficient resource allocation in public service delivery depends not only on spending programmes, but also on appropriately targeted revenue and cost-recovery measures. Tariffs and cost-recovery play an important part in narrowing the gap between expenditure on services and tax revenue availability, and can also contribute to channelling resources to their best use.

## **Conclusion**

The social challenges facing the Western Cape remain formidable. Poverty and unemployment remain high and impacted on by forces such as population growth, in-migration and the growth in the labour supply that exceeds the growth in the availability of employment opportunities.

Learner performance poses specific challenges for education as seen in improving, but still low literacy and numeracy rates. The public health system is under pressure as a result of the increasing burden of disease and ever increasing demand for health services.

Youth and children are highly vulnerable groups in society particularly as it relates to child abuse, violence, and substance abuse. The growing number of people that find shelter in informal settlements presents the Province with a daunting challenge in service delivery and in providing formal housing. Service delivery forms part of a broader policy approach to encourage faster economic growth and development for the benefit of all.

*The Province will focus on improving the effectiveness of its investment in the people of the WC*

Looking forward, the Province will focus on improving the effectiveness of its investment in the people of the Western Cape. The outcomes approach to budgeting for service delivery has provided government with an opportunity to obtain clarity on what it aims to achieve, and to develop mechanisms to do so. A tight fiscal framework as result of the recent recession allows little room for any additional funds and therefore requires innovative ways of doing things better and more economically.



The Western Cape Provincial Government regards economic growth and the alleviation of poverty through sustainable employment creation as priority objectives.

*Economic growth and poverty alleviation through job creation*

In pursuit of economic development the focus not only falls on job creation and economic growth. Improvements in education, health services, increasing safety and an expanding social infrastructure (such as housing for the poor) are also considered vital. However, pursuing economic growth is imperative to address poverty and persistent high unemployment rates that in most instances are the root cause of the social ills plaguing the Province. The Province therefore has a key role to play in addressing the structural constraints that will make the country internationally competitive and reduce unemployment.

*Improvements in education, health services, increasing safety and expanding social infrastructure are vital*



# 2

## Governing for results

The key strategic outcomes of the Western Cape are taken up in the 12 Provincial Strategic Objectives. These objectives have provided an opportunity to consider the collective contribution of provincial government departments and other entities in addressing the socio-economic challenges facing the people of the Western Cape.

The outcomes approach encompasses a new approach to planning, budgeting and monitoring of service delivery in line departments, through in part, starting with the adoption of a set of key strategic outcomes with measurable outputs and key activities.

This chapter provides the Provincial government's response to the challenges highlighted in Chapter 1 which are in the main aligned to the 12 national outcomes. It highlights the key spending plans of the Province over the medium term to address government's objectives. The imperative for this government is to support economic growth that will address poverty and create jobs. The focus is also on pursuing improvements in education and health, increasing safety, expanding social infrastructure, sustaining and optimising use of our natural resources and increasing social cohesion that will have a positive impact on the overall development of the people of the Western Cape.

### **Creating opportunities for growth and jobs**

The Western Cape, compared with the rest of South Africa has a relatively better educated citizenry, reasonably well developed infrastructure, concentration of knowledge institutions and a thriving multi-dimensional and international tourism industry.

Furthermore, a developed export oriented agriculture sector, a few well established large corporations and a higher proportion of small and medium enterprises and as a region, provide a basis for robust international trade.

The Province subscribes to the policy position that economic growth is the foundation of all successful development and that growth is driven primarily by the business sector operating in a conducive environment. Based on such a paradigm, the role of the State is to create and maintain an enabling environment for business and provide demand-led, private sector driven support for growth sectors, industries and businesses.

A number of government departments and entities contribute to a consolidated response to creating an environment that facilitates growth and create jobs. At the provincial level, key departments in this regard include: Transport and Public Works, Economic Development and Tourism (as the key driver of this objective) and Agriculture.

*Continued investment in infrastructure that will enable economic growth*

The Department of **Transport and Public Works** over the medium term will continue to invest in amongst others: infrastructure that will enable economic growth and development and efforts that will facilitate improved access to economic opportunity. The Department will position itself as coordinator and facilitator of the public transport strategy and the championing of a safe and efficient integrated transport system in the Province. This includes influencing a 13 per cent modal shift from private to public transport into the City of Cape Town CBD through the promotion of improved rail transport, supporting integrated transport networks through infrastructure provision and formalising the minibus taxi industry.

The Department as custodian of the provincial property portfolio will continue to manage provincial properties in an efficient manner and over the medium term leverage strategic properties owned by the Province in the CBD to finance the Inner City Regeneration Programme. The Department will also build the required capacity to strengthen its lease operations to ensure compliance with policies and prescripts and maximise revenue from leased-out properties.

The Department's investment in infrastructure broadly aims to: maintain provincial roads; build new schools and classrooms; continue the construction of the Khayelitsha and Mitchell's Plain Hospitals as the preferred infrastructure implementation agent. The construction of new hospitals under the Hospital Revitalisation Programme will replace most of the dilapidated

infrastructure requiring upgrading and reduce maintenance backlogs.

This Department is also the coordinator of the Expanded Public Works Programme (EPWP) in the Province and the up-scaling of funding will be increasingly directed at small routine maintenance contracts to achieve maximum labour and sustainable work opportunities for communities, with the caveat that we achieve value for money.

### **Roads infrastructure**

The provincial road network is a crucial part of the transport system of the Province, and consist of approximately 6 635 km of surfaced roads, 25 658 km of gravel roads (including access roads). The current asset value of the road network is estimated at around R50 billion. It is estimated that 19 million vehicle-kilometres are travelled daily on the Western Cape road network and of these vehicle-kilometres, 95 per cent are travelled on surfaced roads.

The Department has prioritised maintenance over the medium term in an attempt to start addressing maintenance backlogs. However, given the huge road maintenance backlogs it is clear that substantial additional funding will be required to make a real impact with reference to these backlogs. Previous investments in road infrastructure have addressed some maintenance backlogs on the network, particularly the resealing backlog, as well as allowing for a number of upgrading projects. The maintenance programme has recently come under pressure; but it is expected that there should be some recovery in maintenance expenditure as some of the major projects currently underway are nearing completion.

*Addressing maintenance backlogs is a priority*

Flood damage continues to affect the provincial road network, impacting on general maintenance. Funding from the national coffers assisted the Province to address instances where roads have been damaged as a result of floods.

### **Public Works infrastructure**

One of the biggest projects proposed by the Western Cape Government relates to the Inner City Regeneration Programme. The broad objectives of this programme would aim to maximise the socio-economic footprint in terms of inner city renewal, bring about synergy with other mooted projects within the broader inner city precinct and have an added advantage of minimising the burgeoning rental costs for office accommodation.

Corresponding projects that are being considered by the Province include the Somerset precinct redevelopment, expansion of the Cape Town International Convention Centre and substantial enhancement to the road network leading into the inner city. This is apart from private sector, City of Cape Town and other investment initiatives, being researched.

The Department of **Economic Development and Tourism** over the medium term is committed to creating an enabling environment for stimulating trade and investment, the establishment and expansion of businesses so as to grow the economy and create employment opportunities.

*Activities to address the mismatch between skills supply and skills demand*

Economic Development and Tourism has a key role to play with regards to facilitating and coordinating activities which address the mismatch between skills supply and skills demand for particular sectors. Through partnerships with the private sector, the Department will encourage apprenticeships and workplace experiential learning of Further Education and Training (FET) students/graduates.

The Department, in support of the economic development initiatives through the Future Cape initiative will develop a vision and brand to identify and attract specific skills and investment into the Province.

