

**PEOPLE'S GUIDE
TO THE BUDGET**

FREE STATE

2014/15

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FREE STATE PROVINCE

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Mec EC Rockman

message to all the Free Staters

Foreword to the overview of Provincial Revenue and Expenditure for the 2014 MTEF

The global economy has put strain on the domestic economy and this is evidenced by the widening trade deficit that has resulted in weaker global demand for South African exports, investment uncertainty, volatile capital flows and currency and commodity prices. There are also domestic factors that are a cause of concern to our own domestic economy; these include strikes in the mining and other sectors, the balance between electricity supply and demand and infrastructure bottlenecks. All of these factors outlined present serious pressure on the national and provincial fiscal framework.

The proposed 2014 MTEF allocations are informed and linked to broad government policies; in particular the National Development Plan (NDP) which sets a broad framework for inclusive growth based on a more competitive economy, a capable developmental state and improved livelihoods of all South Africans. Furthermore, the proposed allocations strive to translate the key objectives of the draft 2014-2019 Medium Term Strategic Framework (MTSF) as well as the Provincial Growth and Development Strategy (FSGDS). The allocations also cater for broad integrations between the respective departments, the identified twelve outcomes as well as budgetary implications incidental thereto. Therefore, the 2014 MTEF proposed allocations, though constrained by the provincial revenue envelope, are positioned to respond directly to the objectives of government policies and priorities.

As much as the provincial government has placed emphasis on aligning resources to broad government priorities, it will remain imperative for the provincial government to continue to implement appropriate austerity measures aimed at ensuring effective, efficient and economic use of available resources.

All departments and entities must continue to focus on key government priorities that are designed to yield better economic growth prospects, employment creation as well as better living conditions for our citizenry. Consequently, commitment to cost saving measures and the reprioritization of the budget to front line services will also be enhanced throughout the 2014 MTEF. The provincial government will also continue with its efforts to restructure the provincial budget with the intent to unlock funds to further promote key government priorities and to allocate funding with the purpose of stimulating economic growth and employment opportunities.



A handwritten signature in black ink, appearing to read 'EC Rockman', written over a horizontal line.

MS. EC ROCKMAN

MEC FOR FINANCE: FREE STATE PROVINCE

Economic overview of the Province

In this section, trends analysis is explored to ascertain the economic performance over the past seven years, which is pre the 2009 elections and post. Table 1 below briefly details the composition of the Free State Provincial Economic Structure by sectors, according to Statistics South Africa. The findings of the Free State Vision 2030 revealed that the provincial economy was cradled by the primary sector, which has however, in the recent past waned in its contribution to the economy and currently in the forefront is the tertiary sector.

