

2020 Budget Summary

Introduction

A constrained economic and fiscal environment alongside increasing demands for government services sets the context for the 2020 Budget. Despite these challenging circumstances, the Western Cape Government (WCG) remains committed to fulfilling the role of a competent state and formulating a Budget that is responsive to the needs of all those living in the Western Cape.

To this end, we reviewed and strengthened our WCG Fiscal Strategy and made the required adjustments to the 2020 Budget approach and process with the objective of maintaining fiscal sustainability and delivering on the policy imperatives of this government.

The 2019 - 2024 Provincial Strategic Plan (PSP) outlines the Vision Inspired Priorities of the WCG and sets the course toward "A safe Western Cape where everyone prospers". Over the next five years, the WCG will build safe and cohesive communities, boost the economy and job creation, empower our people, promote mobility and spatial transformation while driving innovation within a culture of a truly competent state.

The 2020 Budget is the main policy tool which will enable the delivery of the PSP. To effectively deliver on the objectives of the 2020 Budget we will strengthen key partnerships with the local and national spheres of government, private sector and civil society

In aggregate, the 2020 Provincial Budget provides for total expenditure amounting to R71.619 billion in 2020/21, R74.887 billion in 2021/22, and R78.308 billion in 2022/23.

Economic overview

Global growth is estimated to have eased to 2.9 per cent in 2019, from 3.6 per cent in 2018, as growth slowed down in advanced and emerging and developing economies. A mild recovery in global economic growth to 3.3 per cent in 2020 and 3.4 per cent in 2021 is however projected. Growth will be largely driven by relatively stronger recovery in emerging and developing economies, which are expected to grow at 4.4 per cent and 4.6 per cent in 2020 and 2021, respectively.

The South African economy is estimated to have slowed further to 0.3 per cent in 2019, from 0.8 per cent recorded in 2018. Domestic growth is however projected to improve to 0.6 per cent in 2020 and 1.2 per cent in 2021. Importantly, this base view includes a sovereign credit

rating downgrade by Moody's to sub-investment grade during 2020. Consumer expenditure remains under pressure, with real household expenditure estimated to have grown by only 1.2 per cent in 2019, and expected to moderate further in 2020. Similarly, Total fixed investment is forecast to decrease by 0.4 per cent in 2020, following a 0.2 per cent decline in 2019, before rising by 1.3 per cent in 2021. Despite increased private sector fixed investment, largely due to investment in renewable energy projects in 2019, low business confidence will likely weigh on private sector investment appetite over the medium term. The rand is expected to remain under pressure in 2020, weakening from current levels of around R14.50/\$ to an average of R15.30/\$ in the second quarter of 2020, largely due to the volatility associated forthcoming Moody's sovereign credit rating review. Headline inflation is however expected to remain stable at an average of 4.6 per cent in 2020 and 2021.

The Western Cape economy is expected to have grown by 0.6 per cent in 2019, as better rainfall saw the beginning of a recovery in the agriculture and agri-processing sectors. While the Agriculture, forestry and fishing sector is expected to be the fastest growing sector, at an annual average of 2.4 per cent between 2020 and 2024, it is unlikely that production will return to pre-drought levels over this period. The tertiary sector will remain the biggest drive of growth in the Province over the forecast period. Finance, insurance, real estate and business services sector is forecast to grow at an average annual rate of 2.0 per cent between 2020 and 2024, while the Wholesale and retail trade, catering and accommodation sector is forecast to expand by an annual average of 1.8 per cent. Key risks to the Western Cape economic outlook include the impact of the COVID-19 outbreak, continued strained global trade dynamics and continued load-shedding in South Africa.

At 20.9 per cent in the fourth quarter of 2019, the unemployment rate in the Western Cape remained the lowest nationally. The provincial labour force grew by 2.0 per cent between the fourth quarter of 2018 and 2019, while employment remained relatively stable over the period at around 2.5 million. This has resulted in a slight decline in the Province's employment-to-population ratio from 54.8 per cent at the end of 2018 to 53.7 per cent at the end of 2019. High youth unemployment continues to be a critical challenge. In the fourth quarter on 2019, 31.2 per cent of 15 - 34 year olds were unemployed compared to 13.2 per cent for those aged 35 - 64 years. Youth unemployment in the Province however remains significantly lower than the national youth unemployment rate of 41.5 per cent.

The Western Cape is home to an estimated 6.844 million people. Life expectancy in the Province remains the highest nationally, largely as a result of progress on key health indicators related to maternal, infant and child health outcomes as well as HIV testing and treatment programmes. In 2019, 82.3 per cent of learners who wrote the National Senior Certificate Examination, an improvement on the 81.5 per cent pass rate in 2018. Access to basic services such as electricity, running water, sanitation and refuse removal remains relatively high in the Province. Despite these positive socio-economic developments, the incidence of crime, and in particular, violent crime has increased in the Western Cape over the last several years.