*Establishing a business-friendly regulatory environment*

The Department further aims to establish a business-friendly regulatory environment, in which the impediments to sustainable business profitability, investment and job creation would be minimised. It also supports the development of a corruption free, efficient public sector.

Through its telecommunication infrastructure strategy, the Department aims to foster greater economic growth in the region as well as achieving greater effectiveness and efficiencies in government service delivery through investment in telecommunications infrastructure. The East City Design Initiative is a joint initiative between the Department of Economic Development and Tourism and local stakeholders. The initiatives aim to create a premier African environment for design innovation, creativity and entrepreneurship. The establishment of a Western Cape Health Technology Park is focused on biotech and health technologies.

Developments are also underway to take advantage of the major deep-water harbour at Saldanha, creating an Industrial Development Zone, with a significant potential to beneficiate iron ore and linkages with heavy industrial development. In this

regard, interesting mega-projects are being mooted, with the possibility of a natural gas (pipeline) from the West Coast to Cape Town. There is also renewed interest from the Department of Trade and Industry to realise a successful demand-led Industrial Development Zone (IDZ) at Saldanha.

The Enterprise Development unit within the Department is tasked with increasing access to market and procurement opportunities for new and existing entrepreneurs.

International and national tourism will be scaled up through the effective leveraging of partnerships between the Province, national government, the City of Cape Town and private sector.

*Scaling up tourism through partnerships*

The Department will also through the mooted Western Cape Economic Development Agency provide support to prioritised sectors through the amalgamation of 16 economic related Special Purpose Vehicles (SPVs) and Public Entities (i.e. Wesgro, CTRU and Casidra) into a single Agency with a common goal and mandate to market the destination for tourism and events, promote trade and investment, promote enterprise development, promote local economic development, skills and asset development.

The Department of **Agriculture** has set 5 strategic goals to be achieved over the next 5 to 10 years. These strategic goals collectively recognise the contribution that agriculture can and must make to the economy of the Province, that is, the opportunities to maintain and create jobs and the imperative to conserve and protect the natural resources.

The competitiveness of the agricultural sector is a key issue that will receive attention as it forms the basis for growth. A focus will be placed on research and development capacity, but with continued emphasis on the revitalisation of extension, training and research integrated towards seamless and appropriate services to all farmers (subsistence, small holder and commercial farmers).

*Focus on competitiveness of agriculture sector*

Food security at household and regional levels remains a key objective within the broader social, economic and environmental context of the Province. Therefore the focus on increasing agricultural production at primary level will continue with the concomitant focus on research, extension and training as an integrated approach to agricultural development.

*Skills development is a prerequisite for transformation and success of farmers*

Transformation of the sector remains on the agenda, not only the success of land reform projects and initiatives but also broader skills development (farmer, farm worker and service provider), market access and the need to develop products and alternative market access to ensure success in its broadest sense.

The Department is committed to develop alternative markets for the provincial agricultural sector, and will continue to seek partnerships with commodity organisations to enhance the support to land reform projects.

*Increased focus on the climate change challenge*

The climate change phenomenon will challenge the use of natural resources in the agricultural sector such as water. This will translate into the need and provision of adaptive technology, processes and practices for all farmers. The phenomenon is a process, which will force the Department to explore alternatives across the value chain. This would entail sustainable natural resource management, production processes, institutionalisation of the results and knowledge into the Department and the sector. Disaster management and especially mitigation will receive more focused attention.

Animal disease outbreaks and new crop and animal disease profiling and contingency plans will receive attention as the climate change process impacts and evolves in the agricultural sector.

For development in rural areas, the Department must develop a coordinating mechanism to ensure that all services available from the Province are focused on the identified rural nodes, using the national Comprehensive Rural Development Programme opportunities. Development of rural areas is an imperative that must create jobs, reduce the skills deficit and grow the rural economy.

**Skills development**

*Skills development initiatives need to be prioritised*

Skills development should be demand-led, both in respect of the immediate needs of business and the medium-term needs of the economy. Given the general requirement for skills development and the need for interventions to maximise results, skills development initiatives will need to be prioritised. Skills development programs will in the first instance attain focus through sector based initiatives.

- To this end, and in accordance with the Skills Development Act of 2008, the Western Cape government will establish a Provincial Skills Development Forum that will include



representation from all relevant role-players. The Provincial Skills Development Forum (PSDF) will have these purposes:

- To provide a mechanism where business, government, institutions of learning and skills development agencies can collaborate on skills development programmes and projects, the aim of which will be to provide industry and government with the skills necessary for growth.
- To provide a mechanism through which the medium and long-term skills needs of the Western Cape economy can be researched and identified in order to better inform the strategies of institutions of learning and skills development agencies.

## Improving education outcomes

The Department of **Education** as the lead custodian department for this objective is committed to improving the life chances of all children of the Province through the provision of quality education.

It is acknowledged that there is still a long way to go before our learners reach their full potential and attain the relevant scholastic attainment levels considered of value to our communities, tertiary institutions and private sector.

Ensuring a turnaround in education outcomes involves a multi-pronged approach starting with strengthening accountability within the education system; upgrading and improving the content knowledge and pedagogical skills of teachers; enhancing managerial skills amongst principals; providing quality text materials and ensuring their use; and addressing the infrastructure backlog.

*Multi-pronged approach to improving education outcomes*

The Department intends to increase grade 3, 6 and 9 literacy and numeracy levels by at least 10 per cent between 2010 and 2012. Increasing the matric pass rate from its current 75.7 to 80 per cent in 2010 is another key target for the Department. The Department plans to reduce the number of schools with a less than 60 per cent pass rate from 85 to 55 in 2010.

*Increasing grades 3, 6 and 9 literacy and numeracy levels by at least 10 per cent*

The implementation of the Occupation Specific Dispensation for school and FET college educators has been implemented to ensure that the Province retain better quality and experienced teaching staff at schools and FET colleges.

The Department over the past three years, has invested more than R1.2 billion into school construction and maintenance projects in response to the challenges of increasing

maintenance backlogs and utilisation pressures (including intense overcrowding in some schools and declining enrolments in other schools, and inappropriate school structures). These deficiencies impair the quality of teaching and learning.

*A key challenge is to improve education infrastructure planning*

A key challenge is to improve education infrastructure planning especially in relation to land-use planning and the creation of new housing areas. Schools are an important part of creating sustainable human settlements and it is therefore important to co-ordinate the infrastructure activities of provincial housing and education departments. The same is true of the co-ordination of education facilities planning and land use planning conducted by municipalities. It would be to the benefit of the Western Cape if the Province was to be the first to achieve such co-ordination.

The asset replacement value of the physical education infrastructure is estimated at around R15 billion. It is widely accepted that maintenance should be an optimal balance between the demand/need for new infrastructure against the maintenance of existing assets.

### **Increasing wellness**

*Emphasis on patient experience*

The Department of **Health** will continue to support the national strategic direction for health of promoting "a long and healthy life for all South Africans" and provincial strategic direction "increasing wellness", both of which are aligned with the Millennium Development Goals [MDGs]. Over the next five years particular emphasis will be placed on patient experience of healthcare service, reducing maternal and child mortality, as well as reducing the incidence of HIV and Aids.

The Department is currently in the process of developing Healthcare 2020, which is to be based on the principles and achievements of Healthcare 2010 and the current Comprehensive Service Plan in order to optimise gains realised over the past five years.

*Focus on quality healthcare that is cost effective and efficient*

Healthcare 2020 embraces an outcomes-based approach to healthcare and in doing so will link clearly to the MDGs and the national and provincial strategic goals for health. The further iterations of the Comprehensive Service Plan aim to provide quality health care that is cost effective and efficient and to treat all patients at the appropriate level of care.