FREE STATE ECONOMIC STRUCTURE

Table 1: Sector composition of the Free State Economy, 2006 – 2012

Industry	2006	2007	2008	2009	2010	2011	2012
Primary Industries	10 833	10 721	10 692	10 200	10 573	10 540	10 504
Agriculture	2 676	2 716	3 310	3 194	3 227	3 248	3 353
Mining	8 157	8 005	7 382	7 006	7 346	7 292	7 151
Secondary Industries	14 221	14 965	15 206	14 431	14 958	15 160	15 291
Manufacturing	10 583	11 044	11 276	10 426	10 972	11 161	11 246
Electricity	2 333	2 411	2 324	2 233	2 312	2 317	2 323
Construction	1 305	1 510	1 606	1 772	1 674	1 682	1 722
Tertiary industries	50 533	53 304	55 583	55 370	56 252	58 062	60 023
Trade	8 978	9 346	9 410	9 088	9 369	9 707	10 460
Transport	6 770	7 164	7 476	7 403	7 490	7 643	7 774
Finance	14 085	15 156	16 249	16 142	16 330	16 928	17 520
Personal services	9 578	10 090	10 460	10 304	10 323	10 541	10 722
Government services	11 122	11 548	11 988	12 433	12 740	13 243	13 547
All industries at basic prices	75 587	78 990	81 481	80 001	81 783	83 762	85 818
Taxes less subsidies on products	9 424	9 866	10 110	9 653	10 072	10 357	10 405
GDPR at market prices	85 011	88 856	91 591	89 654	91 855	94 119	96 223
Percentage Share							
Industry	2006	2007	2008	2009	2010	2011	2012
Primary Industries	12.70%	12.10%	11.70%	11.40%	11.50%	11.20%	10.90%
Agriculture	3.10%	3.10%	3.60%	3.60%	3.50%	3.50%	3.50%
Mining	9.60%	9.00%	8.10%	7.80%	8.00%	7.70%	7.40%
Secondary Industries	16.70%	16.80%	16.60%	16.10%	16.30%	16.10%	15.90%
Manufacturing	12.40%	12.40%	12.30%	11.60%	11.90%	11.90%	11.70%
Electricity	2.70%	2.70%	2.50%	2.50%	2.50%	2.50%	2.40%
Construction	1.50%	1.70%	1.80%	2.00%	1.80%	1.80%	1.80%
Tertiary industries	59.40%	60.00%	60.70%	61.80%	61.20%	61.70%	62.40%
Trade	10.60%	10.50%	10.30%	10.10%	10.20%	10.30%	10.90%
Transport	8.00%	8.10%	8.20%	8.30%	8.20%	8.10%	8.10%
Finance	16.60%	17.10%	17.70%	18.00%	17.80%	18.00%	18.20%
Personal services	11.30%	11.40%	11.40%	11.50%	11.20%	11.20%	11.10%
Government services	13.10%	13.00%	13.10%	13.90%	13.90%	14.10%	14.10%
All industries at basic prices	88.90%	88.90%	89.00%	89.20%	89.00%	89.00%	89.20%
Taxes less subsidies on products	11.10%	11.10%	11.00%	10.80%	11.00%	11.00%	10.80%
GDPR at market prices	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Statistics South Africa, Third Quarter, 2013

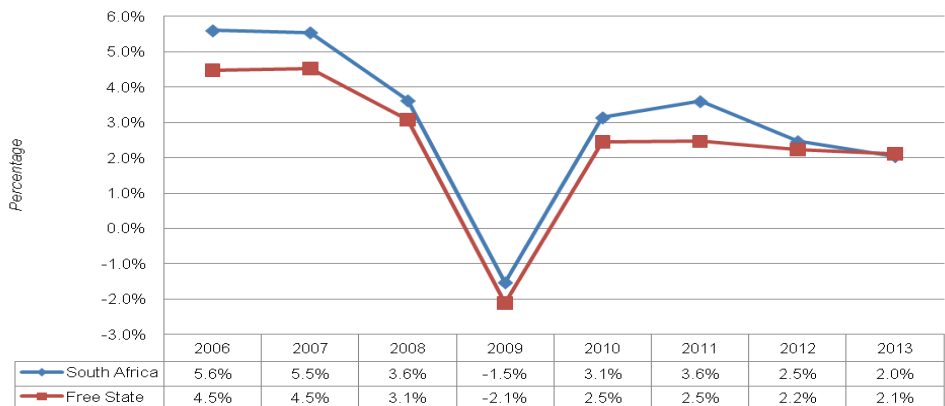
In 2006, the primary sector contributed around R10.8 billion to the provincial economy, which translated to roughly 12.7 percent of the provincial value addition. The bulk of which was from the mining sector, contributing just over R8.2 billion in the same year, or about 9.6 percent. The primary sector's contribution has continued on a worrying path, declining from contribution of R10.8 billion, only to recede in 2010 to record contributions of R10.6 billion, and continued on a downward slope, recording R10.5 billion in 2012. This has also meant that the percentage share of the sector's contribution has markedly declined over the recent past; decreasing from 14.6 percent to just over 10.9 percent. Over the period 2002 until 2012, the Free State mining sector was the only sector to register a decline in its contribution to the provincial economy, decreasing by a resounding 7.5 percent, leading a decline of 0.7 percent on an annual basis.

The secondary sector's contribution has continued on a positive yet unsteady road, peaking in 2012, when the contribution amounted to just under R15.3 billion, or 15.9 percent of the provincial economy. The biggest contributor to the ever increase in the secondary sector's contribution has been the manufacturing sector, with over 11.7 percent stake in the Free State economy, or R11.3 billion in monetary value.

