

Overview of the **Free State Budget** **2008/09**

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MEC P.H.I. MAKGOE'S MESSAGE TO THE FREE STATERS



The 2008/09 provincial budget attempts to harmonize and align provincial resources with planning, in a manner that ensures the budget reflects the agreed provincial priorities, which adequately balance the different policies and service delivery imperatives as outlined in the Free State Growth and Development Strategy. It is my belief that the revenue estimates of the 2008/09 – 2010/11 Medium Term Expenditure Framework (MTEF) provide an adequate fiscal envelope for provincial departments and public entities to deliver on the policy priorities of the Free State Government.

The 2008/09 budget represents the end-result of an intensive process to identify the provincial priorities that respond to the socio and economic parity of the Free State Province. This process culminated with the allocation of resources strongly in line with the provincial socio-economic analysis tabled to the Provincial Executive Council which mirrored the needs of the people of this province. In response to the resolutions of the 2005 Infrastructure summit, the 2008 budget framework contributes to higher economic growth through increased investment in social and economic infrastructure. The 2008/09 provincial infrastructure budget represents the real growth of about 35 per cent from 2005/06 financial year.

The budget priorities for this financial year continue to focus more on pro-poor spending, to address the social imbalances with strong growth to education, health and social development in order to increase access to free education, better health care system, and social welfare services.

Improved public expenditure management remains crucial to the achievement of Government's objectives, and one of the main challenges for the successful implementation of this Budget would, of necessity, be to continuously improve access to public services together with intensified strategies to enhance the actual quality of services delivered and ensure an improvement in the responsiveness of public services to identified needs. Success in this regard, calls for willful directing of scarce public resources to those areas of government operation that will meaningfully narrow the wedge between social progress and economic development in this Province.

Key to the attainment of the aforementioned would, amongst others, be:

- The attainment of greater synergy in the use of public resources across departments and public entities, through effectively harnessing the system of clustering provincial departments, to improve the efficiency, effectiveness and efficacy of provincial public service delivery.
- The need for the introduction of deliberate interventions, plans and strategies to improve the quality of forward planning and enhance the capacity of provincial departments to improve the delivery of provincial infrastructure.
- The ever-present need to identify avenues and instruments that can contribute towards enhancing the effectiveness and efficiency of monitoring, evaluation and oversight processes aimed at hastening the realization of planned outputs and desired outcomes through public services delivery.

ECONOMIC OVERVIEW OF THE PROVINCE

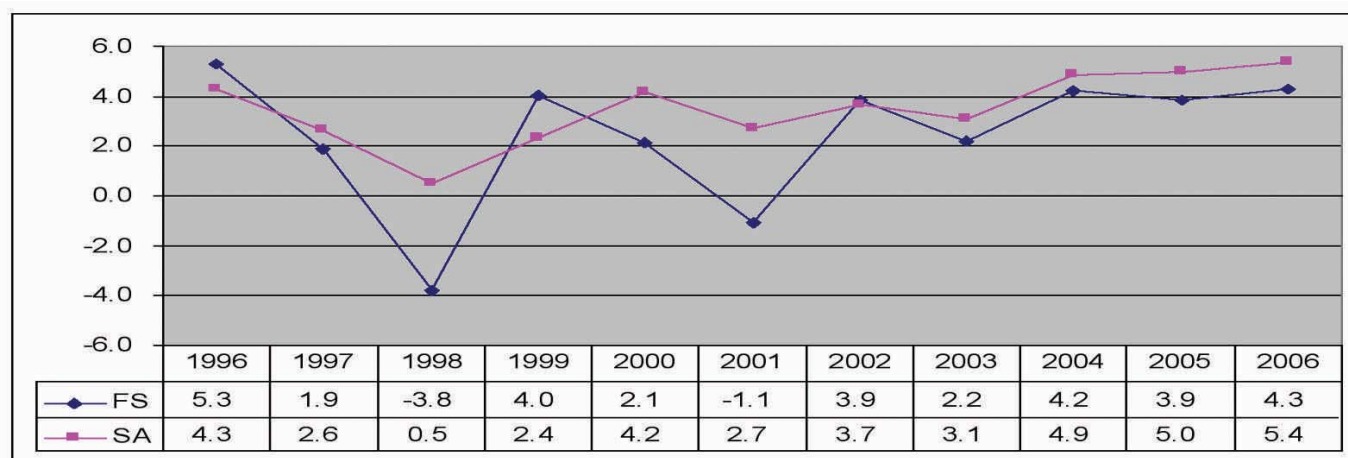
Historically, the economy of the Free State province has been based on mining and agriculture. The development of other sectors has been largely in support of these two primary activities. Dubbed as pillars of the provincial economy, both these sectors have been declining since the early 1990s. What is clear from economic data is that the structural change of the provincial economy is continuing to take shape, with the mining sector contributing less, whilst the service sector has experienced a dramatic increase.