Complementing these initiatives is the retention of the Primary Health Care Philosophy, which aims to provide a comprehensive service to all citizens of the Western Cape that includes preventative, promotive, curative and rehabilitative care, and the further strengthening of the District Health Services Model, which aims to achieve health outcomes for a specific geographical area.

The Department's primary responsibility is to provide health services to the around 3.8 million uninsured population in the Province, which represents approximately 73 per cent of the total population. In 2011/12, the Department expects more than 17 million patient visits at primary health care facilities at more than 450 primary health care facilities in the Province.

The number of people receiving anti-retroviral treatment will be expanded from current levels of about 68 446 to over 90 000 in 2011/12 and even more over the Medium Term Expenditure Framework (MTEF). Health interventions will also target reversing the spread of both HIV and Aids and TB.

The state of the health of the population is reflected in the relatively high level of life expectancy relative to the rest of the country, where the Western Cape is estimated to have the highest life expectancy at birth for both males and females (59.3 years).

Going forward the Department aims to promote patient centeredness in its approach to healthcare. By definition this implies improvements to both the quality of health care provided and the patient's experience of the health service. Strategic partnerships will also be facilitated in order to improve health outcomes, particularly in respect of addressing upstream factors in the burden of disease.

*Promoting patient centredness and improving quality of care*

Immediate goals for the medium term include the management of the burden of disease, the development and maintenance of a capacitated public healthcare workforce and provision and maintenance of appropriate health technology and infrastructure.

The fiscal envelope also makes provision for an OSD for doctors and associated professionals. This is to ensure that quality health professionals are recruited and retained in the public sector.

*Occupation Specific Dispensation for doctors and health professionals*

Investment into Health over recent years has in the main been targeted at dealing with the increasing disease burden and demand for health services. The investment was also aimed at easing the burden on the health professionals and providing

the necessary medicines, laboratory services, medical material and equipment.

Improving Emergency Medical Services to increase response times remain a priority with funding specifically earmarked for this purpose. The aim over the next five years is to ensure that 90 per cent of priority calls in urban areas are responded to within 15 minutes and in rural areas within 40 minutes.

*Interventions to reduce alcohol abuse and traffic related injuries*

Interventions to reduce alcohol abuse and to reduce traffic related injuries are key areas for the Western Cape to address the upstream factors to reduce the burden of disease. These areas require an intersectoral approach and therefore represent significant challenges for this Government to take forward to contribute to a healthy population.

The Department, together with the departments of Health in Gauteng and KwaZulu-Natal will submit a collective proposal for the provincialisation of Personal Primary Health Care, which is currently delivered on an agency basis by Metropolitan Municipalities.

A further policy consideration over the medium term is the possible shift of the Health Professions Training Grant (which since its inception has provided for the training of health professionals) to the Department of Higher Education. The purpose of the Grant is to support the service costs related to clinical training. These proposals are currently being assessed.

**Health infrastructure**

The Department of Health User Asset Management Plan (U-AMP) addresses infrastructure requirements for the full continuum of health care services through a network of hospitals, clinics, community health centres, mental health facilities, forensic pathology facilities and the Emergency Medical Services facilities.

*Various new community health centres are under construction and planned for construction over the MTEF*

A U-AMP for health facilities has been developed to support the Comprehensive Service Plan. The Department is well into the construction of both the Khayelitsha (scheduled for completion by August 2011) and the Mitchell's Plain Hospitals, while the revitalisation of the George, Worcester and Paarl Hospitals continues. Various new community health care centres are under construction or are planned for construction over the MTEF period.

A total number of eighteen Forensic Pathology Laboratories are planned which include two M6 laboratories at Salt River and Tygerberg Hospital and five M3 laboratories at Paarl, George, Worcester, Stellenbosch and Oudtshoorn.

Although the intention is to allocate additional maintenance funding, it will not be sufficient to address the existing maintenance backlogs, which are currently recorded at around R1 billion. However, the replacement of the most dilapidated facilities should assist in addressing the maintenance backlog. As in the case of Education, it remains a challenge to strike an optimal balance between the demand/need for new infrastructure against the maintenance of existing assets.

### **Increasing safety**

The Department of **Community Safety** is committed to increasing safety in order to make the Western Cape a safe place in which to live. The Department will engineer new advances in its historic policy priority areas, which are the Civilian Oversight, Security Risk Management and Road Safety Management.

In an attempt to shift the paradigm from reacting to crime to one of preventing crime, the Department will conduct evidence-based strategic research and provide policy advice that informs civilian oversight.

*Optimising the Civilian Oversight mandate*

The Department aims to optimise its civilian oversight mandate over the police. This would be achieved through monitoring, evaluating and reporting on police performance and accountability; designing and implementing the institutions and approaches needed to create and sustain effective safety and security partnerships; and promoting community police relations and police accountability.

Central to the government being able to deliver to its citizens is the need for a safe and secure service delivery environment. A Security Risk Management Framework is being finalised to ensure that the function is managed holistically in the Province in order to optimise security services for the government's assets, personnel and visitors.

*Improved security management services*

The Province's zero tolerance approach to road safety will be taken up in efforts to reduce road accident fatalities, strengthen traffic law enforcement on its roads and increase road safety awareness. Better integration and regulation of both provincial and municipal traffic management and police

services will be pursued to reduce road trauma. Public transport inspectorates were established in Cape Town in collaboration with the City as well as in the Southern Cape. These units will focus on improving the safety of commuters and the prevention of lawlessness on public transport.

### **Developing integrated and sustainable human settlements**

#### *Accelerating the provision of housing opportunities*

The Department of **Human Settlements** is funded in the main by the Human Settlement Development Grant. Through this allocation the Department will upscale the provision of service sites from 18 000 in 2010/11 to 31 000 per annum by 2014/15 in order to accelerate the provision of housing opportunities, especially to those most in need.

Emphasis is placed on increasing the number of People's Housing Projects (PHP) which encourages communities to actively participate in the design, construction and monitoring processes thereby promoting a sense of ownership and simultaneously ensuring that houses are built to essential quality standards.

#### *Focus on acquiring well-located land for housing opportunities*

The Department will further focus on acquiring well-located land for housing opportunities that is located close to economic opportunities, transport corridors and social amenities. In order to close the gap in the property market, the Department will work much closer with the private sector to encourage the development of a state-backed finance scheme to reduce the risk of borrowing as well as the development of inclusionary and mixed housing development (as was successful in Europe post World War 2) and increase rental stock. In response to the availability of well located land the Department further aims to increase the average density of human settlements developments from 35 units per hectare to 50 units per hectare in land scarce municipalities by 2014/15.

Discussion with national government and in particular the departments of: Human Settlements; Cooperative Governance, and Traditional Affairs; Energy together with the Province and municipalities, has started to align the Municipal Infrastructure and Human Settlement grants. In this regard the Department is also envisioning the establishment of Project Management Units and Professional Resource Teams within the Department to assist municipalities in addressing the human resource constraints related to the built-environment.

Other initiatives include improved administration of housing stock and to improve the fairer allocation of housing opportunities. A municipal data support programme will be developed that will track housing backlog information and assist municipalities to contribute towards fairer allocation in the selection of beneficiaries for new housing projects especially for informal settlement dwellers and backyarders. A coordinated and integrated approach for human settlement planning will be followed together with high potential municipalities who may become accredited housing developers.

*A municipal data support programme will be developed to assist municipalities with fairer allocations*

The Department will also explore the use of sustainable alternative technologies, design, layout and the use of energy efficient materials in the construction of integrated human settlements.