Fiscal Strategy and Response

The national government's fiscal position has been severely affected by lower economic growth. This has resulted in higher than expected revenue shortfalls, while further bail-outs of state-owned companies required the reallocations of limited resources. In addition, the higher debt-to-GDP ratio has increased the debt service costs. These dynamics threaten the national fiscal sustainability and demanded more decisive action by the three spheres of government.

The WCG is also faced with a number of provincial risks to the fiscus and to transversal service delivery risks that were taken into account when deriving the 2020 Budget. These risks include:

- Pressure on the provincial purse that may arise from upcoming wage negotiations outcome;
- Population growth and rapid urbanisation;
- Increased service demand pressures;
- The energy supply crisis;
- Climate change and associated risks which include drought; and
- Inefficient relationships with state-owned companies that provide critical services to enable economic growth.

As a response to the fiscal, economic and service delivery risks the, the WCG Fiscal Strategy informs the formulation of a risk responsive provincial Budget that optimises service delivery outcomes informed by the core provincial mandates and priorities. The Strategy is applied through 3 elements, namely ensuring a balanced budget, the active management of expenditure and continued efficiency and innovation in revenue management.

The following budget allocation principles were applied in funding the 2020 Budget:

- Embedding the principles and elements of the WCG Fiscal Strategy in all resource allocation decisions;
- Supporting the implementation of the 2019 - 2024 Provincial Strategic Plan (PSP) which includes positioning departments to deliver on PSP with effect from 1 April 2020;
- Promoting fiscal stability, which encompasses sustaining commitments in 2019 Adjusted Budget; supporting a single budget process to deliver on the provincial priorities and maintaining a sustainable fiscal base; and
- Managing critical risks which includes managing key budgetary and service delivery risks; containing wage bill growth and earmarking allocations to transversal interventions associated with PSP priorities and recognising interdependencies across spheres in government in programme execution.

The 2020 Budget is the result of a continuous cycle of engagement between Provincial Treasury and various stakeholders through a number of key budget process milestones which include the Medium Term Budget Policy Committee and the Provincial Government Medium Term Expenditure Committee. Throughout the budget process the WCG has committed to an Integrated Service Delivery approach to strengthening synergies with key planning and service delivery partners. Over the 2020 Medium Term Expenditure Framework (MTEF) the WCG will continue to ensure that Gender Responsive Budgeting is reflected in the provincial budget to drive the vision of a non-sexist and equal society.

Budget spending plans and priorities

The 2020 MTEF aims to support service delivery towards creating a safe Western Cape where everyone prospers, through allocating resources to the Vision Inspired Priorities (VIPs) /policy priorities as set out in the PSP.

Safe and Cohesive Communities

The WCG has allocated an amount totalling R4.047 billion exclusively towards enhancing safety and crime prevention initiatives over the 2020 MTEF. This priority aims to achieve safe and cohesive communities, over time, through a reduction in violent crime as measured by a decrease in the murder rate. This policy priority will implement an evidence-based and holistic transversal response to violence in the Province with a sense of urgency. In addition, people's perceptions of safety should also improve. VIP 1 interventions which are unpacked in the Western Cape Safety Plan, have been grouped into three inter-dependent focus areas, namely:

- Enhanced capacity and effectiveness of policing and law enforcement;
- Strengthened youth-at-risk referral pathways and child and family-centered initiatives to reduce violence; and
- Increased social cohesion and safety of public spaces.

Growth and Jobs

By driving competitiveness in the Province, it is envisaged that the Western Cape will become an investment destination of choice due to a more skilled labour force, excellent infrastructure, and improved productivity. R32.402 billion is allocated over the 2020 MTEF toward initiatives supporting this vision. Achieving this impact requires the efforts of all stakeholders in the Western Cape, which includes, local government, national government, the private sector, and households, as well as international partners. VIP 2 identifies five priority areas for boosting economic development, these include:

- Investment facilitation and promotion;
- Infrastructure development;
- Growing the economy through export growth;
- Creating opportunities for job creation through skills development; and
- Creating an enabling environment for economic growth through resource resilience.

Empowering people

This VIP seeks to equip residents with the skills, capacity, and support to seize their available opportunities and to live a dignified and meaningful life, while giving back to their communities. This policy priority takes a life course approach which recognises the different needs as individuals progress through the life stages. The life course approach prioritises interventions at the critical phases through the focus areas of children and families, education and learning, youth and skills, and health and wellness. The total allocation to this VIP over the 2020 MTEF to strengthen families, providing opportunities for youth development and ensuring quality health and education, among other, is R173.825 billion. To achieve the impact

identified for this VIP priority, four focus areas have been identified that target the key phases of each life stage, these are:

- Children and families;
- Education and learning;
- Youth and skills; and
- Health and wellness.