However, using the tress index, statistics show that the Free State economy is less concentrated than the national. Further, the trend indicates that the provincial economy is becoming more dependent on few sectors than was the case in previous years, thus becoming more vulnerable to exogenous variables such as adverse climate conditions, commodity price fluctuations, and so on.

In terms of performance, during the period 1996 to 2006, the Free State economy grew on average by 2.4 per cent compared to the country's total growth of 3.5 per cent for the same period, resulting in a significant drop in unemployment by 1.8 per cent from 28.3 per cent to 26.5 per cent between 2006 and 2007. The province's economy grew positively during that period except in 1998 and 2001 where the province experienced growth of -3.8 per cent and -1.1 per cent respectively. The primary contributors to this negative growth in 1998 and 2001, were agriculture, forestry and fishing (-34.8 per cent and -15.1 per cent, respectively) and mining and quarrying (-16.7 per cent and -11, 7 per cent respectively). The other sectors were construction

in 1998 (-6.5 per cent) and wholesale & retail trade in 2001 (-7.8 per cent). All in all, the Free State economy only outgrew the country's average in 1996, 1999 and 2002; otherwise it has grown at rates below the country's average in each year.

Figure 3.5: Free State and South Africa Real GDP, 1996 – 2006 (per cent)



Source: Gross Domestic Product (Statistical release P0441), Third Quarter, 2007

When a shorter time period is considered, 2004 to 2006, the economic growth rate performance is better, averaging 4.1 per cent, reflecting a potential upward shift for the province. However, the province is still growing at a slower rate than the country as a whole, which is averaging 5.1 per cent for the same period. The growth performance of the province, whilst below the national, still mirrors the latter with a difference of approximately 1 per cent observed between 2003 and 2006. This is important for drawing forecasts of the province's economy into the future.

The main contributors to the increase in economic activity in 2006 were finance, real estate and business services industry (10.4 per cent); construction industry (9.7 per cent) the wholesale and retail trade, hotels and restaurants industry (6.1 per cent); manufacturing industry (5.8 per cent), and the community, social and other personal services industry respectively. The primary industries were the only industries which experienced a negative growth rate in 2006, with mining and agriculture declining by 3.6 per cent and 13.1 per cent respectively.

Definition of 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 does the province get money?

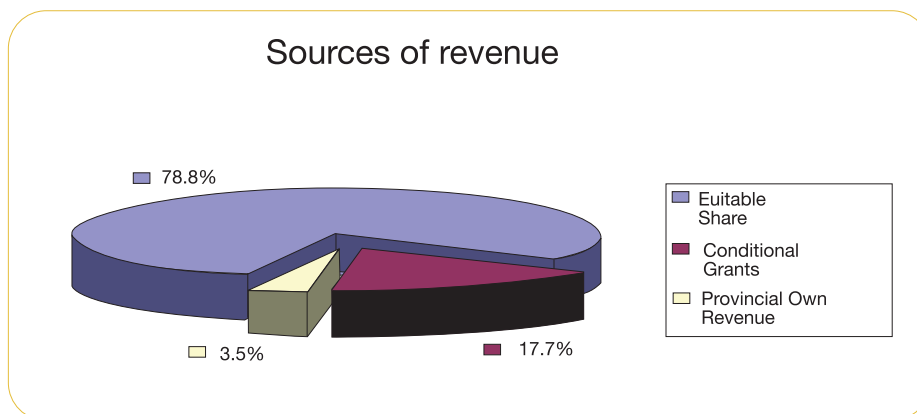
National Allocation:

Equitable share = R 12, 413 billion

Conditional Grants = R 2, 786 billion

Provincial Own Revenue = R 556 million

Total Revenue = R 15, 755 billion



- 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 licenses, gambling and liquor licenses.