### **Mainstreaming sustainability and optimising resource-use efficiency**

The Department of **Environmental Affairs and Development Planning** is the custodian department for this strategic objective. It comprises of six key policy priorities, that is Climate Change Mitigation, Water Management, Pollution and Waste Management, Biodiversity Management, Agricultural Land-use management and built-environment. While, contributing to environmental crime reduction, the Department of Environmental Affairs and Development Planning is responsible for compliance and enforcement on environmental matters and for sustaining the Western Cape Environmental Crime Networking and Skill Sharing Forum.

One of the key outputs of this Department is the development of a Provincial Spatial Plan and the development of implementation of land-use legislation. The land use planning legislation has also been incorporated in the modernisation programme and once finalised will assist with better integration of development, reduce red tape and speed up development approvals across the Province.

*Development of a Provincial Spatial Plan*

Under the Built Environment Support Programme the Department has launched the first round of a pilot in six municipalities, to improve the Human Settlement and Spatial Development Plans. This pilot will be extended to more municipalities over the next three years.

A focus on the green economy by the Department of Environmental Affairs and Development Planning includes publishing the Green Procurement White Paper, stimulating the

*Focus on the green economy*

recycling economy, mainstreaming 2Wise2Waste initiatives, marketing the Recycled Products Catalogue and exploring the production of waste into energy.

Conservation of biodiversity management and the maintenance of ecosystems is the foundation of sustainable development in the Province. This mandate is given to Cape Nature to improve the infrastructure, assist with green employment creation, fire-fighting and strengthen and maintain the governance of the entity, a process started about three years back.

*Key challenge to promote efficient water use*

A key challenge over the period ahead is to promote efficient water use, by both commercial and emerging farmers in light of the effects of climate change. In this regard, at a national lekgotla, the Western Cape has been set a target to reduce the amount of water allocated for agricultural purposes by 10 per cent.

The Department has also recently updated the previous investigation into the growth potential of towns within the Province. This study will be used to assist future development, thereby ensuring that investment be directed to towns with higher growth potential.

### **Increasing social cohesion**

The Department of **Cultural Affairs and Sport** is tasked to create an environment to increase participation in civic and social life and empowerment communities within the Province.

The work of the Department of Cultural Affairs and Sport is directed at giving effect to our vision of a socially cohesive, creative and active Western Cape. The Department plans to increase participation and excellence in sport, recreation, the arts and culture. The Department is also committed to ensuring greater access to libraries, museums, language and heritage services.

*Success of school sport programmes measured by levels of participation*

A critical priority over the next year is the implementation of the school sport strategy. The successful establishment of structures such as the MOD (Mass participation; Opportunity and access; Development and growth) Sport Centres, the SHARP (School sport; Health; Advancement of Sport Research and Policy development) Sport Centres; and WCSS (Western Cape Sport School) not only places educators back at the centre of School Sport, but also signifies the beginning of greater sustainability for school sport. The success of the school sport programmes will be



measured by the levels of participation of our learners in extramural sport and competitive leagues.

The Department will intensify its internship programme through facilitating opportunities for youth to work with and shadow established arts practitioners, to strengthen the capacity of district cultural forums and to collaborate with district municipalities to identify, develop and showcase local talent through festivals and other programmes.

Every division within the Department, which include: Sport and Recreation, Library and Archive Services and Cultural Affairs contribute to creating opportunities for growth and job creation, improving education outcomes, increasing opportunities for growth in rural areas, increasing wellness and safety through its diversion programmes.

At present the Library and Archive Services of the Department of Cultural Affairs and Sport is responsible for delivering library material and support services to an established network of 331 public library centres across the Western Cape. Twenty eight municipalities in the Western Cape take the responsibility for the local administration and funding of 300 of these public libraries. This includes staffing, providing physical facilities and the maintenance thereof. The responsibilities and funding mechanisms for library services are currently under review. The aim is improve support to and the quality of library services within the Western Cape.

*Initiation to improve the quality of library services*

The investment in the Department will be used to provide for facilities and opportunities in sport, arts and culture, together with library materials, books and internet access to improve and expand knowledge and encourage a culture of learning in the Province.

### **Reducing and alleviating poverty**

The Department of **Social Development**, over the medium term will assist the plight of the poor, the vulnerable and those in need of special care.

Priority areas for the Department over the medium term are to strengthen its social welfare and development programmes in a more focused manner, playing a critical role towards the objectives of: building the resilience of families; strengthening interventions aimed at alleviating and reducing poverty; dealing with social crime through the Department's youth development programmes; and strengthening community development interventions and networks.

*Social Welfare and development programmes will be strengthened in a more focused manner*

*Addressing the impact of substance abuse on families, crime and school drop-out rates*

The impact of substance abuse on families, crime and school drop-out rates will be addressed through expanding and increasing access to a continuum of substance abuse services and targeting 58 000 individuals by 2015. The Ke Mojo drug prevention programme aimed at the youth, currently reaches almost 29 000 individuals and will also be expanded over the medium term.

Investing in the Department will assist with support to older persons, persons with disabilities and victims of crime and to care for and support families, those suffering from HIV and Aids and to implement sustainable livelihood programmes.

Services to older persons will be systematically increased over the 2011 MTEF and beyond. The Department aims to support and protect 55 000 vulnerable older persons by 2015, ensuring access to quality social developmental services.

Early childhood development (ECD) of the 0 - 5 year olds, forms part of the child care and protection services that provide for the development, care and protection of the rights of children. An estimated total of 85 000 children will take part in ECD programmes in 2011/12.

*Promoting a network to protect, support and strengthen families*

The Department promotes a network of integrated services to protect, support and strengthen families. These services also assist families to remain the cornerstone of communities and the broader society. Integrated and targeted interventions focusing on building resilience for more than 70 000 families will also influence the lives of children. Furthermore the Department will also implement a range of integrated youth development services targeting the youth at risk in an effort to influence positive life styles for youth to become responsible citizens. Youth are also assisted by offering skills development programmes and by linking unemployed youth to economic opportunities.

**Improving governance**

If the Provincial Government of the Western Cape is to maximise investment in education, health, housing, transport and safety and others, there must be a heightened awareness that the investment must take place within a clean, value driven and responsive environment.

The Western Cape Government is serious about accountability to the electorate of this Province. The Executive and accounting officers will properly account for every rand spent from this budget and putting political affiliations aside.

Collectively the focus will have to shift on making the best possible choices that have the greatest impact on changing the living conditions of the people in this Province.

The **Provincial Parliament** has recently introduced its own Parliamentary Service and Finance Management Bill (PFMA equivalent) envisaged to change the financial landscape and governance arrangements.

The Department of the Premier, Provincial Parliament, Provincial Treasury and Local Government will be individually and collectively responsible to ensure that the governance arrangements of this Province is maintained and progressively improved upon over the medium term.

*Individually and collectively responsible to ensure governance arrangements in the Province*

The Department of the **Premier** will focus on the implementation of the modernisation process which is aimed at improving service delivery; co-ordination, monitoring and evaluation, accountability and standardisation across Departments. Key modernisation proposals that have been funded and that will be implemented over the medium term include the information technology service delivery improvement plan. The corporatisation of certain functions; most notably human resource management, internal audit, enterprise risk management and forensic investigation are due to be implemented over the near term.

*Improving service delivery; coordination, monitoring and evaluation*

The **Provincial Treasury** is and will remain responsible for maintaining the financial integrity of this Province. In managing the Province's finances, this includes effective financial management advice, the institution of the necessary processes to improve overall financial management practices across departments, entities and municipalities, to timely produce in-year early warning financial and non-financial reports and tighten systems and processes that would reduce the possibility of abuse and corruption and improve delivery.

