
FRIDAY, 29 SEPTEMBER 2017

The House met at 09:00

The Speaker took the Chair and read the prayer.

The SPEAKER: Please be seated. Good morning hon members. Good morning to our guests in the gallery. Welcome to this special sitting. We would like to draw your attention to the rules, that your presence here is welcome but you are not allowed to participate in the proceedings of the House in any way.

If I may call the House to order, I would now like to call upon the Minister to table the Provincial Economic Review and Outlook and Municipal Economic Review and Outlook. The honourable, the Minister of Finance, Minister Meyer.

HON MEMBERS: Hear-hear! [Applause.]

The MINISTER OF FINANCE: Honourable Speaker and Deputy Speaker; honourable Cabinet colleagues here in the House; the honourable Leader of the Official Opposition; leaders of other political parties; hon members of this Legislature; colleagues and citizens of the Western Cape.

Madam Speaker I rise today to table the Western Cape Government's economic intelligence for both the province and the municipal spheres government. Madam Speaker, the economic and socio-economic research is captured in the 2017 Provincial Economic Review and Outlook as well as the Municipal Economic Review Outlook which is used to inform and guide provincial and municipal policy, planning, implementation and budgeting.

Trends highlighted in these publications also reflect on the level of impact made as part of the provincial, municipal services and programmes being implemented across the Western Cape Province.

This evidence-based approach adopted in this research supports good governance, financial sustainability, economic sustainability which also facilitates the creation of public value.

Madam Speaker, let me now turn to the global economy. The International Monetary Fund forecasts global economic growth to accelerate to 3,5 per cent in 2017 and to 3,6 per cent in the next year, 2018. However, according to the Bureau for Economic Research of the University of Stellenbosch, growth in the South African economy is expected to remain frail at 0,3 per cent in 2017 before accelerating to 0,9 per cent in 2018.

The weak GDP growth outlook and, crucially, Madam Speaker, the expectation that business confidence will remain depressed in 2017, potentially also in 2018, will likely see private sector fixed investment

continue to underperform. I will say something more about that later on.

PROVINCIAL ECONOMIC REVIEW AND OUTLOOK

Madam Speaker, let me now turn to the Western Cape Provincial Economic Review. Estimated economic growth for the Western Cape is at 0,8 per cent for 2016 whilst the output in the Province could rise by only 0,5 per cent in 2017 financial year before meaningfully improving to 1 per cent in 2018.

The Western Cape, Madam Speaker, shares common risks facing both the global and national economies. The persistent drought conditions, that we have discussed extensively in this House, have serious implications, not only for agricultural sector but for the rest of the value chain.

Further to this, additional negative effects in the form of employment losses and lower exports are expected. The Western Cape is also more closely linked to the Euro Area and the United Kingdom than the rest of the country and a more pronounced slowdown in these regions will have a more detrimental impact on the Western Cape economy.

Madam Speaker, the Province is in the midst of a severe water crisis. As of August 2017, the Province has received around 30 per cent less rainfall than in a normal winter. We have seen, in this House, that we have tabled reports and it is documented in the MERO and in the PERO that at the end of August 2016 the dam levels in the Western Cape were 60%. In August 2017, Madam

Speaker, the dam levels were below 30%. The impact of the water crisis on the Western Cape economy is likely to be significant, both directly on businesses and through supply chain.

Madam Speaker, the agriculture subsector recorded the fastest growth in employment of 4,9 per cent per year between 2011 and 2016 followed by the construction subsector at 3,7 per cent. In the Western Cape manufacturing employment declined from 248 000 in 2011 to 240 000 in 2016. The oil rig repair industry was also negatively affected as a result of the decline in oil prices at the end of 2014. Ship repair and ship fabrication activities have taken up the slack in demand in the rig repair activity in 2015. Cape Town is currently the dominant ship repair location in South Africa.

Tourism in the Western Cape has also shown some resilience in recent years. The Western Cape received the highest number of tourist bed nights and also had the highest average length of stay of any province in South Africa in 2016.

A provincial initiative to promote Western Cape exports is the development of a halal food and agri-business subsector targeting the global halal food and product market. The Halal Value-Chain Study recognises that the Western Cape's most significant opportunity lies in manufactured food products. Specific products identified for export promotion include snacks, sauces and juice. Madam Speaker, in 2015 a third of all Western Cape exports was Halal foods. Despite the drought in 2015, the agri processing

sector contributed R21,9 billion to the provincial gross value add. In 2016, it accounted for 448 233 jobs in the Western Cape.