Mobility and Spatial transformation

This policy priority has been allocated an amount of R24.624 billion over the 2020 MTEF, to leverage public investments in infrastructure, human settlements, public spaces, and services to heal, connect, integrate, and transform communities while reducing vulnerability to climate change. The WCG envisions that all residents live in well-connected, vibrant, and sustainable communities and move around efficiently on safe, affordable, low carbon public transport. The focus areas for this VIP are:

- Better linkages between places through public transport and mobility systems that work together;
- Inclusive places of opportunity;
- More opportunities for people to live in better locations; and
- Improving the places where people live.

Innovation and Culture

The WCG has allocated an amount of R7.520 billion over the 2020 MTEF towards building on good governance achievements and to replicate these across all spheres of government for the benefit of communities and residents. The Departments of the Premier, Local Government, as well as the Provincial Treasury contribute towards this objective and to further support this priority an additional allocation of R108.507 million has been made over the 2020 MTEF.

Five challenges have been identified that must be addressed and responded to in order to get close to this overall intent. These include an inward focused organisational culture; innovation that exists, but is not fully embedded in the WCG; limited integration across spheres of government and with external partners; good governance primarily driven by compliance processes; and the innovative and retention capacity of staff is not fully nurtured and developed for our everchanging and complex environment. This VIP focuses on the following:

- Citizen-centric culture;
- Innovation for impact;
- Integrated service delivery; and
- Governance transformation.

Infrastructure

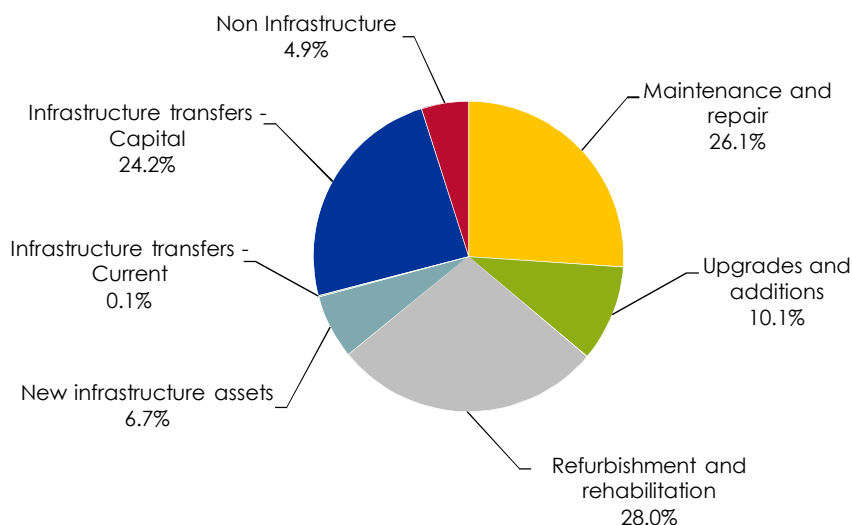
Consolidated Departmental Infrastructure Expenditure

Investment in social, economic, ecological and virtual infrastructure, amongst others, aim to achieve economic acceleration over the medium term. The WCG Fiscal Strategy, premised on the principles of allocative efficiency, fiscal consolidation, fiscal sustainability and fiscal discipline, has enabled the Province to create a long-term financing plan to support its infrastructure investment strategy.

The Province plans to spend R28.6 billion on infrastructure over the 2020 MTEF inclusive of fixed assets and the investment in Virtual and Catalytic infrastructure, Agricultural infrastructure which includes Ecological infrastructure, and Energy which includes the Green Economy.

Lifecycle planning and budgeting is undertaken for immovable (fixed) assets. A key area of intervention is in *maintenance* as this will assist in deriving maximum value from assets, protecting the investment made in public sector immovable assets and ensuring business continuity through the ongoing availability of such assets at reasonable cost and within acceptable risk parameters. It also enables and support economic development, social upliftment and environmental sustainability for the benefit of people in creating public value.

