

## OVERVIEW OF THE FREE STATE BUDGET - 2006/2007 FINANCIAL YEAR



### **MEC P.H.I. MAKGOE's** *message to the Free Staters*

South Africa public expenditure management has undergone substantial reform since the mid-1990.

Key to such reforms, were the complete overhaul of the system of budget planning, implementation and management. Initially, it focused on supporting the attainment of macroeconomic stability and strengthening public spending. Later, the focus shifted towards a more focused emphasis on the effectiveness of resource allocation and the efficiency with which public goods and services are delivered.

These and other reforms, such as the institution of multi-year budgets, under the Medium-Term Expenditure Framework (MTEF), enabled more effective intergovernmental fiscal arrangements, through a system that allowed for more effective political oversight and a stronger focus on policy priorities as the ultimate driver of resource allocation. Such policy setting was further supported by budget stability and predictability that a transparent, yet disciplined, budget planning process, made possible.

The aforementioned reforms contributed to a situation where, today, we find ourselves in a position where the provincial budget estimates are no longer a mere mechanism for the funding of public goods and services emanating from our provincial constitutional mandate. Indeed, it is now possible to shift focus to the allocation of available resources to real service delivery plans, as opposed to the funding of item-by-item costs, based on historical item expenditure.

It is thus important to appreciate that the 2006/07-2008/09 provincial MTEF budget constitutes a deliberate attempt to direct provincial expenditure to those areas of operation, that ultimately, support the attainment of the goals and objectives of the Free State Growth and Development Strategy, that was launched on 20 May 2005 and, in that way, have a meaningful impact on the lives of ordinary citizens of the Free State Province.

## **HIGHLIGHTS ON ECONOMIC GROWTH**

The provincial economy had a 3, 9 percentage growth in real terms from 2004 and contributed 5, 5 per cent to the country's Gross Domestic Product (GDP). The primary industries (agriculture, forestry and fishing & mining and quarrying) contributed 15, 5 per cent and the main contributor being mining at 11 per cent. The contribution of agriculture, forestry and fishing has decreased from 5, 1 per cent in 2002 to 4, 3 per cent in 2004. The secondary industries contributed 17, 6 per cent and the main contributor being manufacturing at 12, 5 per cent.

## **2006 BUDGET**

What is a budget?

Budget is a reflection of a government policy, priorities, planning and implementation processes for delivery of goods and services. It is also an instrument that the Provincial Government uses to balance competing demands for scarce resources. Free State Province's budget is driven by and aligned to the Provincial Growth and Development Strategy priorities in order to improve the lives of our people.

## Where do we get our money?

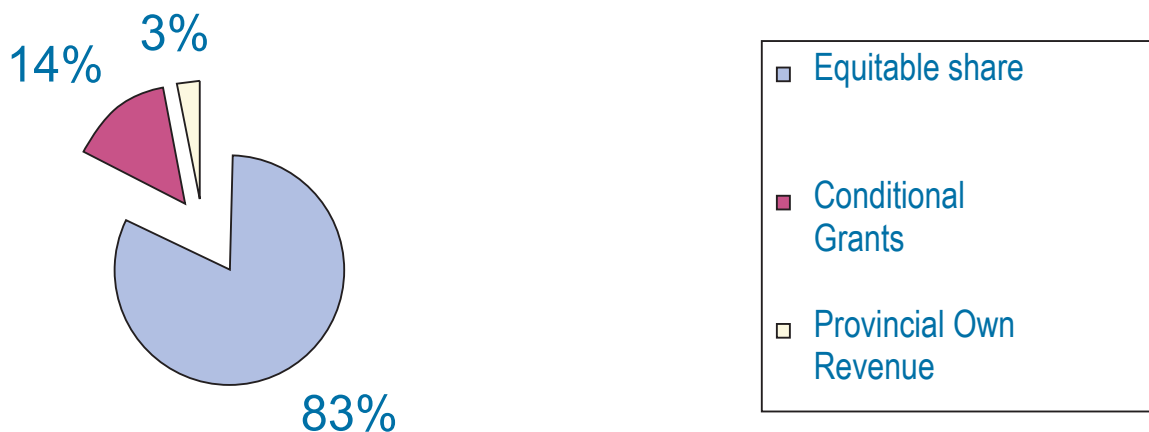
- National Allocation:**

Equitable share	=	R 9,595 billion
Conditional Grants	=	R 1,687 billion

- Provincial Own Revenue:** R 395 million

**Total Revenue** R 11,677 billion

### Sources of revenue



- 1) **Equitable Share** is the portion of nationally raised revenue that is allocated to the province through the equitable share formula
- 2) **Conditional Grants** are funds allocated to the province from the national government's budget with conditions attached
- 3) **Provincial Own Revenue** is own sources of revenue collected by the province for example, patient fees, motor vehicle licences, gambling and liquor licences.