Madam Speaker, business process outsourcing presents a significant opportunity for economic growth in the Western Cape. From 2012 to 2016, employment in the Western Cape BPO sector grew at an average annual rate of 84 per cent culminating in 20 500 jobs in 2016. This is significant.

Subsequently, the Western Cape increased its share of the South African market from 40 per cent in 2012 to 63,0 per cent in 2016. The recent rapid growth has put additional pressure on the skills pipeline. I will return to this later on.

Madam Speaker on labour market dynamics in the Western Cape, the unemployment rate was 20,7 per cent translating to about 628 000 individuals unemployed in the second quarter of 2017.

The second quarter of 2017, saw 2,4 million people employed which represents 54 per cent of the Western Cape's working age population. Over the five-year period, 2012 to 2017, an additional 326 000 individuals found employment in the Western Cape.

Within the Western Cape's formal sector, the largest employment industries are community, social and personal services; wholesale and retail trade; and financial and business services, together accounting for 56 per cent of formal

sector jobs.

In the first quarter of this financial year, there are 2,16 million youth of working age in the Western Cape while the narrow unemployment rate amongst youth in the Province was estimated at 30,8 per cent in the same quarter. Madam Speaker, this matter needs to be seriously addressed. I am particularly happy that this matter is currently receiving attention by all my cabinet colleagues: in the human settlements space, the youth brigade, in opportunities for the youth to be involved in the environment, for the youth to be involved in the construction industry. I am particularly happy for the youth in the Department of Social Development in the various programmes, particularly in the Youth Cafés. I am also particularly happy to see youth employed in the EPWP Programme to fight crime and I am particularly happy to see many of the youth also receiving attention through the programme of the Minister of Cultural Affairs and Sport in the Western Cape. [Applause.] So we are taking these sort of steps to promote these efforts. [Interjections.]

The SPEAKER: Order please, hon Minister Meyer. Sorry, before you proceed. Hon members, we have been doing well. Can we allow ... [Interjections.] Hon member Dyantyi, hon members, can I ask that whilst there is a speaker on the floor you do not drown out the speaker and I am looking at both sides of the house. The hon member Magaxa is not here to see me looking at both sides of the House today. Thank you. You may proceed honourable Minister.

Madam Speaker, the Western Cape is estimated to be the third most populous province in South Africa. Life expectancy, fertility rates and migration have an impact on the Province's demographic profile. Net in-migration is estimated at over 290 000 people between 2011 and 2016. In 2015, 55,5 per cent of the South African population were considered poor of which 7,5 per cent lived in this Province. Total learner enrolment in the Province increased by 2,1 per cent between 2016 and 2017.

In addition to population growth, improved retention rates have also impacted on enrolment figures. Performance in respect of the provincial systemic tests and National Senior Certificate results is encouraging. Performance in Mathematics and Language across Grades 3, 6 and 9, which was championed by the Minister of Education, improved between 2015 and 2016, and the NSC pass rates have also improved. NSC pass rates in Accounting and I am particularly happy it is so - Mathematics and Physical Science have also improved between 2015 and 2016 - because those are the skills we need in the Provincial Treasury.

The Western Cape life expectancy at birth continues to increase and remains above the national average for both males and females. So, hon members, I am very happy to report that you live longer in the Western Cape. The primary cause of death in the Province in 2015 was diabetes mellitus, followed by HIV AIDS. Both child and institutional maternal mortality have declined between 2015/16 and 2016/17.

Informal housing has remained relatively stable at around 18 per cent since 2011. When considering tenure, approximately 43 per cent of households owned their homes in 2011. I am pleased to note the progress made by my colleague, the honourable Minister of Human Settlements, with the transfer of title deeds across the Western Cape. Access to municipal services continues to be prioritised and is well above the national average.

MUNICIPAL ECONOMIC REVIEW AND OUTLOOK

Madam Speaker, now let me turn to the Municipal Economic Review and Outlook in the regional areas of the Western Cape. The 2017 Municipal Economic Review and Outlook highlights a concentration of economic activity in the City of Cape Town which contributes 72,0 per cent to the Western Cape's GDP. The Cape Winelands contributes 11,4 per cent followed by Eden – 7,6 per cent, West Coast – 5,1 per cent, Overberg – 3,5 per cent and Central Karoo – 0,5 per cent.