Figure 1: Nature of Infrastructure Investment over the 2020 MTEF



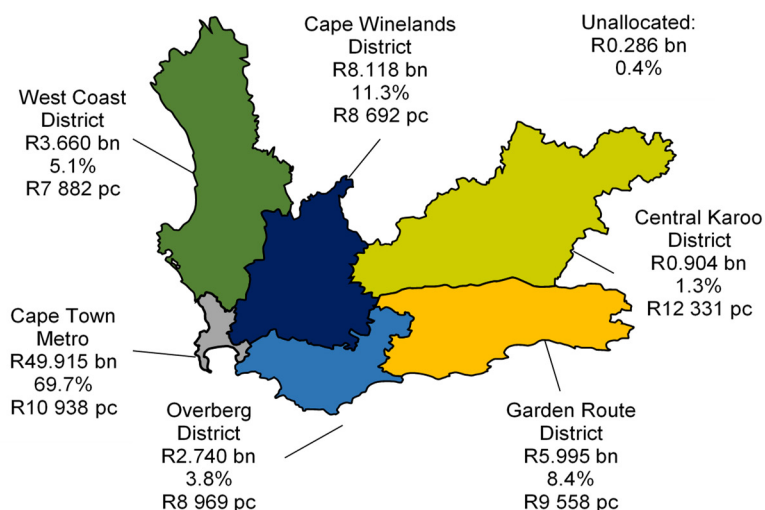
- The focus remains on the maintenance of the existing provincial infrastructure asset base with refurbishments and rehabilitation, maintenance and repairs accounting for 54.1 per cent of the planned infrastructure investment of the 2020 MTEF.

Spatial distribution of provincial expenditure

Provincial payments and estimates by metro, district and local municipalities

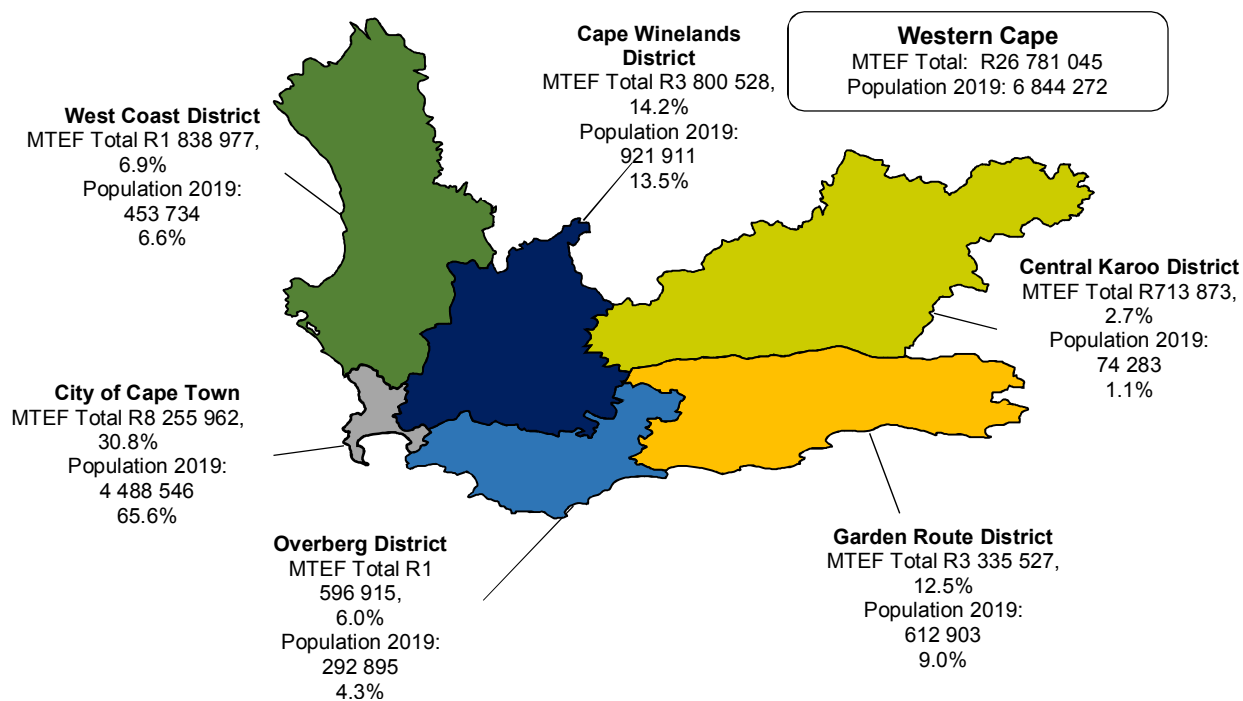
Determinants of the allocation to municipalities are influenced by the priorities and implementation pipelines established over time; the spatial distribution of the population; socio-economic challenges; and the location of sourced service providers.

Figure 2 Provincial payment percentages, Metro and Districts



- Based on population dynamics and relative demand for government services, provincial departments will spend R71.619 billion in municipal spaces across the Province in 2020/21.
- Approximately 70 per cent of the 2020 MTEF Budget will be spent in the Cape Metro; while the 5 districts make up the remainder.
- The Central Karoo District and Cape Town Metro accounts for the highest total Provincial Expenditure Per Capita (PC).

Figure 3 2020 MTEF: Spatial distribution of Planned Infrastructure Expenditure in the Western Cape (R'000)



- The 2020 MTEF allocation amounts R26.8 billion (excl. Virtual, Catalytic, Ecological, Agriculture and Green Economy amounting to R1.8 billion).