## ALIGNMENT OF THE PROVINCIAL BUDGET TO THE FREE STATE GROWTH AND DEVELOPMENT STRATEGY

In order to stimulate the provincial economy and job creation the 2006/07 Medium Term Expenditure Framework (MTEF) budget reflects the Free State Provincial Government's strategic policy direction and has identified the following as primary developmental objectives:

- Stimulate economic development
- Develop and enhance the infrastructure for economic growth and social development
- Poverty alleviation through human and social development
- Ensure a safe and secure environment for all the people of the province
- Promote effective and efficient governance

To meet the above primary developmental objectives, the following key priority areas as expressed in the Free State Growth and Development Strategy (FSGDS), have been identified

- Economic growth, development and employment
- Social and human development
- Justice, crime prevention and security
- Effective and efficient governance and administration

Cognizant of the last mentioned key priority areas, necessary adjustment were made to the 2006/07 – 2008/09 MTEF in order to align the provincial budget with the FSGDS. To this end the FSGDS informed the provincial and departmental budget allocations.

During the 2006 budget process, cluster approach was introduced to enhance the budget allocation and ensure alignment of departmental strategies to the FSGDS. This approach resulted in funding of key priority areas through departmental allocations.

Departments are clustered as follows in line with the key priority areas.

## FUNDING OF THE FREE STATE GROWTH AND DEVELOPMENT STRATEGY PRIORITIES THROUGH DEPARTMENTAL ALLOCATIONS

### Priority 1 - Economic Development and Employment Creation

1) *Agriculture - (R223 Million)*

2) *Public Works, Roads & Transport less Traffic Management - (R936 Million)*

3) *Tourism, Environmental & Economic Affairs - (R230 Million)*

**TOTAL = R1, 389 BILLION**

- Achieve economic growth rate at least equal to the national average growth rate
- Reduction of unemployment from 38.9 to 20%
- Provide adequate infrastructure for economic growth and development
- Reduce the number of households living in poverty by 5% per annum

Restructuring of FDC with special focus on SMME development, Investment Agency, Upgrading of tourism facilities, Harrismith Logistical Hub, Marketing the province as tourist destination through Tourism Marketing Authority, Establishment of an office at the Vredefort Dome, New roads construction [E.g –Vaalpark Interchange, Access to Koppies Dam, Springfontein - Bethulie], Rehabilitation and upgrading of road network (E.g Parys to N1, Sasolburg to N1, Dealesville Road), Implementation of the Expanded Public Works Programme (EPWP), Farmer support funded through the Comprehensive Agricultural Support Programme (CASP), Maintenance of government property, Implementation of Land Care projects

## Priority 2 – Social and Human Development

- 1) Education - (**R5, 272 Billion**),
- 2) Health - (**R3, 249 Billion**)
- 3) Social Development - (**R418 Million**),
- 4) Sport, Arts, Culture, Science & Technology - (**R131 Million**)
- 5) Local Government & Housing - (**R718 Million**)

**TOTAL = R9, 788 BILLION**

- Improve the functional literacy rate from 69.2% to 85%
- Provision of shelter for all the people of the province
- Stabilize the prevalence of HIV and Aids and reverse their spread
- Reduce the number of households living in poverty by 5% per annum
- Reduce the mortality for children under five years to 65 per 1000 live births
- Reduce the obstetrical maternal rate from 65, 5 to 20,06 per 100,000 woman in reproductive age group
- Provision of basic services to all households

Implementation of no fee policy, Expansion of Grade R, Implementation of National Curriculum Statement, Recapitalization of Further Education Training Colleges, Expansion of Education Management Information System (EMIS), Provision of Learner Teacher Support Material, Expansion of Adult Basic Education and Training, Expansion of Nutrition Scheme, Improvement of Human Resource Management System, Forensic Pathology Services, Expansion of Primary Health Care Services, Implementation of the Provincial Emergency Medical Services Model, Increase training of nurses, Implementation of new legislation (Children's, Older Persons, and Child Justice Bill), Expansion of Social Welfare Services, Implementation of Mass Sport Participation Programme, Support the Provincial Arts & Culture Council, Adoption of the new National Housing Strategy (Housing Fund), Local Government Support, Provisioning of social infrastructure (schools and clinics)