The 2017 MERO further shows that between 2010 and 2015 the West Coast, Cape Winelands and Overberg Districts are showing positive signs of growth rates of 2,8, 2,9 and 3,1 per cent respectively. This is outstanding growth given that our national economy is in such a mess. The Saldanha Bay IDZ is one of five IDZs currently operating in South Africa, the aim of which is to facilitate the industrial development of the main geographical areas.

Madam Speaker, the Saldanha Bay IDZ serves as the primary service provider

to the oil, gas and marine industries and will focus on the engineering repairs and logistics services. The Saldanha IDZ has secured its first investor and has another 50 interested investors in the pipeline totalling R12,8 billion in planned capital expenditure in this area. The marine services sector contributed more than R1,5 billion gross value added to the regional economy of the Western Cape, Madam Speaker, in the 2016 financial year.

Eden's real GDP growth averaged 2,7 per cent between 2010 and 2015 while the Central Karoo District recorded an average GDP growth rate of 2,1 per cent over the same period.

The City of Cape Town grew by an average of 2,5 per cent between 2010 and 2015 mainly supported by growth in the primary sector, that is 3,9 per cent and tertiary sectors – 2,8 per cent.

The 2017 MERO provides detailed sectoral, employment and skills information per various municipalities. We can discuss many of these things later during the Budget Committee meeting. The Atlantis Special Economic Zone was established in the Cape Metro in 2011 as a green manufacturing hub. The Special Economic Zone in Atlantis has attracted 30 foreign and local enterprises with four principal investors including Gestamp Renewable Industries who invested R300 million. It is expected that more than R1 billion will be invested in the Special Economic Zone in Atlantis creating much needed jobs.

All regions recorded positive net employment between 2010 and 2015. Outside the City of Cape Town, net employment increased the most in the Cape Winelands district - 67 844 jobs, followed by Eden - 32 000 jobs, West Coast - 28 000 jobs, Overberg - 23 000 jobs and the Central Karoo - 2 600 jobs.

Demand for skilled workers grew by 1,9 per cent for non-metro districts between 2005 - 2015 and by 0,8 per cent in the City of Cape Town. For this reason, I do appreciate the work my colleague and Minister of Agriculture is doing in the area of skills development and capacity building specifically in the agricultural sector. The Premier's Skills Game-Changer and the Premier's Skills Forum is making good progress by focusing on skills development needed by the economy. We have now have a targeted, demand driven, skills development strategy in place in this province.

Madam Speaker, this also brings about an increase on the reliance of transfers and grants from National and Provincial Government as municipal revenue is declining. Municipalities must prioritise repairs and maintenance to increase the lifecycle of critical infrastructure particularly for water and sanitation bulk infrastructure and electrification.

I recently called on all municipalities in the Western Cape to prioritise repairs and maintenance of their critical infrastructure. We are now doing more regular site visits to determine the value for money in municipalities and we also to monitor performance of infrastructure spending. We are also

now regularly monitoring the provincial infrastructure spending across the Western Cape.

Socio-economic indicators that have moved in a positive direction, include a decrease in indigent households and the increasing provision of access to basic services. Socio-economic indicators that remain a concern in municipalities across the province include rising unemployment, rising poverty levels, informal dwellers, households without income, crime, substance abuse, people with no schooling and the prevalence of diseases such as diabetes, HIV and TB, among others.

IMPLICATIONS FOR PROVINCIAL AND MUNICIPAL POLICY, PLANNING AND BUDGETING

Madam Speaker, what are the implications of both the MERO and the PERO for budgeting and planning? There is upside potential from higher than anticipated growth in the Euro Area and the relative services orientation of the Western Cape. Therefore, an approach which includes capitalising on strengths and focuses on driving economic opportunities, for example within the manufacturing, export, agri-processing, tourism, ICT sectors, and instilling business confidence remain key to enhancing growth in the Province.

The Western Cape agriculture and agri-processing export sectors – as well as construction and tourism – are at risk from the severe water crisis, both

directly and indirectly through their supply chains. Therefore, it is key that the provincial response to the water crisis is well coordinated ...[Interjection.]

Mr Q R DYANTYI: What?! What are you talking about? [Inaudible.]

The SPEAKER: Order please.

The MINISTER OF FINANCE: taking into account the potential economic implications and sustainable growth considerations. The growing provincial population coupled with muted economic conditions will increase demand for public services such as education.

Despite the improvements in socio-economic conditions, social ills, such as crime and substance abuse, remain a challenge in this province. For growth to be smart it must be fuelled by innovation focused on improving the performance and quality of education outcomes, strengthening research and promoting innovation and knowledge transfer in a digital society.