*Maintaining the financial integrity of this Province*

In addition, the Department of the Premier and Provincial Treasury are also considering options to streamline the in-year performance reporting system so as to obtain greater coherence between the quarterly performance reports, the dashboard reporting and the performance management information system (Permis). It is envisioned that more focused tracking of performance information will eventually lead to better accountability, better service delivery with greater impact and improved organisational and personnel management practices.

*Ongoing 'hands-on-support' to municipalities*

Resulting from the reconstitution of the former Department of Local Government and Housing, the newly formed Department of **Local Government** will be responsible for the implementation of various capacity building interventions within municipalities by providing ongoing 'hands on support' to enhance performance and to promote good governance practices within municipalities. A key focus will be on the early detection of governance and service delivery breakdowns, fixing it before it is too late and to provide the necessary support and assistance to realise the objectives of the "Local Government Turnaround Strategy".

If the Western Cape Province want municipalities to be more effective in having a greater impact on improving the socio-economic landscape in the Province, it is imperative that the Province gets municipalities, especially the large ones, to improve the quality and content of its Integrated Development Plans and that through effective oversight they be kept accountable for their actions and inactions.

**Integrated service delivery for maximum impact**

The combined social and economic investment of the three spheres of government is enormous. It is important to ensure that this investment is effectively coordinated on the ground in order to maximise its impact and avoid duplication and fragmentation of service delivery.

The provincial government is ideally placed to coordinate this investment for the following reasons:

- It is the "middle" sphere of government that connects national and local government;
- It is responsible for a significant proportion of government expenditure on actual service delivery in the areas of health, education, and social services; and
- It has constitutional responsibility for the oversight of local government.

*Efforts to ensure access to government services will be implemented*

The Department of Local Government will continue to implement efforts that support the provision of adequate and appropriate information to ensure access to government services and facilitating community access to socio-economic opportunities. In this regard the Department aims to use the Community Development Workers and Thusong centres.

The Department will also pursue the decentralised service delivery model through Integrated Development Plan (IDP) Indabas as a joint planning space for spheres of government.

*IDP Indabas as a joint planning space for spheres of government*

## **Conclusion**

The development goals of the Western Cape Government are taken up in the 12 Provincial Strategic Objectives. These find expression in departmental strategies over the medium term. It recognises that economic development is key to addressing the many challenges facing the Province and the adopted strategies subscribe to the paradigm that there cannot be development without economic development.

This chapter highlights that there are high levels of social disintegration across communities within the Province and attempts to provide the Western Cape Government's response thereto. Key amongst them is the need to absorb higher levels of employment, particularly youth as indicated in the PER&O.

The social challenges include amongst others: less than optimal education outcomes and concomitant skill shortages; poor health status; substance abuse; and challenges with youth development, as it relates to employment and substance abuse etc.



# 3

## The resource envelope and financing issues

The 2011 MTEF is presented at a time when the global and South African economy are showing signs of improving. However, recovery remains fragile. Government spending has supported the economy through the recession and continues to do so into the recovery. In addition to funding current expenditure, government is obliged to ensure that the fiscus can sustainably finance future priorities. Over the next three years, as the economy grows, the pace of growth in government spending is anticipated to moderate in a counter cyclical fashion. A counter cyclical fiscal policy assists in defining a sustainable fiscal path in two ways: by ensuring that the quantum of expenditure when the economy is over performing remains affordable during a recession; and by helping to manage demand over the business cycle, encouraging a growth-friendly environment with low inflation, low cost of capital and a competitive real interest rate.

*Government spending has supported the economy through the recession and continues to do so into the recovery*

Efforts to improve the efficiency of public expenditure remain a key priority and become ever more important as projected spending growth moderates over the MTEF. Funding priorities are guided by national and provincial government's 12 outcome priorities, the focus of which are on improving public education and health, and investing in infrastructure that supports economic development and service delivery.

Over the 2011 MTEF, provincial expenditure on average is financed through national transfers (which include provincial equitable share and conditional grants contributing 95 per cent); and provincial own receipts (taxes and fees/user charges contributing 5 per cent).

**Table 3.1 Fiscal framework of the Western Cape**

Source R'000	2010/11 Adjusted Budget	2011/12	2012/13	2013/14	Total 2011 MTEF
		Medium Term Estimates			
<b>Transfers from National</b>	<b>32 260 131</b>	<b>35 256 378</b>	<b>37 366 793</b>	<b>39 978 269</b>	<b>112 601 440</b>
Equitable share	24 455 824	26 800 356	28 505 431	30 316 981	85 622 768
Conditional grants	7 804 307	8 456 022	8 861 362	9 661 288	26 978 672
<b>Own receipts</b>	<b>1 808 556</b>	<b>1 915 309</b>	<b>1 973 881</b>	<b>1 999 716</b>	<b>5 888 906</b>
<b>Asset Financing Reserve</b>	<b>215 864</b>	-	-	-	-
<b>PRF Financing</b>	<b>282 762</b>	-	-	-	-
<b>Total</b>	<b>34 567 313</b>	<b>37 171 687</b>	<b>39 340 674</b>	<b>41 977 985</b>	<b>118 490 346</b>
<b>Percentages</b>					
<b>Transfers from National</b>	<b>93.33%</b>	<b>94.85%</b>	<b>94.98%</b>	<b>95.24%</b>	95.03%
Equitable share	70.75%	72.10%	72.46%	72.22%	72.26%
Conditional grants	22.58%	22.75%	22.52%	23.02%	22.77%
<b>Own receipts</b>	<b>5.23%</b>	<b>5.15%</b>	<b>5.02%</b>	<b>4.76%</b>	4.97%
<b>Asset Financing Reserve</b>	<b>0.62%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>
<b>PRF Financing</b>	<b>0.82%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Changes to baseline</b>					
Equitable Share	-	672 630	834 985	1 124 660	2 632 275
Conditional Grants (estimated)	-	84 560	216 092	540 528	841 180
<b>Own Receipts</b>	-	<b>221 196</b>	<b>251 650</b>	<b>277 485</b>	<b>750 331</b>
<b>Total</b>	-	<b>978 386</b>	<b>1 302 727</b>	<b>1 942 673</b>	<b>4 223 786</b>

### Provisional transfers from National

*Over the 2011 MTEF, nationally the PES grows annually on average by 6.8 per cent and conditional grants by 10.2 per cent*

National transfers to all Provinces are set to increase by R40.1 billion over the MTEF. These transfers include a R29.8 billion increase to the provincial equitable share (PES) and a R10.3 billion addition to conditional grants over the next three years.

The increased allocations to provinces are mainly to accommodate higher personnel costs (inflation adjustments i.e. Improvement of Conditions of Service (ICS) and Occupation Specific Dispensation (OSD) in Health and Education), infrastructure backlogs in education and roads and for a number of health priorities.

The Western Cape receives a proportional share of the national adjustments to the provincial equitable share and conditional grants.

Provincial Treasury's own calculations in Table 3.1 show the net estimated national transfers to the Western Cape which are adjusted by R3.5 billion over the MTEF. The aggregate net adjustment in the PES baselines to the Province amounts to R2.6 billion over the MTEF.



The new overall PES allocations of the Western Cape amount to R26.8 billion, R28.5 billion and R30.3 billion in 2011/12, 2012/13 and 2013/14, respectively. The increase in the PES is also partially attributed to the phased inclusion of the Forensic Pathology Services Conditional Grants into the PES (from 2012/13) as well as the partial inclusion of the Hospital Revitalisation Conditional Grant (from 2013/14).