### Priority 3 - Justice, Crime Prevention and Security

- 1) *Public Safety, Security & Liaison – (R32 Million)*
- 2) *Traffic Management From Public Works, Roads & Transport – R131 Million*

**TOTAL = R163 MILLION**

To reduce the crime rate by at least 7% per annum (with the involvement of SAPS & DJC)

Promotion of community participation, Combating of Corruption in SAPS, Implementation of Safety Programme at all Institutions, Development and Implementation of Integrated Crime Prevention Programme, Victim Empowerment and Effective Traffic Management

### Priority 4 - Effective Governance and Administration

- 1) *Provincial Treasury – (R120 Million)*
- 2) *Premier – (R92 Million)*
- 3) *Legislature – (R74 Million)*

**TOTAL = R286 MILLION**

All objectives that have been mentioned under the previous key priorities remain appropriate in respect of this key priority

Monitor the implementation of FSGDS, Enforce integrated planning processes at local authorities and provincial government, Monitoring implementation of MFMA, Develop and roll out the Supply Chain Management System, Ensure alignment of budget to Provincial Growth Strategy, Implementation of the Provincial Suppliers Management Information System, Provide strategic leadership in Infrastructure Delivery models, Upgrade of ICT infrastructure, Improve the service delivery levels of the Free State Development and Training Institute, Conduct quality legislative oversight

## TOTAL FUNDING OF 4 KEY PRIORITY AREAS

### **ECONOMIC DEVELOPMENT AND EMPLOYMENT CREATION**

**TOTAL = R1, 389  
BILLION**

### **SOCIAL AND HUMAN DEVELOPMENT**

**TOTAL = R9, 788  
BILLION**



**PROVINCIAL BUDGET = R11,626 BILLION**

### **JUSTICE, CRIME PREVENTION AND SECURITY**

**TOTAL = R 163 MILLION**

### **EFFECTIVE GOVERNANCE AND ADMINISTRATION**

**TOTAL = R 286 MILLION**



## % SHARE OF PROVINCIAL BUDGET IN TERMS OF 4 PRIORITIES



**11, 9%** - Economic  
Development & Employment Creation



**84, 2 %** - Social  
and Human Development



**1, 4 %** - Justice,  
Crime Prevention and Security



**2, 5 %** - Effective  
Governance and Administration

## HOW WILL THE **R11, 626 BILLION** BE USED BY THE DEPARTMENTS IN LINE WITH KEY PROVINCIAL PRIORITIES

### **Priority 1 (R1, 389 billion) - Economic Development and Employment Creation**

#### **Tourism, Environmental and Economic Affairs**

The department's budget is R 230 million and will provide for an economic and environmental governance system that contributes towards sustainable livelihoods together with relevant stakeholders to ensure job creation and poverty alleviation within the province.

#### **Agriculture**

The department's allocation is R223 million and is intended for the provision of agricultural development and support to the people of the Free State. This will be achieved through Comprehensive Agriculture Support Programme (CASP) grant, which is used to provide for effective agricultural support targeted at small-scale farmers; and Land care grant Programme, which is to support emerging farmers by providing adequate capacity in agricultural services.

#### **Public Works, Roads and Transport**

The department is allocated R936 million (excluding Traffic Management) for the provision, promotion and sound management of assets, transportation and infrastructure systems which are safe, affordable, reliable, accessible and sustainable.

### **Priority 2 (R9, 788 billion) - Social and Human Development**

#### **Education**

The department's allocation is R5, 3 billion of the total provincial budget. This allocation is for improving the quality of life of all Free State citizens by providing lifelong education and training.

#### **Health**

The allocation of the department is R3, 2 billion of the total provincial budget. The allocation is for providing comprehensive health services, which include the prevention of disease, promotion of health, curative and rehabilitation services.

## Social Development

Social Development receives R418 million of the total provincial budget. The allocation is for rendering inter-sectoral and integrated developmental social services to the citizens of the Free State.

## Local Government and Housing

The mandate of the Department of Local Government and Housing is to ensure the provisioning of integrated local government and housing infrastructure. In addition, the department has to devise measures that promote the development and enhancement of Local government capacity to perform their functions and manage their own affairs. The total allocation is R 718 million of the provincial budget. This includes R522, 601 million of Integrated Housing and Human Settlement Development Grant for housing delivery in the Province.

## Sport, Arts, Culture, Science and Technology

The department's allocation is R131 million of the provincial budget. The department is responsible for enhancing the quality of life of the Free State people through sport, arts, culture, science and technology

## **Priority 3 (R163 million) - Justice, Crime Prevention and Security**

### Public Safety, Security and Liaison

This department's mandate is to monitor, oversee and assess police service delivery, to strengthen crime prevention structures, to promote community – police relations and to co-ordinate the efforts of the criminal justice cluster. The Department receives an allocation of R32 million.