The 2030 Free State Vision envisions a manufacturing sector that is robust and expanding to create sustainable jobs. It is captured in the document (FSGDS, or 2030 Free State Vision), as the third pillar, and contextualised as expand and diversify manufacturing opportunities. The acknowledgement afforded the sector, bodes well for the province, as the sector is the third highest grossing sector, after the Finance and Government Services. The other two sectors (i.e. Electricity and Construction) of the secondary sector have also provided increases in respect to their contributions, averaging, 2.6 percent and 1.7 percent, respectively. In monetary terms, the two sectors averaged contributions of R2.3 billion and R1.4 billion, and the construction sector has seen tremendous growth over the period analysed, growing by an unprecedented 66.4 percent, culminating in an annual growth of 6.0 percent.

FREE STATE ECONOMIC PERFORMANCE

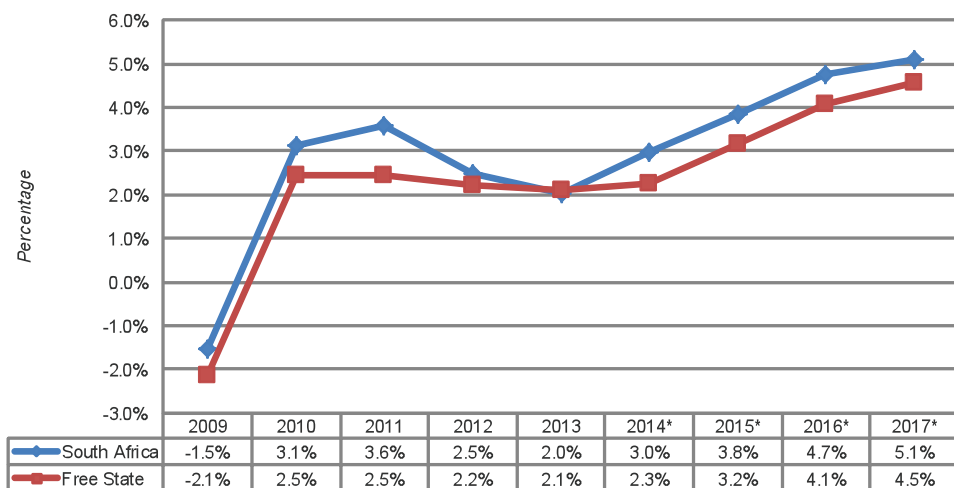
Table 1: South Africa and Free State growth rate



Source: IHS Global Insight, ReX

According to the Investopedia, economic outlook is the forecasted expectations for how well the economy will perform during an upcoming quarter, year or other time period. An economic outlook could include expectations for inflation, productivity growth, unemployment and balance of trade. Whilst economists do not often agree on the nature and thus causes of economic fluctuations, however they generally tend to agree that there is a host of factors which can affect the future course of economic activity. Therefore, figure 2 below, depicts the Free State economic growth projections as calibrated by IHS Global Insight and that of South Africa for the period 2013 to 2017, with a reflective view of the outcomes of the years 2009 to 2012/13.

Figure 2: South African and Free State Economic growth



Source: Statistics South Africa, Third Quarter, 2013

The figure indicates and thus confirms that the Free State's growth performance has lagged behind the South African average growth. Between 2009 and 2011, the Free State growth rate averaged 1.2 percent, whilst the national average for the same period was 1.5 percent, about 0.30 percentage points than that of the Free State. Post-crisis, the Free State registered growth rate of 2.5 percent in 2010, spelling an increase of 4.4 percentage points. And has since been on a positive growth trajectory and thus managed growth of over 2.4 percent on averaged. Studying the IHS Global Insight growth projections; indicates a sombre outlook for the provincial growth average, the province growth is expected to hover around the 3.24 percent mark, which is from 2013 to 2017.