Budget aggregates

Revenue

- Over the 2020 MTEF, the total provincial revenue available to the WCG amounts to R232.195 billion with R73.511 billion in 2020/21, R77.126 billion in 2021/22 and R81.558 billion in 2022/23.
- **Provincial Equitable Share (PES):** The largest revenue share item for the WCG, PES account for **75.1 per cent or R55.208 billion** of the total 2020/21 Budget. Funding received through the equitable share formula is driven using objective and verifiable data to reflect the demand for services across all nine provinces. To ensure that the formula remains responsive to population shifts across provinces, the six components of the formula updated on an annual basis are Education, Health, Poverty, Economic activity, Basic and Institutional.
- **Conditional Grants:** Account for **17.9 per cent or R13.191 billion** of the total 2020/21 Budget and is the second largest revenue source available to fund provincial expenditure of which the largest is allocated to the Department of Health, followed by the Department of Human Settlements.
- **Provincial Own Receipts:** Account for **3.6 per cent or R2.620 billion** of the total 2020/21 Budget. Motor vehicle licence fees is the largest source of own revenue.
- **Financing:** The smallest revenue share item for the Western Cape Government, Financing accounts for **2.5 per cent or R1.858 billion** of the total 2020/21 Budget.

Expenditure by economic classification

- Total provincial expenditure for 2020/21, inclusive of direct charges, amounts to R71.664 billion. This is an increase of 5.2 per cent from the 2019/20 Revised Estimate. The main spending categories, consists of current payments (R55.112 billion), transfers and subsidies (R11.564 billion), payments for capital assets (R4.937 billion) and payments for financial assets (R6.812 million).
- **Compensation of employees (CoE):** The largest expenditure item for the WCG, personnel expenditure account for **55 per cent or R39.548 billion** of the total 2020/21 Budget. Over the past three financial years, CoE has been a key lever in bringing about fiscal consolidation as part of the WCG Fiscal Strategy. Part of maintaining and managing the wage bill at sustainable levels has been the introduction of personnel upper limits in 2016. This will continue over the 2020 MTEF considering the benefits reaped in bringing about fiscal discipline and fiscal consolidation. However, the need to further contain the wage bill, as part of fiscal consolidation, requires a more comprehensive CoE Reduction Strategy to be implemented over the 2020 MTEF, including:
 - The termination of performance bonus allocations in 2021/22. Further work will be done towards finding sustainable and practical non-monetary performance rewards in the Western Cape public service;
 - Limiting overtime spend through planning and implementing stricter controls and protocols;

- Leave pay-outs to be managed and proper leave planning encouraged; and
 - Institutionalisation of committees to moderate changes to the organisational design of provincial departments with the aim of ensuring that personnel numbers are tailored to departmental goals in line with the overall personnel upper limits.
- **Goods and services (G&S):** Accounting for **22 per cent** of expenditure or **R15.563 billion**. Compensation of Employees' Reduction Strategy. Current cost containment and efficiency initiatives in G&S are supported by strategic sourcing methodologies in the procurement planning process. These initiatives are designed to leverage efficiency gains and economies of scale through focused commodity strategies and support to provincial departments and entities.
 - **Transfers and subsidies:** At **16 per cent** or **R11.564 billion** of the total 2020/21 Budget, this consists mainly of expenditure transfers to Non-Profit Institutions and transfers to households. The departments of Education (50.9 per cent) and Social Development (28.6 per cent) are the major contributors to the 2020/21 transfers to NPIs.
 - **Payments for capital assets:** Accounting for **7 per cent** of expenditure or **R4.937 billion**. The majority of the spending will be incurred by the departments of Transport and Public Works (R2.966 billion), Education (R912.869 million) and Health (R892.853 million). These three departments account for R4.772 billion or 96.7 per cent of the total provincial capital asset allocation in 2020/21.