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



In order to meet the needs of society and stimulate the provincial economy and create jobs, the 2008/09 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:

- 1 Stimulate economic development
- 2 Develop and enhance the infrastructure for economic growth and social development
- 3 Poverty alleviation through human and social development
- 4 Ensure a safe and secure environment for all the people of the province
- 5 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 as follows:

- 1 Economic development, employment and investment
- 2 Social and human development
- 3 Justice, crime prevention and security
- 4 Effective governance and administration

Cognizant of the last mentioned key priority areas, necessary adjustment were made to the 2008/09 – 2010/11 MTEF in order to align the provincial budget with the FSGDS. To this end the FSGDS informed the provincial and departmental budget allocations.

The participation of the Executive Council in the planning of the 2008 MTEF budget has enhanced the process of alignment of departmental strategies and budget to the FSGDS. This approach resulted in funding of key priority areas through departmental allocations.

To illustrate the alignment of the budget and the FSGDS, departmental budgets have been 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, Employment and Investment

- 1) Agriculture – (R334 Million)
- 2) Public Works, Roads & Transport less Traffic Management – (R1, 750 Billion)
- 3) Tourism, Environmental & Economic Affairs – (R304 Million)

TOTAL = R2, 388 BILLION

- Achieve economic growth rate at least equal to the national average growth rate
- Reduction of unemployment from 30.6 to 15%
- Provide adequate infrastructure for economic growth and development
- Reduce the number of households living in poverty by 5% per annum



The allocation makes provision for the construction of new Provincial Government Office Building in Bloemfontein and upgrading and rehabilitation of road networks [e.g. Qwaqwa – Route 4, Harrismith – Verkykerskop, Reitz – Petrus Steyn, Springfontein – Bethulie roads and Caledon Bridge] Implementation of Expanded Public Works Programme (EPWP). Establishment of the Free State Film Commission, upgrading of tourism facilities including Phillip Sanders, Koppiesdam and Sandveld Resorts. The establishment of an Inter and Intra Governmental Relations Unit. Farmer support funded through the Comprehensive Agricultural Support Programme grant (CASP). Implementation of LandCare projects and upgrading of Glen College.

Priority 2 – Social and Human Development

- 1) Education – (R6, 598 Billion)
- 2) Health – (R4, 288 Billion)
- 3) Local Government & Housing –
(R1, 022 Billion)
- 4) Social Development –
(R536 Million)
- 5) Sport, Arts & Culture –
(R285 Million)

TOTAL = R12, 729 BILLION

- Improve functional literacy rate from 69.2 to 85 %
- Provision of shelter for all people in the province
- Stabilize the prevalence of HIV & AIDS and reverse the spread
- Reduce the number of households living in poverty by 5% per annum
- Reduce the mortality for children under 5 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



Remuneration review of Health Professionals, Educators as well as Social Workers. The procurement of Medical Consumables, detection and treatment of Multi Drug Resistant Tuberculosis (MDR-TB) and Extreme Drug Resistant Tuberculosis (XDR-TB). Acceleration of Health Infrastructure (Clinics and Hospitals) and the implementation of Emergency Medical Services (EMS) in terms of the National model. Employment of Social Workers and Auxiliary Social Workers (SAW's). The expansion of Services for early childhood development, children in conflict with the law and Home and Community Based Care. Local Government Support and the provision of Social Infrastructure. Expansion of no-fee schools to cover quintile 3 which will benefit 78 % of schools in the Free State Province, Expansion of early childhood development, creating uniformity of Grade R and expansion of inclusive education. The 2008/09 budget makes provision for the expansion of Nutrition and other learner support programmes. Provision has also been made for the department to eradicate platooning and to rehabilitate unsafe school structures in the province.

Priority 3 - Justice, Crime Prevention and Security

- 1) Public Safety, Security & Liaison – (R38 Million)
- 2) Traffic Management from Public Works, Roads & Transport – (R177 Million)

TOTAL = R215 MILLION

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



Improve effectiveness of Provincial government in terms of crime prevention, justice and security, to provide support to victims of crime through Community Victim Support Programme, Monitor the impact of SAPS restructuring process on service delivery, and ensure effective traffic policing and law enforcement.

