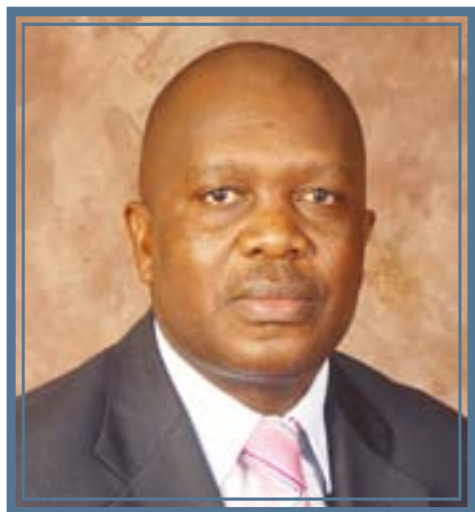


MEC SEISO MOHAI'S MESSAGE TO ALL THE FREE STATERS



The global economy has put some strain on the domestic economy and this is evidenced by the widening trade deficit that resulted in a weaker global demand for South African exports. This means that the country faces investment uncertainty, volatile capital inflows and a weak currency and commodity prices. There are also domestic factors that are a cause of concern to our own domestic economy; these are—mining and other sectors' strikes, the balance between electricity supply and demand, infrastructure challenges etc. All of the factors present a serious stress on fiscal framework, nationally and provincially. Such economic shock which in the main is exogenous (external factors) in nature may prove to be a challenging hindrance to our own economic growth if not handled cautiously.

The 2013 MTEF fiscal framework is very constrained and thus presents us with an opportunity to lock our concerted focus on key priorities that are designed to yield better economic growth prospects, increase employment creation as well as bettering the living conditions of our citizenry. The core principle of prudence in utilizing public resources by all, remains at the epicenter of this 2013 MTEF budget; furthermore, commitment to cost saving measures and the reprioritization of budget to high impact services will also be monitored throughout the MTEF.

Thus in the 2013 MTEF public spending will continue to grow albeit at a slower rate than in previous years. Of concern is the slower growth in revenue which also has a tendency to add more strain to the fiscus. In the 2012 National Budget Review, budget deficit as a percentage of GDP was estimated to reach 4.6 per cent in 2012/13; however, going forward the trend is expected to decline to 3 per cent by 2014/15. This projected reduction in the budget deficit is consistent with stabilizing the growth in our debt and indicates the position taken by government with regard to managing the fiscus prudently going forward. This therefore implies that as a province we will have to tighten our fiscal belt and focus our resources on key priorities that have the potential to stimulate economic growth and job opportunities. Whilst job creation remains a fundamental goal of government, it is a shared responsibility amongst all stakeholders in the economy.

The 2013 MTEF budget is a result of a challenging process which included, amongst others, the bilateral meetings between the Provincial Departments and Provincial Treasury, the Provincial Medium Term Expenditure Committee which afforded all departments' opportunities to present budget requests and bids as well as various provincial forums (Extended EXCO meetings, Treasury Committee engagements and Budget Task Team meetings) which successfully aligned budgets to set priorities. Added to the above processes are the interactions of all the departments with the Provincial Executive Council and Treasury Committee with the view of ensuring that the 2013 MTEF budget is firmly grounded and addresses the set key priorities of government.

A handwritten signature in dark ink, appearing to read 'S.J. Mohai', written over a horizontal line.

Mr. S.J. MOHAI
MEC FOR FINANCE: FREE STATE PROVINCE

ECONOMIC OVERVIEW OF THE PROVINCE

- The material conditions that continue to permeate and besiege the global economic dialogue, that of the imminent recession in the Euro-zone and the United States, have suddenly rescinded and the International Monetary Fund (IMF) January 2013 World Economic Update is rather positive on global growth outlook.
- According to the IMF (2013), global economic growth is projected to increase during 2013, as the factors underlying the soft global activity are expected to subside.
- Economic conditions improved modestly in the third quarter of 2012, with global growth increasing to about 3 per cent.
- The main reason attributed to this upsurge in global growth is the accelerated growth of emerging market economies, where activity picked up broadly as expected, and the United States, where growth surprised on the upside.