Figure 4 Allocations by Vote, 2020/21

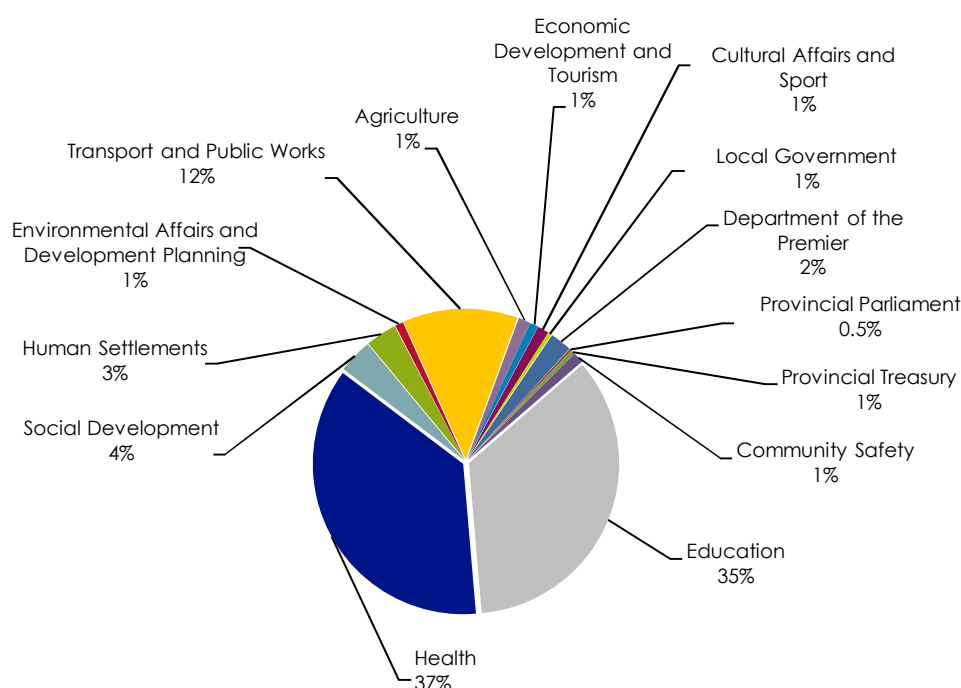
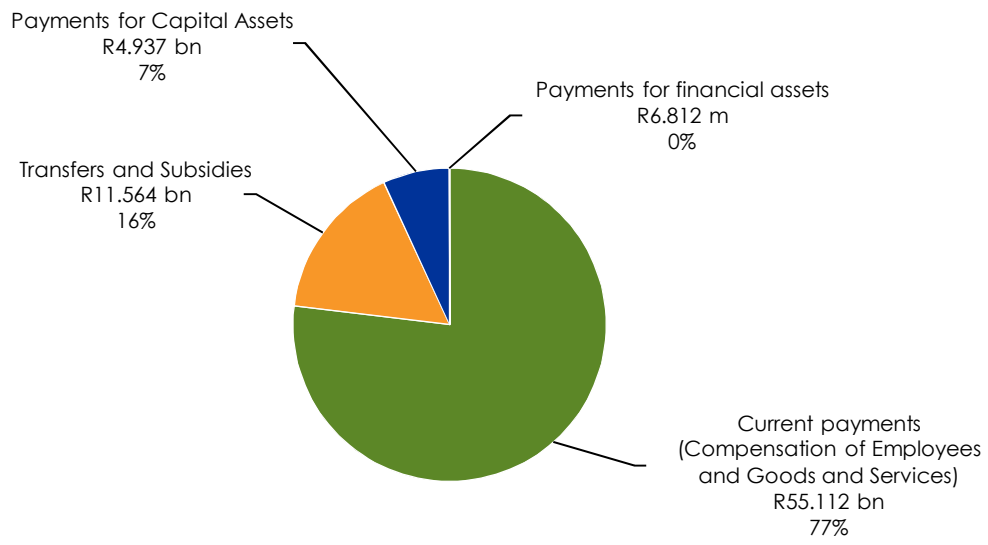
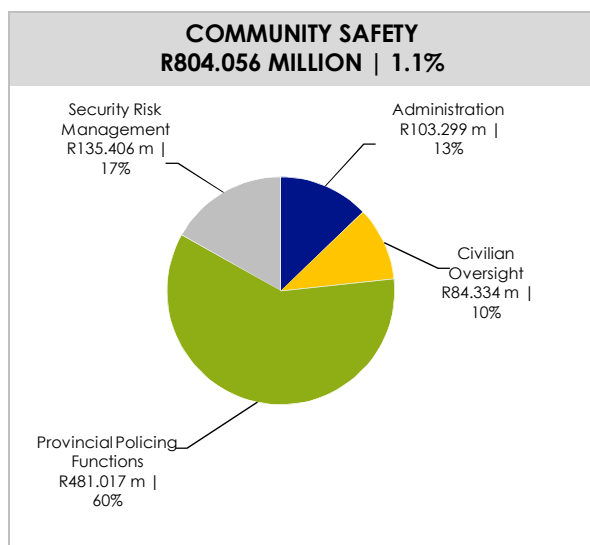