Priority 4 - Governance and Administration

- 1) Provincial Treasury – (R137 Million)
- 2) Premier – (R120 Million)
- 3) Legislature – (R95 Million)

TOTAL = R352 MILLION

All objectives that have been mentioned under the previous key priorities remain appropriate for this priority in terms of the overall monitoring oversight responsibilities



Monitor the implementation of the FSGDS, Enforce and promote integrated planning processes at local authorities and provincial government, Monitor the implementation of the MFMA, Ensure alignment of departmental allocations and budget to the FSGDS, strengthening legislative oversight, continuous communication and liaison within and outside the government through: Exco-Meets-The People campaigns, Imbizo's and Thusong Service Centres. Ongoing management and support of special programmes within the province, coordination and facilitation of ASGISA and JIPSA initiatives.

TOTAL FUNDING OF 4 KEY PRIORITY AREAS

ECONOMIC DEVELOPMENT,
EMPLOYMENT AND INVESTMENT

TOTAL = R2, 388 BILLION

SOCIAL AND HUMAN DEVELOPMENT

TOTAL = R12, 729 BILLION

**TOTAL PROVINCIAL BUDGET
= R 15 684 BILLION**



JUSTICE, CRIME PREVENTION
AND SECURITY

TOTAL = R215 MILLION

GOVERNANCE AND ADMINISTRATION

TOTAL = R352 MILLION

PERCENTAGE SHARE OF PROVINCIAL BUDGET IN TERMS OF 4 PRIORITIES



15.2% - Economic Development, Employment and Investment



81.2%- Social and Human Development



1.4% - Justice, Crime Prevention and Security



2.2 % - Governance & Administration

HOW WILL THE R15, 684 BILLION BE USED BY THE DEPARTMENTS IN LINE WITH KEY PROVINCIAL PRIORITIES?



Priority 1 (R2, 388 billion) - Economic Development, Employment and Investment

Tourism, Environmental and Economic Affairs

The department's budget is R 304 million and provides for the establishment of the Free State Film Commission, upgrading of Tourism products such as the Koppiesdam, Sandveld and Phillip Sanders Resorts. The budget also caters for the establishment of an Inter and Intra Governmental Relations unit which is aimed at supporting and monitoring public entities and enhanced intergovernmental relations. Increased funding is also made available to public entities i.e. The Free State Gambling and Racing Board to implement new sources of revenue, and the Free State Tourism Authority to market the province domestically and internationally as a tourism destination.

Agriculture

The allocation for this department is R334 million and is intended for the economically sustainable agricultural development in the Free State by optimization of plant and livestock health, production and product safety. Included in the departmental budget is Comprehensive Agriculture Support Programme (CASP) grant, which is used to provide for effective agricultural support targeted at small-scale farmers; and LandCare grant Programme, which is to support emerging farmers by providing adequate capacity in agricultural services.

Public Works, Roads and Transport

The department is allocated R1, 750 billion (excluding Traffic Management programme) for new roads construction, continuation of roads rehabilitation, maintenance and also to deal with issues related to management of the provincial property and assets portfolio. The departmental budget also caters for Extended Public Works Programme (EPWP) which is aimed at skills development and job creation in the province.

Priority 2 (R12, 729 billion) - Social and Human Development

Education

The total allocation of the Department of Education for the 2008/09 financial year amounts to R6, 598 billion. This represents 42 per cent of the total provincial budget. This allocation is mainly for improving the quality of life all Free State citizens by providing lifelong education and training. The budget of this department continues to focus more on pro-poor spending, to address the social imbalances and to increase access to free education.

Health

The allocation of the Department is R4, 288 billion of the total provincial budget. The allocation provides for the implementation of Occupation Specific dispensation for Health Professionals, procurement of Medical Consumables, detection and treatment of Multi Drug Resistant Tuberculosis (MDR-TB) and Extreme Drug Resistant Tuberculosis (XDR-TB). An increase in the Hospital Revitalization Grant to equip and modernize hospital facilities. The budget also provides for the construction of Trompsburg and Ladybrand Hospitals and the Implementation of Emergency Medical Services (EMS) in terms of the National model.