The 2011 MTEF sees the introduction of a number of changes to the PES. These changes stem from the 2006 Budget Council request for a comprehensive review of the PES. The Finance and Fiscal Commission commenced with the first phase of the review process which ended in 2009. The first phase of the review process focused on the development of the policy imperatives that should underpin the reform of the formula. The second phase of the review process, led by the National Treasury and involving provincial treasuries on various task teams, focused on how the PES formula should be reconfigured to better support policy imperatives.

*The PES review process has resulted in a number of changes to the formula*

The review process has resulted in a number of changes to the PES formula. This includes the annual data updates informing the PES, such as school enrolment numbers, population estimates and Provincial GDP. These data updates together with component changes in the equitable share formula as well as the phasing-in of the two conditional grants have resulted in the upward revision of the PES allocation. A new health formula is being introduced making provision for a more specific and detailed health component with subcomponents for primary health care and hospitals. The relative weights of the education, basic and the health components have also been revised.

The task team responsible for the review of the health formula recommended the use of a risk adjusted capitation index based on the Risk Equalisation Fund and District Health Information Service patient day data for 2008 and 2009 to calculate output data from public hospitals in order to estimate each province's share of the health component. This approach combines two ideologies used to estimate health budgets, that of a needs based approach (based on the demographic profile of the population and allocated according to typical expected health burdens based on the population profile) and a demand approach where funding is linked to workloads.

*The new health formula takes into account need/demand and risk*

The components of the new health formula capture all expenditure needs of the health sector including previous add-ons for salary increases and primary health care. The inclusion of the Occupation Specific Dispensation (OSD) as part of the overall health share of the PES formula has resulted in a reduction to the Western Cape's PES allocation over the MTEF.

### **Policy priorities funded through the PES**

In the Western Cape, the PES on average makes up 72.3 per cent of total provincial revenue over the 2011 MTEF.

*R7.3 billion is added nationally for Health*

With respect to Health over the MTEF, R7.3 billion is added nationally to the PES. The proportionate share for the Western Cape amounts to approximately R683 million over the MTEF and is aimed to provide for general policy adjustments, improving infant, maternal and child mortality outcomes, further progress in preventing and controlling HIV and Aids, filling of important posts, including medical registrars in obstetrics and pediatrics and to recapitalise nursing colleges.

Additional resources were allocated in the previous MTEF for the phasing-in of the Occupation Specific Dispensation in order to retain critical and skilled health staff. The 2011 MTEF provides for the further rollout of OSD for health therapeutic groups, including occupational therapists, physiotherapists and psychologists.

*R501 million more is added to Education in the Province for educator OSD*

Additional funds for education over the MTEF seek to address a number of challenges facing the education system, including: backlogs in infrastructure, insufficient number of fully qualified teachers, poor school management and high absenteeism amongst students. At national level an amount of R5.4 billion is added to the PES over the 2011 MTEF to provide for the second phase of the OSD for educators. For the Western Cape an estimated additional R501 million is added over the MTEF for educator OSD.

Additional funding is to be made available over the MTEF to improve maintenance of regional roads and rural access roads together with better traffic management and overload control.

### Salary adjustments through the PES

The provincial equitable share allocation makes provision for the carry-through costs of the 2010 salary improvements of 7.5 per cent and the addition to the housing allowance from R500 to R800 per month for qualifying employees following the Public Service Co-ordinating Bargaining Council (PSCBC) Resolution 4 of 2010.

Over the 2011 MTEF, National government has budgeted for R5.4 billion in 2011/12, R5.5 billion in 2012/13 and R5.8 billion in 2013/14 to cater for the PSCBC resolutions of 2010. It is estimated that the Western Cape will receive R490.9 million in 2011/12, R514.3 million in 2012/13 and R539.5 million in 2013/14 for this purpose amounting to R1.5 billion over the MTEF.

### Conditional grants

Nationally, the baseline for conditional grant allocations to all provinces has been revised upwards by R652 million in 2011/12, R2.7 billion in 2012/13 and a further R6.9 billion in 2013/14. The bulk of the conditional grant increases go to the Infrastructure Grant to Provinces for education and roads, Devolution of Property Rates and the comprehensive HIV and Aids programme.

*WC to receive estimated R8.5 billion in conditional grant funds in 2011/12*

National departments must still, after consultation with relevant stakeholders, finalise their respective conditional grant allocations, the exact numbers of which will only be received during December 2010. For planning purposes the Provincial Treasury has made its own calculations based on previous trends in conditional grant distribution.

The Western Cape is estimated to receive an additional R1.1 billion over the MTEF for conditional grants.

Within Education, estimated provisions have been made for school infrastructure R71.5 million in 2012/13 and R253.4 million in 2013/14. R12.4 million in 2011/12, R64 million in 2012/13, and R103.2 million in 2013/14 is added for FET Colleges to cover the cost of wage agreements and to enable colleges to meet the additional demand for enrolment. Reforms to provincial education infrastructure grant funding are being considered in order to accelerate delivery.

For Health, R5.2 million in 2011/12, R5.1 million in 2012/13, R114.5 million in 2013/14 are added towards HIV/AIDS and related services.

For Transport and Public Works, R7 million in 2011/12, R51.3 million in 2012/13, and R74.2 million in 2013/14 are added for provincial roads under the Infrastructure Grant to Provinces. For Devolution of Property rates, R55.9 million in 2011/12, R87.2 million in 2012/13, R115 million in 2013/14 is added to enable provinces to cover the cost of municipal property rates.

For Agriculture, R4 million in 2011/12, R10.8 million in 2012/13, and R14.8 million in 2013/14 is added to the Comprehensive Agriculture Support Grant.

The Western Cape is estimated to receive conditional grants to the total value of R8.5 billion in 2011/12, R8.9 billion in 2012/13 and R9.7 billion in 2013/14. These contribute on average 22.8 per cent of the resource envelope over the 2011 MTEF.

Table 3.2 provide the Provincial Treasury's own calculation of estimated national conditional grant transfers that would flow to the Province over the 2011 MTEF.

**Table 3.2 Estimated revisions to conditional grant baseline allocations for the 2011 MTEF**

R'000	2011/12	2012/13	2013/14	Total MTEF
<b>Education</b>				
<i>FET Colleges</i>	12 418	63 998	103 162	179 578
<i>Infrastructure Grant to Provinces (School Infrastructure)</i>	-	71 476	253 365	324 841
<b>Health</b>				
<i>Comprehensive HIV and Aids Grant</i>	5 232	5 052	114 512	124 796
<i>EPWP Social Sector</i>	-	19	1 201	1 220
<b>Transport and Public Works</b>				
<i>Devolution of Property rates</i>	55 905	87 166	114 953	258 024
<i>Infrastructure Grant to Provinces (Provincial Roads)</i>	7 000	51 305	74 150	132 455
<b>Agriculture</b>				
<i>Comprehensive Agricultural Support Grant</i>	4 005	10 814	14 778	29 597
<b>Total</b>	<b>84 560</b>	<b>289 829</b>	<b>676 122</b>	<b>1 050 510</b>

### Unallocated policy priority reserve

As part of the national fiscal envelope an amount of R22.1 billion remains unallocated over the MTEF and forms part of a defined unallocated policy priority reserve. According to the National Medium Term Budget Policy Statement part of this reserve will be set aside for education, health, infrastructure, roads and job creation, in particular for youth employment programmes. Of the R22.1 billion preliminary amounts of R1 billion in 2011/12, R2 billion in 2012/13 and R3 billion in 2013/14 are targeted towards youth employment projects which will provide young people with work experience in public service or community development, on-the-job and vocational training, and job-search assistance.