FREE STATE ECONOMIC STRUCTURE

Sector composition of the Free State Economy, 2002 - 2011

Industry	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Primary Industries	14.6%	14.5%	14.1%	14.3%	12.7%	12.1%	11.7%	11.4%	11.5%	11.2%
Agriculture, forestry and fishing	4.1%	3.7%	3.6%	3.6%	3.1%	3.1%	3.6%	3.6%	3.5%	3.5%
Mining and quarrying	10.5%	10.8%	10.5%	10.7%	9.6%	9.0%	8.1%	7.8%	8.0%	7.8%
Secondary Industries	16.7%	16.3%	16.5%	16.5%	16.7%	16.8%	16.6%	16.1%	16.3%	16.2%
Manufacturing	12.6%	12.2%	12.2%	12.2%	12.4%	12.4%	12.3%	11.6%	12.0%	11.9%
Electricity, gas and water	2.7%	2.7%	2.8%	2.8%	2.7%	2.7%	2.5%	2.5%	2.5%	2.5%
Construction	1.4%	1.5%	1.5%	1.5%	1.5%	1.7%	1.8%	2.0%	1.8%	1.8%
Tertiary industries	58.1%	58.6%	58.8%	58.5%	59.4%	60.0%	60.7%	61.8%	61.3%	61.6%
Wholesale, retail and motor trade; catering and accommodation	10.3%	10.4%	10.5%	10.4%	10.6%	10.5%	10.3%	10.1%	10.2%	10.3%
Transport, storage and communication	8.1%	8.1%	8.0%	7.9%	8.0%	8.1%	8.2%	8.3%	8.2%	8.1%
Finance, real estate and business services	15.1%	15.1%	15.6%	15.8%	16.6%	17.1%	17.7%	18.0%	17.8%	17.9%
Personal services	11.2%	11.6%	11.3%	11.2%	11.3%	11.4%	11.4%	11.5%	11.3%	11.2%
General government services	13.4%	13.5%	13.3%	13.2%	13.1%	13.0%	13.1%	13.9%	13.9%	14.0%
All industries at basic prices	89.4%	89.5%	89.4%	89.3%	88.9%	88.9%	89.0%	89.2%	89.1%	89.1%
Taxes less subsidies on products	10.6%	10.5%	10.6%	10.7%	11.1%	11.1%	11.0%	10.8%	10.9%	10.9%
GDP at market prices	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

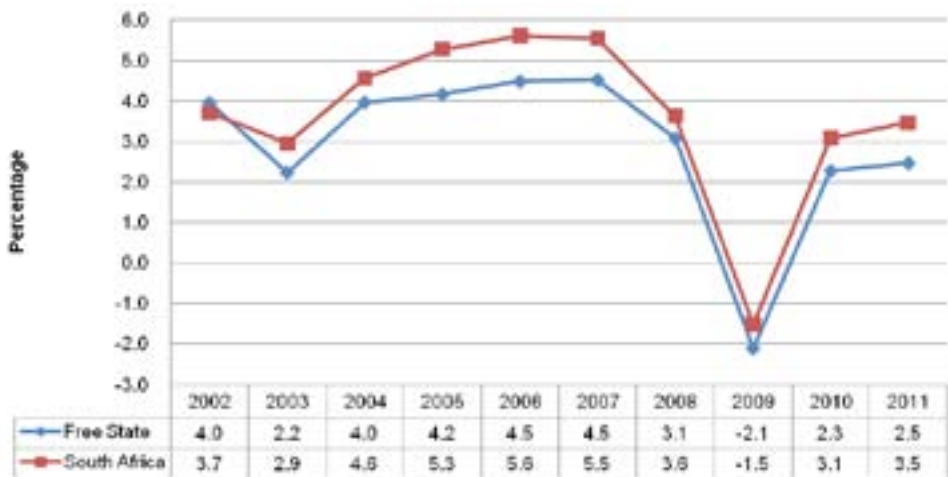
Source: Stats SA, GDP, Third Quarter, 2012