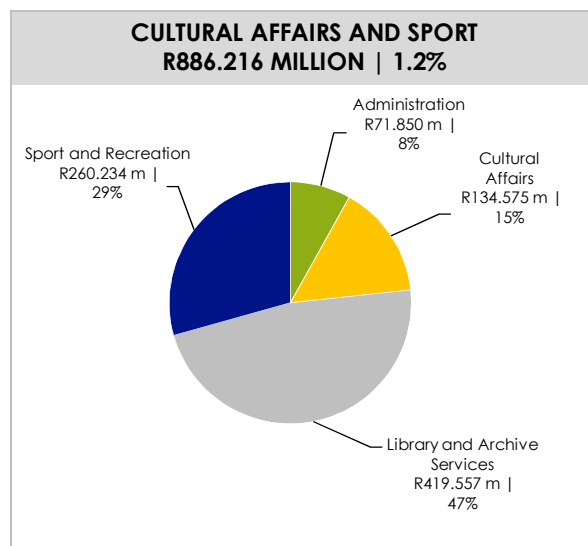
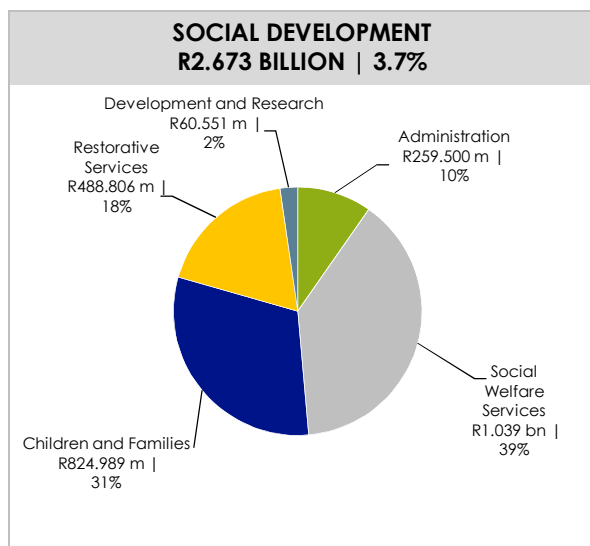
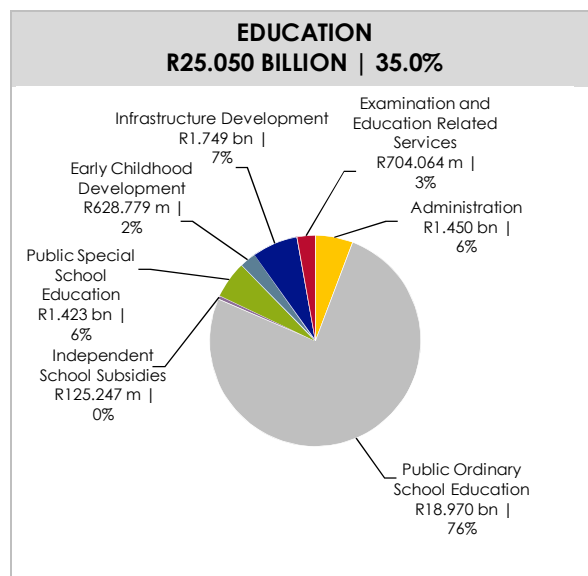
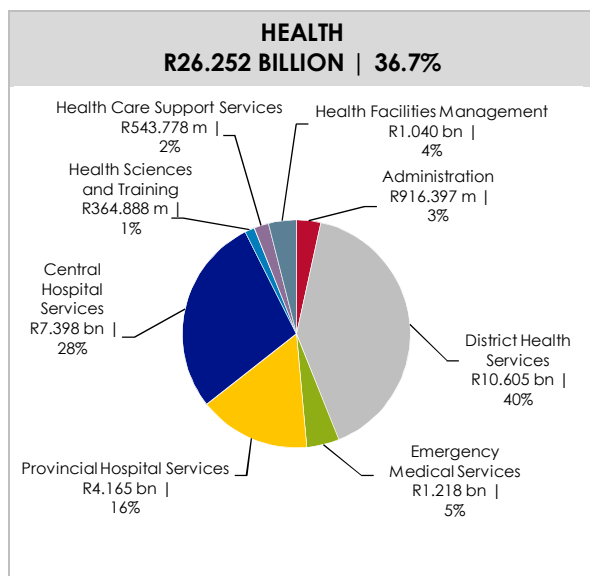