Social Development

Social Development receives R536 million of the total provincial budget. The allocation provides for Occupation Specific Dispensation, the increase of subsidies and expansion of the programme for Early Childhood Development (ECD), increased capacity for Monitoring and Evaluation in the department, expansion of Home and Community Based Care (HCBC) as well as the expansion of services to children in conflict with the law. In general the department is responsible for rendering inter-sectoral and integrated developmental social services to the citizens of the Free State.

Local Government and Housing

The total allocation is R1, 022 billion of the provincial budget. This includes R772 million of Integrated Housing and Human Settlement Development Grant for housing delivery in the Province. 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 as well as capacitating traditional leadership institutions in the province. Specific provision was also made for the upgrading of posts for Community Development Workers (CDW's).

Sport, Arts, and Culture

The Department's allocation is R285 million to ensure that the departmental mandate which is management of arts, culture and heritage services, library and archives services as well as the promotion of sports and recreation development is accomplished.

Priority 3 (R215 million) - Justice, Crime Prevention and Security

Public Safety, Security and Liaison

The Department's allocation is R38 million. The 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.

Traffic Management from Public Works, Roads and Transport

The allocation in respect of this programme is R177 million. This programme is responsible for ensuring that all privately and government owned vehicles registered in the province are licensed and all drivers are appropriately authorised to drive.

Priority 4 (R352 million) - Governance and Administration

Department of the Premier

The budget of this department is R120 million. The Department plays a pivotal role in providing strategic leadership and co-ordinates integrated service delivery to the entire Free State provincial government.

Free State Legislature

The budget of the Legislature is R95 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.

The Department's allocation is R137 million of the total provincial 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 R15, 684 billion by economic classification

Current Payments:

= R11, 760 billion or 75 per cent of the provincial budget

Transfer and Subsidies:

= R2, 025 billion or 12.9 per cent of the provincial budget

Payments for capital assets:

= R1, 899 billion or 12.1 per cent of the provincial budget

MAJOR SPENDING ITEMS WITHIN ECONOMIC CLASSIFICATION

PROVINCIAL BUDGET = R15, 684 BILLION



Compensation of Employees
= R9, 009 Billion 57.4% of the
provincial budget

Goods and Services
= R2, 751 Billion or 17.6% of the
provincial budget

Transfers and Subsidies
= R2, 025 Billion or 12.9% of the
provincial budget

Payments for Capital Assets
= R1, 899 Billion or 12.1% of the
provincial budget

TOTAL INFRASTRUCTURE BUDGET

R2, 164 BILLION



**PUBLIC WORKS, ROADS AND TRANSPORT
= R1, 089 BILLION**



HEALTH = R377 MILLION



SPORT, ARTS AND CULTURE = R105 MILLION



EDUCATION = R451 MILLION



**TOURISM, ENVIRONMENTAL AND ECONOMIC AFFAIRS
= R46 MILLION**



AGRICULTURE = R83 MILLION



SOCIAL DEVELOPMENT = R13 MILLION

INFRASTRUCTURE BUDGET BY CATEGORY

NEW CONSTRUCTIONS

Education (**R302 million**), Public Works, Roads and Transport (**R42 million**), Sport, Arts and Culture (**R28 million**), Tourism, Environmental and Economic Affairs (**R46 million**) and Agriculture (**R30 million**)

TOTAL = R448 MILLION

REHABILITATION

Health (**R314 million**), Education (**R75 million**), Public Works, Roads and Transport (**R715 million**), Sport, Arts and Culture (**R74 million**), Tourism, Environmental and Economic Affairs (**R0, 200 million**)

TOTAL = R1, 177 BILLION

**TOTAL PROVINCIAL
INFRASTRUCTURE
BUDGET
= R2, 164 BILLION**

RECURRENT MAINTENANCE

Health (**R64 million**), Education (**R11 million**), Public Works, Roads and Transport (**R299 million**), Sport, Arts and Culture (**R3 million**), Social Development (**R13 million**) and Agriculture (**R 3 million**)

TOTAL = R393 MILLION

OTHER CAPITAL PROJECTS

Public Works, Roads and Transport (**R34 million**)
Agriculture (**R49 million**)
Education (**R63 million**)

TOTAL = R146 MILLION

Notes

[illegible]