- The largest sector in the Free State is finance (17.9 per cent) followed by the General Government and Manufacturing which accounted for 14.0 per cent and 11.9 per cent respectively.
- It's worth noting that both the General Government and the Manufacturing sector are the biggest employers in the province, with a combined total of 36.4 per cent of the employed population.
- The sector with the least contribution to the provincial economy during 2011 was the Construction sector, which constituted a measly 1.8 per cent of the provincial GDP.

FREE STATE ECONOMIC PERFORMANCE

- The Free State economy continued to track the South African economy, averaging 2.9 per cent, relative to 3.6 per cent, during the reviewed period.
- The 2009 recession was rather impactful for the province as compared to that of the country, with the Free State registering a negative growth of 2.1 per cent relative to the 1.5 per cent recorded by the country.
- Post-recession, the province and South Africa were relinquished from its clutches to record growths of 2.3 per cent and 3.1 per cent respectively, spelling a two-fold increase for the province.

South African and Free State Economic growth, 2002 - 2011



Source: Stats SA, GDP, Third Quarter, 2012

- Growth remained unabated in 2011, wherein the Free State economy grew marginally, from the 2.3 per cent recorded in 2010 to 2.5 per cent.
- According to Stats SA (2012), the propellant for South African growth during 2011 have been both the general government and the financial services sectors, which both accounted for 34.7 per cent combined weight
- General government was the fastest growing sector in 2011 with growth of 3.7 per cent, followed by trade (3.6 per cent) and finance (3.1 per cent).
- The slowest growing sectors where mining (0.7 per cent), electricity and water (0.3 per cent) and agriculture (0.6 per cent).
- In 2011, primary industries declined by 0.3 per cent, while secondary and tertiary industries grew by 1.8 per cent and 3.0 per cent respectively.
- On average, between 2002 and 2011, the fastest growing sectors in the province were finance (4.7 per cent), and general government, whilst the slowest growing were agriculture (1.0 per cent) and mining (1.6 per cent).

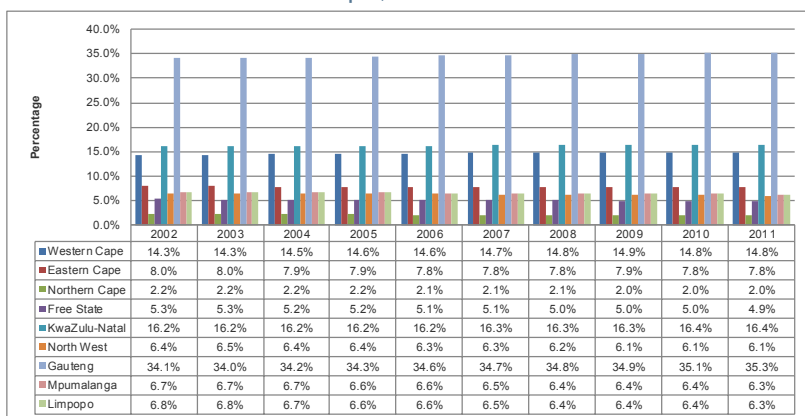
Free State Gross Domestic Product by sector, 2002 -2011