### Traffic Management from Public Works, Roads and Transport

The programme seeks to ensure that all privately and government owned vehicles registered in the province are licensed and all drivers are appropriately authorised to drive. The allocation in respect of this programme is R131 million.

**Priority 4 (R286 million) - Effective Governance and Administration****Department of the Premier**

The budget of this department is R 92 million. The department aims to enable the Premier to fulfill her constitutional obligations and other functions through the effective and efficient utilization of resources of the Free State Provincial Government.

**Free State Legislature**

The budget of the Legislature is R 74 million. The Legislature's aim is to provide funding for the legislative and institutional support services required by the Legislature to fulfill its constitutional functions. The responsibility of the Legislature is to oversee the work of the Executive Council, to consider and approve the bills submitted to it by the Executive Council and to propose and consider legislation submitted by their own members.

**Free State Provincial Treasury**

The department's allocation is R120 million of the total budget. The department aims to promote prudent financial management of provincial resources and its core functions are the preparation of the provincial budget statements, promotion and enforcement of transparent and effective management of revenue, expenditure, assets and liabilities, consolidation of financial statements of provincial departments and public entities.

**HOW DO WE SPEND THE PROVINCIAL BUDGET BY ECONOMIC CLASSIFICATION*****What is economic classification?***

**“Current Payments”** - means any payments made by a provincial department in respect of the operational requirements of a department, and includes, amongst others, compensation of employees, goods and services, interest, rental of immovable properties.

**“Transfers and subsidies”** - means any payments made by a provincial department to another organ of state or any other person in respect of which that department does not receive anything of similar value directly in return.

**“Payments for capital assets”** - means any payments made by a provincial department for assets that can be used continuously or repeatedly in production for more than one year.

### Breakdown of the **R11, 626 billion** by economic classification



#### **Current Payments**

**= R9, 682 billion or 83 % of the provincial budget**

#### **Transfers & Subsidies**

**= R1, 363 billion or 12% of the provincial budget**

#### **Payment for capital assets**

**= R582 million or 5% of the provincial budget**

### Major spending items within economic classification



**PROVINCIAL BUDGET = R11,626 BILLION**

Compensation of Employees  
**= R7, 380 Billion or 63% of the Provincial Budget**

Goods & Services =  
**R2, 302 billion or 20% of the Provincial Budget**

Transfers & Subsidies = **R1, 363 billion or 12% of the Provincial Budget**

Payment for Capital Assets = **R582 million or 5% of the Provincial Budget**



## INFRASTRUCTURE BUDGET

**R1, 184 BILLION**



AGRICULTURE = **R25 MILLION**



PUBLIC WORKS, ROADS & TRANSPORT  
= **R794 MILLION**



HEALTH = **R145 MILLION**



SPORT, ARTS, CULTURE, SCIENCE  
& TECHNOLOGY = **R26 MILLION**



EDUCATION = **R181 MILLION**



TOURISM, ENVIRONMENTAL &  
ECONOMIC AFFAIRS = **R13 MILLION**



## INFRASTRUCTURE BUDGET BY CATEGORY

### NEW CONSTRUCTIONS

Health (*R16, 771 Million*) ,  
Education (*R130, 849 Million*),  
Public Works, Roads & Transport  
(*R103, 400 Million*), Agriculture  
(*R25, 306 Million*), Sport, Arts,  
Culture, Science & Technology  
(*R18, 196 Million*), Tourism,  
Environmental & Economic Affairs  
(*R10, 300 Million*)

**TOTAL = R304, 822 MILLION**

### REHABILITATION

Health (*R128, 046 Million*),  
Education (*R39, 562 Million*),  
Public Works, Roads &  
Transport (*R113, 000 Million*),  
Sport, Arts, Culture, Science &  
Technology (*R5, 779 Million*)

**TOTAL = R286, 387MILLION**



**TOTAL INFRASTRUCTURE BUDGET = R1,184 BILLION**

### RECURRENT MAINTENANCE

Education (*R8, 500 Million*), Public Works,  
Roads & Transport (*R577, 707 Million*),  
Sport, Arts, Culture, Science & Technology  
(*R2, 025 Million*), Tourism, Environmental &  
Economic Affairs (*R2, 900 Million*)

**TOTAL = R591, 132 MILLION**

### OTHER CAPITAL PROJECT

Education (*R2, 400Million*)

**TOTAL = R2, 400MILLION**

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