*R6 billion from unallocated Policy Priority Reserve targeted at youth unemployment over the MTEF*

Provincial treasuries were invited by National Treasury to bid for a share of the unallocated policy priority reserve with possible further transfers being made to provinces. The Western Cape indicated that additional funding transfers be targeted towards infrastructure maintenance, skills development, library services, personal primary healthcare, economic infrastructure delivery and telecommunications. Investment in economic infrastructure has been highlighted due to its necessity in stimulating economic growth.

### Provincial own receipts

In aggregate, provincial own receipts as shown in Table 3.3 are projected to increase from R1.8 billion in the 2010/11 Adjusted budget to R1.9 billion in 2011/12. The increasing trend is projected to continue for 2012/13 and 2013/14. The projected growth of the 2011 MTEF period will be mainly supported by the growth in own receipts items such as motor vehicle licence fees and funding (donation) from the Global Fund targeted for HIV and Aids.

*Provincial own receipts contributes 5.3 per cent to the 2011/12 total budget*

The contribution to the Western Cape provincial own receipts is mainly from three provincial departments, namely the Provincial Treasury, the Department of Health and the Department of Transport and Public Works. Total provincial own receipts for the Department of Transport and Public Works is projected to increase from R915.2 million in 2010/11 to R951.6 million in 2011/12. Total provincial own receipts for the Department of Health is projected to increase from R423.6 million in 2010/11 to R493 million in 2011/12. The additional own receipts is attributed to transfers (donation) received from the Global Fund.

Provincial Treasury's (Vote 3) own provincial receipts are expected to marginally increase from R349.4 million in 2010/11 to R352.2 million in 2011/12. The flat forward estimates in gambling tax revenue can be attributed to the industry having reached a mature level as well as the relatively slow pace of recovery expected in the economy after the economic recession. Table 3.3 shows the estimated contributions of departments to provincial own receipts and the specific changes to the baseline per financial year over the 2011 MTEF.

Changes to provincial own receipts baseline show that between 2010/11 adjustment budget and 2011/12 own receipts are projected to increase by 5.9 per cent. The increase is largely attributed to increasing receipts within the Department of Health as a result of the Global Fund donation. Between 2011/12 and 2013/14 own receipts are projected to increase by 4.4 per cent.

**Table 3.3 Summary of provincial own receipts by vote**

Provincial Department R'000	2010/11	2011/12		2012/13		2013/14
	Adjusted Estimates	Revised Estimate	Changes to baseline	Revised Estimate	Changes to baseline	Revised Estimate
Premier	563	591	-	613	-	613
Provincial Parliament	52	52	-	52	-	52
Provincial Treasury	349 397	352 242	2 845	352 242	2 845	352 242
Community Safety	2 676	2 586	( 46 )	2 783	( 1 )	2 952
Education	22 874	24 025	1 000	24 533	1 508	25 065
Health	423 590	493 002	166 462	529 549	203 009	535 928
Social Development	1 385	565	168	593	183	615
Housing	60 000	60 000	10 000	60 000	10 000	60 000
Environmental Affairs and Development	156	318	162	318	162	318
Transport and Public Works	915 175	951 587	39 371	971 535	31 424	990 158
Agriculture	23 812	24 242	-	25 454	1 212	25 454
Economic Development and Tourism	4 518	5 334	1 266	5 334	1 266	5 334
Cultural Affairs and Sport	3 761	715	( 82 )	825	( 8 )	935
Local Government	597	50	50	50	50	50
<b>Total</b>	<b>1 808 556</b>	<b>1 915 309</b>	<b>221 196</b>	<b>1 973 881</b>	<b>251 650</b>	<b>1 999 716</b>

Table 3.4 below shows the total annual provincial own receipts budget over the 2011 MTEF per source. The major sources of own receipts for the Province are motor vehicle licence fees, casino taxes and health patient fees which together account for over 75 per cent of provincial own receipts.

**Table 3.4 Western Cape own receipts by source 2010/11 – 2013/14**

Source R'000	2010/11	2011/12	2012/13	2013/14
	Adjusted estimates	Medium-term estimate		
<b>Tax receipts</b>	1 146 216	1 214 349	1 232 607	1 251 230
Casino taxes	275 123	277 000	277 000	277 000
Motor vehicle licences	848 072	912 885	931 143	949 766
Horse racing taxes	19 223	20 000	20 000	20 000
Other taxes (Liquor licence fees)	3 798	4 464	4 464	4 464
<b>Sales of goods and services other than capital</b>	412 357	386 287	389 892	390 583
<b>Transfers received</b>	112 191	178 005	214 552	220 931
<b>Fines, penalties and forfeits</b>	1 458	1 111	1 217	1 323
<b>Interest, dividends and rent on land</b>	58 914	58 807	58 812	58 813
<b>Sales of capital assets</b>	29	29	29	29
<b>Financial transactions in assets and liabilities</b>	77 391	76 721	76 772	76 807
<b>Total provincial own receipts</b>	<b>1 808 556</b>	<b>1 915 309</b>	<b>1 973 881</b>	<b>1 999 716</b>

### Motor vehicle licence fees (MVLf)

As the largest revenue item for provincial own receipts, motor vehicle licence fees (MVLf) are projected to contribute R848.1 million to provincial own receipts in 2010/11. The income from these fees are projected to increase to R912.9 million in 2011/12, R931.1 million in 2012/13 and R949.8 million in the 2013/14 financial years. These increases give rise to an average annual growth of 2 per cent over the MTEF period, mainly as a result of the anticipated growth in the registered motor vehicles over the MTEF period.

*Revenue from motor vehicle license fees are expected to increase by an average annual rate of 2 per cent over the 2011 MTEF*

Provinces have gradually started increasing MVLf to align their fees with the Western Cape, albeit at different rates. As a result, KwaZulu-Natal is now on average on par with the Western Cape for lower tare categories (light vehicles) but has surpassed the Western Cape in higher tare categories (heavy vehicles).

*Health patient fees to remain around at approximately R281.8 million per annum*

### **Health patient fees and donations from the Global Fund**

Health patient fees, incorporated under 'sales of goods and services other than capital assets' in Table 3.4, are expected to contribute R281.8 million to provincial own receipts in 2010/11. It is projected that this revenue item will remain at this level for the duration of the 2011 MTEF period.

Three hospitals, Groote Schuur, Tygerberg and Red Cross Children's War Memorial together contribute almost 70 per cent of total Health Patient Fees. Health Patient Fee income is predominantly dependent on the number of patients requiring medical care. However, recent adverse economic conditions have led to a disproportionate number of patients declared as no or low income and therefore are not required to pay for services rendered to them.

In April 2010, the Global Fund Board approved an additional six years of funding under the Rolling Continuation Channel (RCC) targeted to strengthen, expand and to sustain the Province's HIV/AIDS prevention, treatment and care programme. The total grant fund commitments (2 phases) amounts to US\$ 127.9 million (about R1 billion). Although phase 1 is scheduled to end on 30 June 2013, it is reasonably expected that the full commitment from the Global Fund will accrue to the Province up until June 2016. The 2013/14 estimates include the anticipated revenue.

### **Interest, dividends and rent on land**

Interest on the current account, dividends and rent on land is expected to contribute R58.9 million to budgeted provincial own receipts in 2010/11. The amount is projected to decline marginally to R58.8 million in 2011/12.