Table 2: Free State Gross Domestic Product by sector, 2006 -2012

	2011	2012	2013	2014	2015	2016	2017
Gross Domestic Product	94 118 030	96 222 023	98 250 515	100 483 646	103 666 212	107 881 587	112 789 011
Total Industries	2.40%	2.50%	1.70%	2.20%	3.10%	4.00%	4.50%
GDPR by sector (real change)							
Agriculture	0.60%	3.20%	1.20%	1.10%	1.70%	2.70%	2.70%
Mining	-0.70%	-1.90%	0.50%	-3.50%	-3.30%	-3.40%	-3.10%
Manufacturing	1.70%	0.80%	1.30%	2.40%	3.50%	4.40%	4.50%
Electricity	0.20%	0.30%	1.10%	2.90%	4.20%	5.10%	5.50%
Construction	0.50%	2.40%	2.20%	2.80%	2.80%	3.80%	4.20%
Trade	3.60%	7.80%	2.30%	3.00%	3.80%	4.90%	5.00%
Transport	2.00%	1.70%	2.00%	3.80%	4.60%	5.40%	5.80%
Finance	3.70%	3.50%	2.00%	3.40%	4.50%	5.30%	5.70%
Community services	3.10%	2.00%	1.80%	2.20%	3.10%	4.10%	5.00%

Source: IHS Global Insight, ReX

For the period 2013 until 2017, the provincial economy is projected to grow, on average, by 3.1 percent, compared to the forecast national average of 3.8 percent. Free State is expected to be the slowest growing province over the next coming five years, mainly due to the waning mining sector, gold mining in particular. The provincial economy was projected to grow by 1.7 percent in 2013, with the fastest growth occurring in the trade sector (2.3 percent); followed by the finance industry (2.0 percent) the transport and communication industry (2.0 percent) and the government and other services industry at 3.5 percent. This will be beneficial for the Free State economy since the community services industry and the finance industry collectively contribute 49.3 percent towards the provincial GDP. Mining is the only industry projected to grow negatively throughout the period under review, averaging 3.9 percent. Most industries are expected to grow at an increasing rate throughout the forecasted period, with the electricity and water industry, the transport and communication industry and the finance industry growing the fastest by 2017 at 5.5 percent, 5.8 percent and 5.7 percent, respectively.

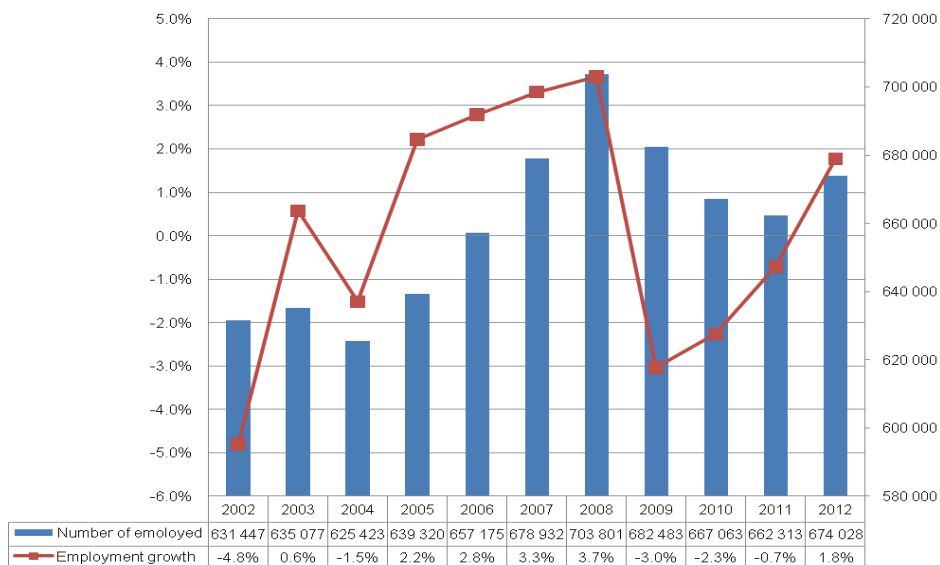
Table 3: Employment by province

	Oct-Dec 2012	Jul-Sep 2013	Oct-Dec 2013	Qtr-Qtr change	Yr-on-yr change	Qtr-Qtr change	Yr-on-yr change
Province	Thousands				Percent		
South Africa	14 524	15 036	15 177	141	653	0.9	4.5
Western Cape	2 103	2 138	2 235	98	133	4.6	6.3
Eastern Cape	1 225	1 293	1 332	38	106	3	8.7
Northern Cape	301	316	329	13	28	4.1	9.4
Free State	729	737	746	8	16	1.1	2.2
KwaZulu-Natal	2 399	2 569	2 527	-42	128	-1.6	5.3
North West	847	851	869	17	22	2	2.6
Gauteng	4 724	4 823	4 823	0	98	0	2.1
Mpumalanga	1 065	1 149	1 149	0	84	0	7.9
Limpopo	1 130	1 159	1 168	9	37	0.8	3.3