Industry	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Primary Industries	14.0	1.2	1.4	5.5	-7.0	-1.0	-0.3	-4.6	3.7	-0.3
Agriculture, forestry and fishing	-0.4	-7.3	0.5	5.2	-9.8	1.5	21.9	-3.5	1.1	0.6
Mining and quarrying	20.8	4.5	1.7	5.6	-6.0	-1.9	-7.8	-5.1	4.9	-0.7
Secondary Industries	2.1	0.2	4.8	4.1	6.2	5.2	1.6	-5.1	3.6	1.8
Manufacturing	3.1	-0.9	4.0	3.9	6.9	4.3	2.1	-7.5	5.1	2.3
Electricity, gas and water	3.5	2.1	7.8	4.4	3.0	3.3	-3.6	-3.9	3.4	0.3
Construction	-8.6	6.0	6.6	5.2	6.1	15.7	6.3	10.4	-5.5	0.8
Tertiary industries	2.8	3.2	4.2	3.7	6.2	5.5	4.3	-0.4	1.5	3.0
Wholesale, retail and motor trade; catering and accommodation	3.4	3.0	5.4	3.0	6.1	4.1	0.7	-3.4	3.1	3.6
Transport, storage and communication	5.7	2.2	2.4	3.4	5.0	5.8	4.4	-1.0	1.2	1.9
Finance, real estate and business services	3.4	2.2	7.9	5.1	9.8	7.6	7.2	-0.7	1.2	3.1
Personal services	2.5	5.5	1.8	3.0	5.1	5.3	3.7	-1.5	0.2	2.2
General government services	0.3	3.4	2.4	3.3	3.5	3.8	3.8	3.8	2.2	3.7
All industries at basic prices	4.4	2.3	3.9	4.0	4.1	4.5	3.2	-1.8	2.2	2.4
Taxes less subsidies on products	1.0	1.5	4.8	5.2	8.0	4.7	2.5	-4.5	3.1	3.3
GDP at market prices	4.1	2.2	4.0	4.2	4.5	4.5	3.1	-2.1	2.3	2.5

Source: Stats SA, GDP, Third Quarter, 2012

- Gauteng province continued to be a dominant economic force in South Africa, contributing an impactful 35.3 per cent to the national economy in 2011, followed by KwaZulu-Natal and the Western Cape province, with contributions of 16.4 per cent and 14.8 per cent, respectively.
- The Free State's contribution to the national output has averaged 5.1 per cent during the period under review.

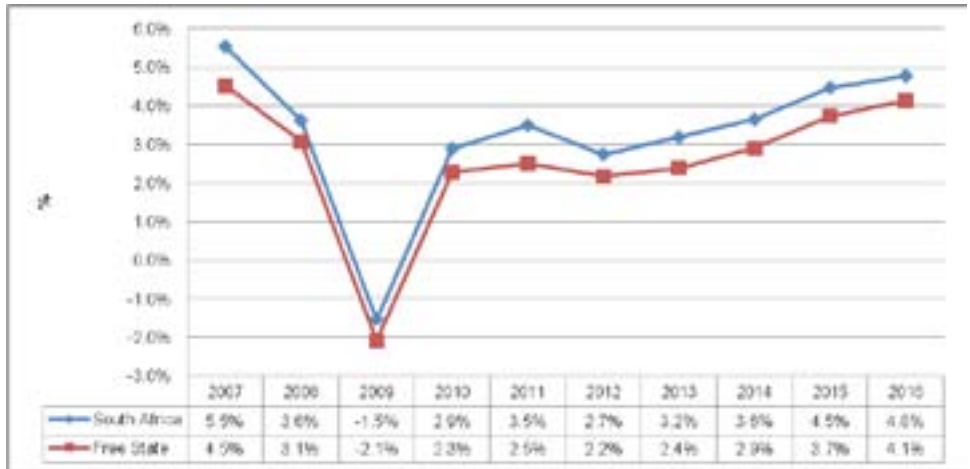
Provincial GDP contribution to national output, 2002-2011



Source: Stats SA, GDP, Third Quarter, 2012

- According to the IMF (2012), South Africa is set to record growth of 3.3 per cent, 0.2 percentage points lower than initially projected.
- The IHS Global Insight growth projections indicate a sombre outlook for the provincial economy.
- IHS Global Insight (2012) forecast the Free State economy to grow by roughly 3.1 per cent on average between the 2012 and 2016, bridging the 4 per cent mark towards the end of the forecast period or in 2016, when it is anticipated to register a 4.1 per cent growth.