### **Casino and horse racing taxes**

*The average contribution of casino taxes over the 2011 MTEF is 15.2 per cent*

Casino taxes remain one of the largest contributors to provincial own receipts with a projected contribution in 2010/11 of 15.2 per cent to total provincial own receipts of the Western Cape. Casino taxes are expected to remain largely unchanged from the 2010 MTEF and will contribute R275.1 million in 2010/11. Casino taxes are projected to increase slightly over the 2011 MTEF to R277 million. The sluggish growth in casino taxes can be attributed to the slow recovery of the economy after the economic recession.



Horse racing taxes are projected to increase marginally to R20 million over the MTEF period from R19.2 million in 2010/11.

The Provincial Treasury is investigating new initiatives in order to increase revenue from casino taxes. One of these initiatives relates to the ending of the exclusivity period within the Western Cape metro which would enable one of the existing outlying casino's to relocate to the metro.

### **Liquor licence fees**

Liquor licence fees have remained unchanged over the 2011 MTEF at R3.8 million. The implementation of the new Western Cape Liquor Act is likely to increase the revenue generating capacity of this revenue item. The new Western Cape Liquor Act is projected to be implemented early in 2011.

*WC Liquor Act expected to be promulgated by early 2011*

### **Reviewing the fiscal transfer system**

With the introduction of our current fiscal transfer system, Budget Council acknowledged that the current system did not foreclose any future discussion and decision on the evolutionary path of the South African intergovernmental fiscal transfer system. Further possible options include: tax sharing, revenue sharing and adopting a differentiated approach to social service delivery and economic development. The primary tenet of the current PES formula is redistribution and equity.

The Western Cape has engaged National Treasury regarding the "Economic Role of Provinces" and how the fiscal transfer system can respond to promoting differentiated regional development. By assigning provinces greater opportunities for revenue or tax sharing would allow for greater flexibility to explore options that support economic development and growth, not only regionally, but also country-wide.

Alternatively, the possible introduction of an Economic Services component that lies outside of the PES formula and that allocates resources related to the spatial distribution of economic activity (e.g. in terms of where VAT and Personal Income Tax were collected), an arrangement that can be referred to as indirect 'revenue sharing', offers another mechanism for enabling provinces to more effectively fulfill their role in economic development.

## **Conclusion and impact on services**

The overall envelope remains tight with limited room for expansion of current services. Increases to the provincial equitable share largely cater for increased personnel costs related to the general salary increments. Furthermore provision is made for the Occupation Specific Dispensation for certain categories of health professionals as well as the second phase of the OSD roll out for educators.

Revisions to conditional grants provide for school and road infrastructure, FET Colleges, HIV and Aids, Devolution of Property rates and agriculture support.

An amount of R22.1 billion remains unallocated nationally. The Western Cape has bid for a share of this unallocated Policy Priority Reserve and if successful, would use this money for investment in infrastructure supportive of economic growth and development.

Provincial own receipts, which contribute approximately 5 per cent of the overall revenue envelope, are anticipated to show moderate growth over the MTEF.

# 4

## Expenditure trends

The 2010 Adjusted Budget proposes an additional R1.2 billion spending for the 2010/11 financial year, and lays the basis for the broad policy allocations in the Medium Term Budget Policy Statement.

Total provincial expenditure for the first six months of 2010/11 amounted to R15.2 billion or 45.3 per cent of the 2010/11 main budget and is R1.6 billion more than the spending total for the equivalent period of 2009/10. The 2010 Adjusted Budget consists mainly of technical adjustments and allocations for specific purposes to, in the main, achieve fiscal stability.

### 2009/10 Expenditure outcomes

In total, spending for the Province amounted to R30.1 billion out of a total adjusted appropriation of R30.7 billion. Details of the 2009/10 expenditure outcomes for the provincial votes are set out in Table 4.1 below.

For the 2009/10 financial year, the under spending amounted to R566 million or 1.8 per cent of the total adjusted appropriation. The under spending mostly relates to national conditional grants, namely the Hospital Revitalisation Grant (R43 million), Infrastructure Grant to Provinces (R42 million), Integrated Housing and Human Settlement Development Grant (R84 million) and the Transport Disaster Management Grant (R186 million).

*2010/11 Adjusted Budget adds an addition R1.2 billion to the baseline*

## **2010/11 Mid-year estimates and adjusted budget**

Expenditure by the Province in the first six months of 2010/11 amounted to R15.2 billion, or 45.3 per cent of the R33.2 billion main appropriation for the year. Details of the estimates for the first half of the current financial year for the provincial votes are also set out in Table 4.1 below.

The 2010/11 provincial adjusted budget proposes mainly technical adjustments to the 2010 Main budget in order to achieve fiscal stability in the current financial year and over the 2011 MTEF. The main additions proposed include the following:

- R313.5 million to cover higher than anticipated wage settlement costs in provincial departments;
- R71.4 million for the Occupation Specific Dispensation (OSD) for the Health sector (doctors and health therapeutic);
- R134.6 million for technical adjustments to national conditional grants, which includes R83 million for the devolution of the property rates grant and R50 million for the Agricultural disaster management grant relating to the drought in the Eden municipal district;
- R384.3 million relates to unspent conditional grants of 2009/10, which R186.5 million relates to the Transport Disaster Management Grant;
- R120.7 million for departmental increases in 2010/11 own receipts;
- R13.9 million in rollovers arising from commitments related to unspent balances in 2009/10 and R64.6 million in revenue retention of 2009/10 over recovered revenue; and
- A net amount of R65.6 million in additional funds from the Provincial Revenue Fund for technical adjustments, which includes shifts away from votes for deferred commitments and re-allocation in the 2011 MTEF.

**Table 4.1 Expenditure by votes, 2009/10 - 2010/11 financial years**

Vote R'000	2009/10			2010/11		
	Adjusted Budget	Audited Outcome	Deviation from Adjusted Budget	Main budget	Adjusted budget	Actual Spending April 2010 to September 2010
1. Department of the Premier	484 245	478 089	1.3%	545 168	623 369	244 998
2. Provincial Parliament	74 112	64 054	13.6%	77 382	74 982	39 547
3. Provincial Treasury	139 757	138 371	1.0%	160 470	131 504	59 472
4. Community Safety	274 589	272 623	0.7%	287 808	288 911	124 717
5. Education	10 663 812	10 613 313	0.5%	11 845 691	11 998 212	5 480 441
6. Health	10 463 716	10 371 034	0.9%	11 962 863	12 408 383	5 716 193
7. Social Development	1 180 818	1 165 391	1.3%	1 219 287	1 233 817	567 618
8. Housing	1 782 802	1 701 333	4.6%	2 060 623	2 192 395	731 328
9. Environmental Affairs & Development Planning	265 061	263 330	0.7%	304 949	301 425	142 809
10. Transport & Public Works	4 170 181	3 872 191	7.1%	3 686 548	4 000 096	1 586 591
11. Agriculture	493 468	490 117	0.7%	428 995	483 987	212 178
12. Economic Development and Tourism	264 466	263 217	0.5%	241 478	237 544	129 474
13. Cultural Affairs & Sport	302 096	301 730	0.1%	289 241	294 704	153 604
14. Local Government	84 522	81 121	4.0%	102 638	113 009	42 201
<b>Sub-total</b>	<b>30 643 645</b>	<b>30 075 914</b>	<b>1.9%</b>	<b>33 213 141</b>	<b>34 382 338</b>	<b>15 231 171</b>
Direct Charge	28 459	30 519		28 351	29 290	13 605
<b>Total</b>	<b>30 672 104</b>	<b>30 106 433</b>	<b>1.8%</b>	<b>33 241 492</b>	<b>34 411 628</b>	<b>15 244 776</b>

## Conclusion

Going forward, the key challenges for provincial votes are to ensure that spending promotes fiscal stability and to increase efficiency in spending so as to reprioritise towards quality frontline services.