Source: IHS Global Insight, ReX

The number of people employed in the Free State has increased from 634 447 in 2002 to 674 028 in 2012; representing an increase of 6.7 percent. However, the annual average growth rate for the period under review was a mere 0.2 percent. The biggest growth was observed in 2008 with a rate of 3.7 percent, while the largest decline was in 2002, decreasing by 4.8 percent. Since the economic recession of 2009, employment growth has averaged -1.1 percent, with the only positive growth observed in 2012, this means that the economy continues to bleed jobs. In 2008, just before the recession, the province experienced the highest number of employed people at 703 801, but declined by 21 318 (or -3.0 percent) to 682 483 in 2009. Since 2009, employment has shrunk by 8 455 persons; indicative of the weakness in the economy to recoup the losses brought about by the recession (see figure 3 below).

Table 3: Number of people employed and employment growth rate – Free State Province



Source: Global Insight, Regional explorer, 2013

2014 Provincial Budget

WHY DO WE NEED A BUDGET?

A budget is spending plan that indicates how available public funds would be utilized by the Government in order to cater for people's needs as per commitments made, it is also regarded as a financial document used by the Government to anticipate future revenues to be raised and expenditure to be incurred in particular year.

WHERE DOES THE PROVINCIAL GOVERNMENT GET ITS MONEY FROM?

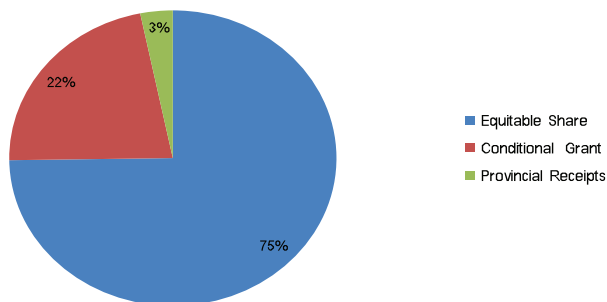
The main sources of Provincial Government revenues are:

- **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 2014/15 financial year amount to R27.942 billion. The split of this amount is as follows:

Source of Funding	R'000	2014 Provincial Receipts	% Share
National Revenue Fund (NRF)		27 024 356	96.8
<i>Equitable Share</i>		<i>20 866 346</i>	<i>74.7</i>
<i>Conditional Grants</i>		<i>6 158 010</i>	<i>22.1</i>
Provincial Receipts		900 854	3.2
<i>Provincial Own Revenue</i>		<i>900 854</i>	
Total Receipts		27 925 210	100

Provincial Fiscal Framework



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 2014 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 R27.925 billion is allocated to thirteen (13) provincial departments as follows:

EDUCATION:

Education receives R11.259 billion or 40 percent of the total provincial budget and the following priorities are funded:

- Funding of schools including quintile 1, 2 and 3;
- Learning and teaching support materials (LTSM);
- Expansion of Grade R;
- Learner transport;
- Tertiary bursaries;
- Education Infrastructure; and
- Occupational Specific Dispensation (OSD) for therapists.



HEALTH:

Health is allocated an amount of R8.155 billion or 29 percent of the total provincial budget and the allocation covers the following priorities:

- National health laboratories and blood services;
- Expansion of Medical Male Circumcision;
- Public Hospital norms and standards;
- Health infrastructure;
- Piloting of National Health Insurance;
- Reducing infant and child mortality;
- Addressing tuberculosis (Gene X-pert machines);
- General health capacity;
- Rollout of Human Papillomavirus (HPV) Vaccine; and
- Revenue Enhancement strategy.



SOCIAL DEVELOPMENT:

The allocation to Social Development amounts to R973.1 million or 3.5 percent of the total provincial budget and the following priorities are implemented by the department:

- Sustainable livelihood;
- Absorption of Social Workers;
- Shelters for victims of gender-based violence and
- Substance-abuse centers;
- Assistance to NGOs;
- Infrastructure Enhancement; and
- Expansion of Early Childhood Development.