Free State GDP Forecasts, 2012-2016



Source: Global Insight, Rex; Stats SA, GDP, Third Quarter, 2012

2013 PROVINCIAL BUDGET

WHAT IS A BUDGET?

A budget could be defined as:

- An estimation of the revenue and expenses over a specified future period of time.
- An allocation tool for a person, family, group of people, business, government, country, multinational organization or just about everything else that makes and spends money.
- A micro-economic concept that shows the trade-offs made when goods and services are reprioritized in the context of a constrained fiscus.

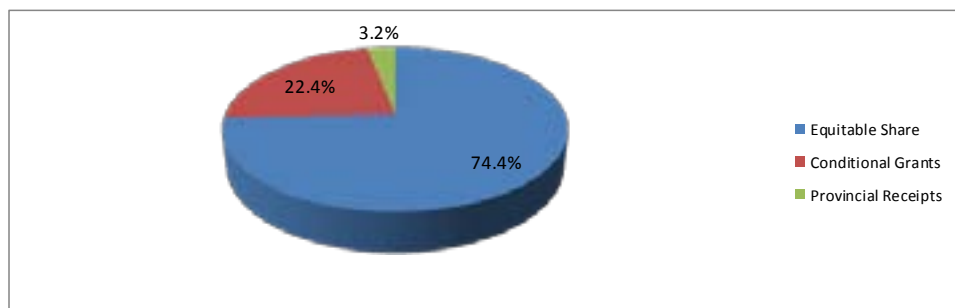
WHERE DOES THE PROVINCIAL GOVERNMENT GET ITS MONEY FROM?

The main sources of Provincial Government revenues are:

- **National Transfers:** The transfers from the National Revenue Fund consists of revenue collected by the South African Revenue Services (SARS) namely; income tax, VAT, customs and exercise. This type of revenue is allocated to various provinces in a form of Equitable Share and Conditional Grants.
- **Provincial Own Revenue:** This type of revenue is generated provincially in terms of the Constitution of South Africa. Examples of receipts that are collected provincially are patient fees, motor vehicle licenses fees, gambling and liquor license fees, etc.

The total provincial receipts for 2013/14 financial year amount to R26.872 billion. The split of this amount is as follows:

Source of Funding	R'000	2013 Provincial Receipts	% Share
National Revenue Fund (NRF)		26 021 055	96.8
<i>Equitable Share</i>		<i>20 000 325</i>	<i>74.4</i>
<i>Conditional Grants</i>		<i>6 020 730</i>	<i>22.4</i>
Provincial Receipts		850 563	3.2
<i>Provincial Own Revenue</i>		<i>850 563</i>	
Total Receipts		26 871 618	100



Equitable Share:

The portion of nationally raised revenue that is allocated to the province through the equitable share formula.

Conditional Grants:

The funds allocated to the province from the national government's budget with certain conditions attached.

Provincial Own Revenue:

The sources of revenue collected by the province for example, patient fees, motor vehicle licenses, gambling and liquor licenses.

HOW DO WE ALLOCATE OUR BUDGET?

The 2013 allocation for the province is mainly influenced by below stated priorities:

- Improving quality of education;
- Enhancing health services;
- Making communities safer;
- Creating jobs;
- Economic development and industrial promotion; and
- Agriculture and Rural Development.

The budget allocation to the tune of R26.872 billion is allocated to fourteen (14) provincial departments as follows:

Education:

R10.456 billion or 38.9 per cent of the total provincial budget and the following priorities are funded:

- Management and Governance
- Incentives to Performing Schools
- School Laboratory and Libraries
- Rehabilitation of School Toilets
- ITSM
- School Furniture
- Revitalization of Agriculture School
- Mathematics & Science
- Learner Transport
- Hostel Projects
- Teachers' Training and Development



Health:

R7.895 billion or 29.4 per cent of the total provincial budget and the allocation covers the following priorities:

- Maternal and Child Health
- Accelerating HIV Counselling and Testing through PICT
- Medical male circumcision
- Medical Supplies and Dry Dispensary
- Upscale Condom Distribution
- Tuberculosis (TB)
- Health Infrastructure
- Medicine
- National Health Laboratory Services



Social Development:

R951.2 million or 3.5 per cent of the total provincial budget and the following priorities are implemented by the department:

- Persons with Disabilities
- Child Care and Protection - ECD
- Support to NGOs
- Care for Older Persons
- Campaign against Substance Abuse
- Infrastructure (Maintenance)
- Construction of Youth Centers
- Absorption of Social Work Graduates



Police, Roads and Transport:

R2.260 billion or 8.4 per cent of the total provincial budget and the following priorities are covered:

- Pothole Repair
- Rehabilitations of Provincial roads
- Settlement of the Roads
- Assets Management
- Flood Damage



Public Works:

R1.418 billion or 5.3 per cent of the provincial budget which caters for the following priorities:

- Provincial Government Building
- Office leases
- Municipal Services
- Devolution of Property Rates Fund grant
- Township Revitalization



Agriculture:

R629.6 million or 2.3 per cent of the provincial budget and the following priorities are covered:

- Veterinary Services
- Agri-Business Development
- War on Poverty
- "Mohoma Mobung" initiative
- Agricultural Development Projects
- Extension Recovery Plan
- Flood Damage Repair Programme



Human Settlements:

R1.234 billion or 4.6 per cent of the provincial budget and the following priorities are funded:

- Incomplete Houses
- Land Restitution
- Emergency/Disaster
- Breaking New Ground (RDP)
- Dilapidated Houses
- New sites connected to basic water and sanitation services

**Sport, Arts, Culture and Recreation:**

R515.1 million or 1.9 per cent of the provincial budget which covers the following priorities:

- Library Services
- Arts & Culture Projects/Programmes including Macufe
- Mass Participation and Sport Development Grant
- Sports Infrastructure: Roll Out of Indoor Multipurpose Centers & Stadiums

**Cooperative Governance and Traditional Affairs:**

R348.4 million or 1.3 per cent and the following priorities are funded:

- Municipal Financial Intervention
- Bulk Infrastructure and Basic Services
- Operation clean audit
- Revitalization of VIP Toilets



Economic Development, Tourism and Environmental Affairs:

R450.2 million or 1.7 per cent of the provincial budget which caters for the following priorities:

- Continuation of Infrastructural Environmental projects
- FS 500 (Motor Car Racing)
- Liquor License Management System
- Marketing of Resort and Reserves
- Planetarium Development
- Ekasi and Stokvel Tourism
- Promotion of SMMEs
- Attraction of tourists to the province

**Provincial Treasury:**

R216.4 million or 0.8 per cent of the provincial budget which is meant to cover amongst others, the following priorities:

- Capacity building to various municipalities through MFMA component
- Strengthening financial governance practices
- Payments for SITA accounts
- Enforce fiscal discipline and improve operational efficiency
- Managing provincial budget and spending

**Department of the Premier:**

R279.9 million or 1.0 per cent of the provincial budget to cover the following priorities:

- Monitoring and Evaluation
- Review of Provincial Growth and Development Strategy
- Coordination of Provincial Training
- Executive Council Support
- Provision of legal support to all departments
- Institutional Enhancement
- Provincial Communication Strategy



Provincial Legislature:

R173.7 million or 0.6 per cent of the total provincial budget.



The budget allocation for the Legislature mainly covers for its oversight role, in terms of implementation of various prescripts.