Figure 5 Payments by Economic Classification, 2020/21

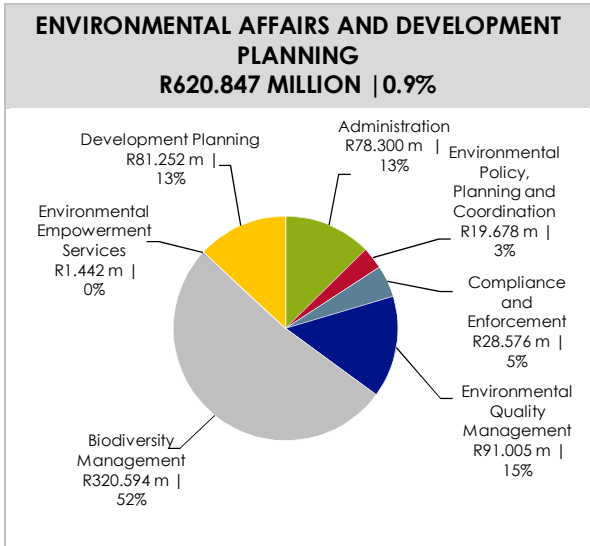
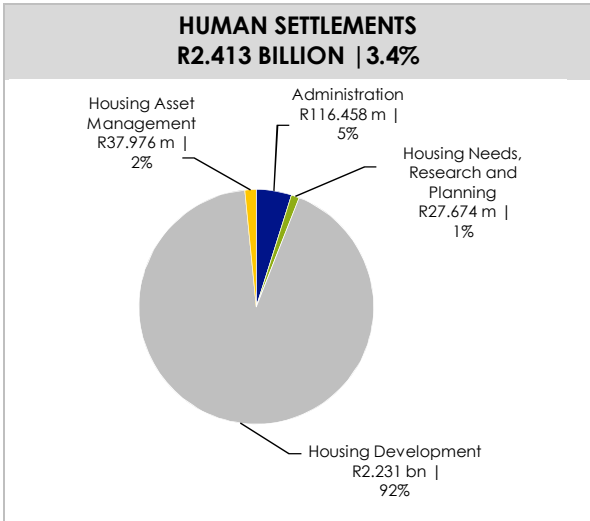
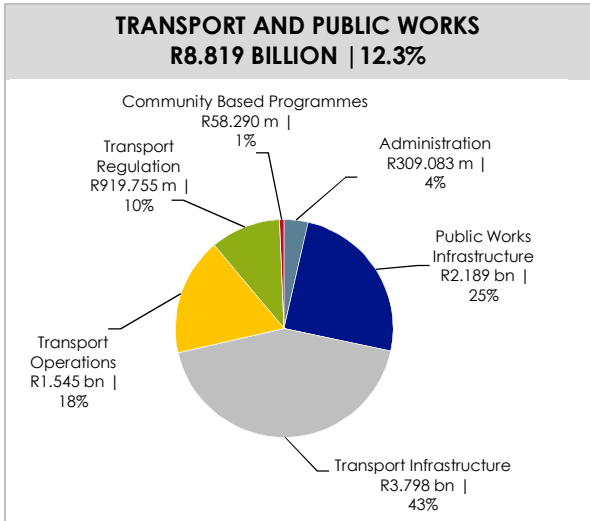
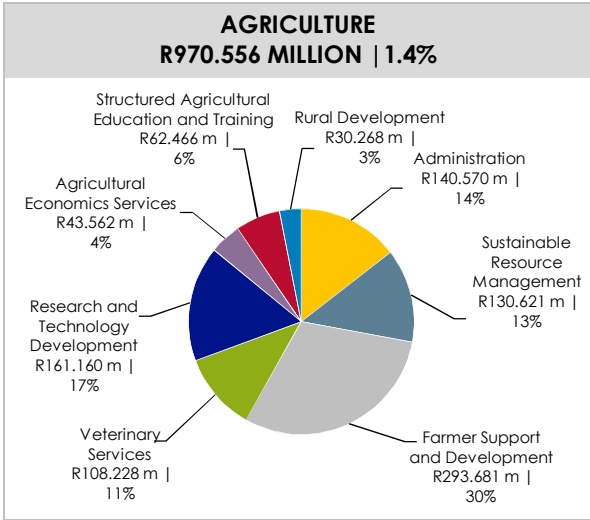
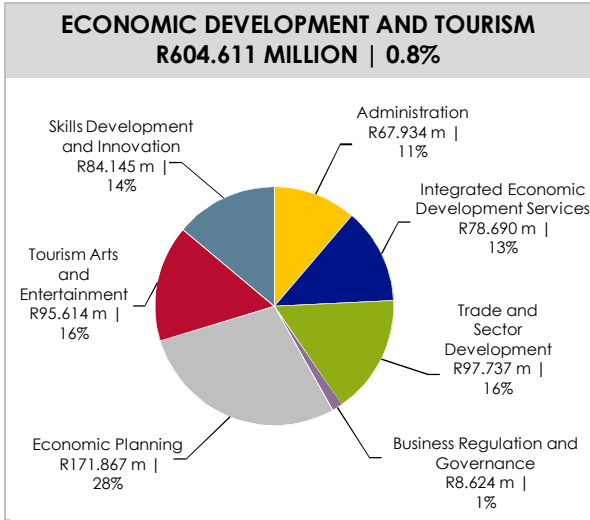


Diagrammatic representation of sector budgets

Social sector budget summary, 2020/21



Economic sector budget summary, 2020/21



Governance and Administration sector budget summary, 2020/21