Madam Speaker, municipal areas must continuously strive to diversify their economies to gain the most benefit value chains. Investing in infrastructure will remain critical in creating an enabling environment in the Western Cape. We have already made R28,8 billion available in the current MTEF for infrastructure spending. Public investment in bulk infrastructure, roads and electrification boosts economic growth by crowding in private sector

investments as well as providing a solid foundation for social development.

Repairs and maintenance is critical to ensure longevity of infrastructure, specifically water-related infrastructure, to minimise water losses in light of the current drought. Added to these risks are energy security, climate change and the Avian Influenza epidemic in the poultry industry. The Minister of Economic Development and the Minister for Agriculture has already registered the Avian Influenza risk on the Provincial Risk Register. We are currently in discussion with the Department of Agriculture as to how we will deal with this issue as we go forward over the next MTEF.

Due to the low economic growth municipalities' municipal revenues will be under increased pressure, which means municipalities will have to find the right balance between the appropriate basket of services and affordability.

Given our intergovernmental cooperation and asymmetrical approach to economic development, we value the role of all our partners including the Economic Development Partnership, Wesgro, GreenCape, local business chambers – present here today - and many other non-profit organisations as well as religious bodies. The Western Cape Government remains committed to accelerating economic growth and job creation in our region.

Madam Speaker, the economic intelligence captured in the Provincial Economic Review and Outlook and the Municipal Economic Review and Outlook will now be used by policymakers in this government and in

municipalities on key economic issues that will impact on policy, planning and budgeting. The aim is to provide more recent information of the economic and sectoral environment, which in turn informs our policy decisions, our planning and our budgeting and facilitates responsive interventions required by policymakers for sustainable economic and human development.

Madam Speaker, this economic intelligence will be further supported by the publication of a Socio-Economic Profile of every municipality in the Western Cape. Part of this work that we are producing here is to provide for every single of the 30 municipalities a Socio-Economic Profile which can be used as part of their planning purposes for their integrated development plans as they move forward. [Interjections.]

Madam Speaker, today what are doing, is we are giving an honest account of these ... [Interjections.]

The SPEAKER: Sorry, hon Minister Meyer. Someone is conversing but it is a little bit too loud.

The MINISTER OF FINANCE: Madam Speaker, today we are giving an honest diagnostic assessment, backed by research. Secondly, what we need to do, post this honest diagnostic assessment, is develop appropriate policy responses to these harsh realities. Soon all these Cabinet Ministers will defend their budgets as part of the MTEF process, taking into consideration

the economic intelligence produced in the MERO and the PERO. We will then use that engagement to prioritise this government's budget for maximum impact over the next three years to determine whether we create public value, Madam Speaker. Lastly, we also will have to come back to this House both in the Budget Committee but also in this Legislature to come and account for the performance of this department and this government's performance, generally.

I will return to this House on 23 November 2017 to table the Western Cape Government's fiscal response to the challenges highlighted in both the MERO and the PERO when I table the Western Cape Government's Medium Term Budget Policy Statement.

Madam Speaker, it is now my pleasure, on behalf of this government and the Cabinet of the Western Cape, to table the 2017 Provincial Economic Review and Outlook and the Municipal Economic Review and Outlook for consideration in this House which will be used as part of this Government's commitment to evidence-based practices.

Lastly, I would very much like to express my deep thanks and appreciation to the research teams, both in the various departments, Economic Development and Tourism and the Provincial Treasury, but also joined by the Economic Development partnership and all the various departments that took part in the deliberations and the discussions.

I would also like to express my deep thanks and appreciation to the Business Chamber, the researchers upstairs, the University of Stellenbosch and all the other universities and research institutions. Nothing is possible without hard work and the evidence based work that they do. I sat in many of these workshops debating the harsh economic realities and I want to deeply express, on behalf of this government, our thanks and appreciation for the work of our economists and our researchers to put these documents together. I thank you. [Applause.]

The SPEAKER: Thank you, Minister Meyer.

Mr Q R DYANTYI: [Inaudible.]

The SPEAKER: Hon member Dyantyi, there will be a meeting shortly after this if you could ... [Interjection.] If you could just hold on until then please.

The Provincial Economic Review and Outlook and Municipal Economic Review and Outlook will now be referred to the relevant committees for consideration. I would like to once again take the opportunity to thank our guests who came and attended this morning. To the members of the administration, thank you for your presence.

Before we adjourn, I would like to remind members that the Budget Committee meeting will commence after the adjournment, in the chamber. That concludes the business for the day. The House is adjourned.

The House adjourned at 09:00