Rural Development:

R43.7 million or 0.2 per cent of the provincial budget to cover the following priorities:

- Rural Development Projects
- Poverty alleviation
- Coordination and implementation of rural development projects

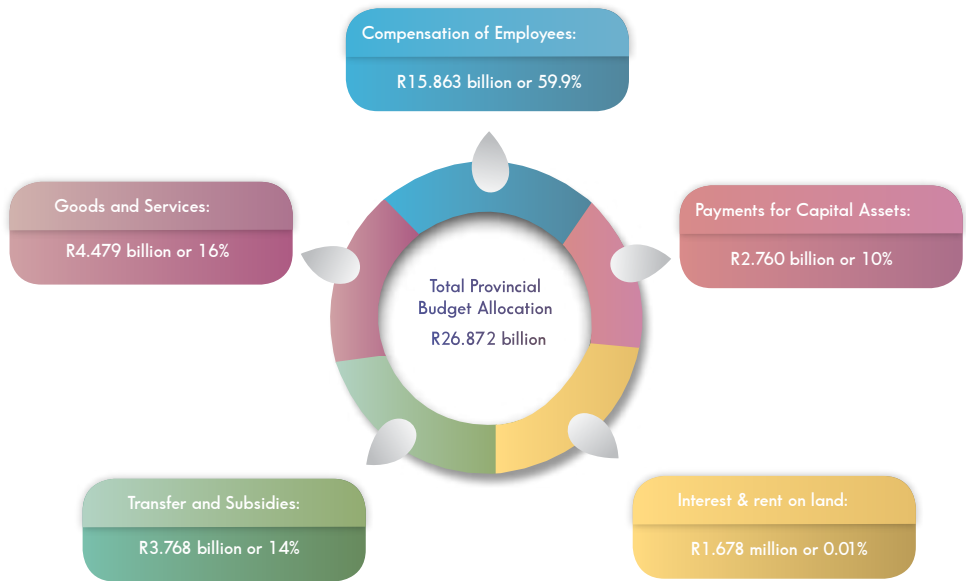
**HOW DO WE SPEND THE PROVINCIAL BUDGET BY ECONOMIC CLASSIFICATION**

“Current Payments” (Compensation of Employees, Goods and Services, Interest and Rent on Land) - means any general operating funds resulting from taxation, includes amongst others, wage and salary payments as well as benefits including health and retirement payments, and any other non-cash compensation, payments of performance services of any duties of work or other professional doing.

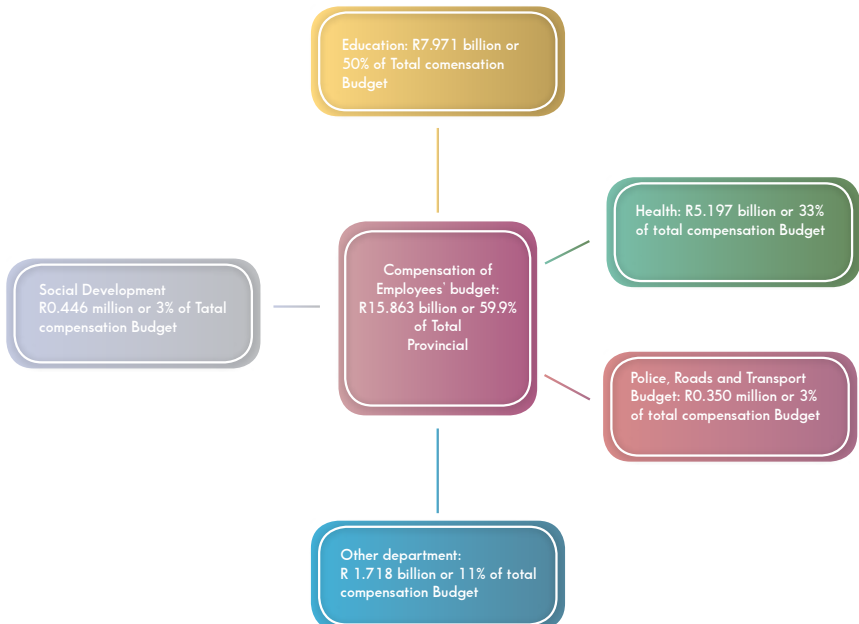
“Transfers and subsidies” - means any payments made one-sided with nothing received in return. These include worker's allowance, contributions, support and donation, official assistance and pensions. Due to their nature, transfers are not considered real resources that affect profitable production.

“Payments for capital assets” - means any payment made for maintenance, operation, and repairs, for example repairs to public buildings, construction or permanent improvement of land and buildings owned or used by a country.

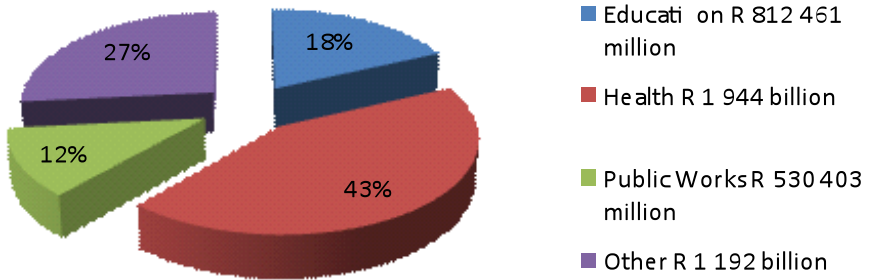
BREAKDOWN OF THE R26.872 BILLION BY MEANS OF ECONOMIC CLASSIFICATION



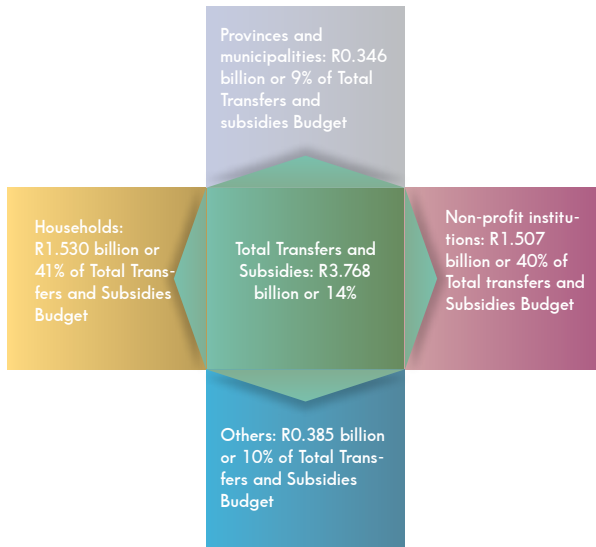
COMPENSATION OF EMPLOYEES



GOODS AND SERVICES



TRANSFERS AND SUBSIDIES



SUMMARY OF INFRASTRUCTURE BUDGET PER DEPARTMENT (Total R4.451 billion)

Economic Development: R64.570 million



Public Works: R248.573 million



Social Development: R32.324million



Agriculture: R191.922 million



Education: R513.096 million



Rural Development: R22.528 million



Health: R562.011 million



PRT: R1.513 billion



Sports, Art, Culture: R182.062 million



Human Settlements: R1.121 billion



INFRASTRUCTURE BUDGET BY CATEGORY

Department	New Infrastructure	Maintenance and repairs	Upgrading and addition	Rehabilitation and refurbishments	Current Infrastructure	Infrastructure	Transfers	Total
R'000						Current	Capital	
Education	124 400	17 000	204 625	126 571			40 500	513 096
Health	255 030	3 249	241 731	30 501		31 500		562 011
Tourism	35 000	1 800	27 770					64 570
Social Development	28 000	1 000	3 324					32 324
Public Works	47 557	13 709	187 307					248 573
Police, Roads & Transport	39 200	119 432	31 500	974 130	349 192			1 513 454
Agriculture	13 650		45 353	8 969			123 950	191 922
Rural Development	22 528							22 528
Sports, Arts, Culture & Recreation	61 752	6 968	113 342					182 062
Total	627 117	163 158	854 952	1 140 171	349 192	31 500	164 450	3 330 540

The total infrastructure budget of R3.331 billion does not include an amount of R1.121 billion for Human Settlement Development Grant, however with the inclusion of R1.121 billion, the total allocation for infrastructure amounts to R4.451 billion.

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Or visit www.dot.fs.gov.za (intranet)

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