POLICE, ROADS AND TRANSPORT:

Police, Roads and Transport receives an allocation of R2.195 billion or 7.8 percent of the total provincial budget and the following priorities are covered:

- Provincial roads maintenance;
- Contractor development;
- Asset management; and
- Flood damages.



PUBLIC WORKS:

Public Works receives an amount of R1.415 billion or 5.1 percent of the provincial budget which caters for the following priorities:

- Office leases;
- Municipal services;
- Property Rates and Taxes;
- Revitalisation of Government buildings;
- Expanded Public Works Programme (EPWP);and
- Revenue Enhancement Projects



HUMAN SETTLEMENTS:

An amount of R1.210 billion or 4.3 percent of the provincial budget is allocated to the Department of Human Settlements and bulk of this allocation relates to housing delivery in the province.



AGRICULTURE AND RURAL DEVELOPMENT:

R669.3 million or 2.4 percent of the provincial budget and the following priorities are covered:

- Food security;
- Provincial Agricultural Master Plan;
- Agrarian reform;
- Flood Damage Repair Programme;
- Revenue Enhancement projects;
- Mohoma Mobung;
- Provincial Infrastructure Enhancement;
- Vet Laboratory refurbishment; and
- Farmer support initiative.



SPORT, ARTS, CULTURE AND RECREATION:

R589.1 million or 2.1 percent of the provincial budget which covers the following priorities:

- All sport codes development;
- Archives services;
- Arts and culture promotion;
- Infrastructure for library and sport facilities; and
- Infrastructure Enhancement.

COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS:

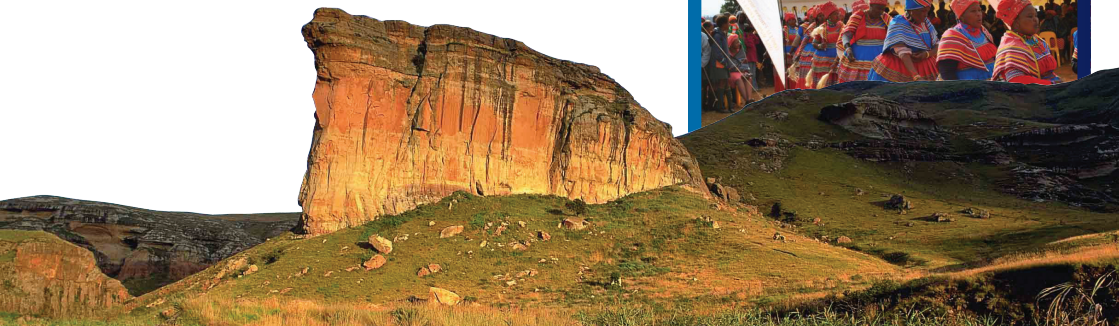
Cooperative Governance and Traditional Affairs receives an amount of R341.6 million or 1.2 percent and the following priorities are funded:

- Financial management capacity building
- for municipalities;
- Operation Clean Audits; and
- Revitalization of VIP toilets.

ECONOMIC DEVELOPMENT, TOURISM AND ENVIRONMENTAL AFFAIRS:

The allocation to Economic Development, Tourism and Environmental Affairs equals R444.1 million or 1.5 percent of the provincial budget which caters for the following priorities:

- Economic Development;
- Re-development of reports;
- Infrastructure Enhancement ; and
- Tourism marketing and development of SMMEs.



PROVINCIAL TREASURY:

Provincial Treasury is allocated an amount of R226.7 million or 0.8 percent of the provincial budget which is meant to cover amongst others, the following priorities:

- Suppliers' database;
- Institutional capacity;
- Recovery of ex-employees' debts; and
- SITA.

DEPARTMENT OF THE PREMIER:

The Department of the Premier is allocated an amount of R270.5 million or 0.9 percent of the provincial budget to cover the following priorities:

- Provincial Communication Strategy
- Legal services
- EXCO activities (community consultations & imibizo)
- Special programmes; and
- Finalization of the Review of the FSGDS.

PROVINCIAL LEGISLATURE:

The provincial Legislature receives an allocation of R176.2 million or 0.6 percent of the total provincial budget.

- Sector Oversight Model;
- Public Participation Programme;
- Provide Financial Support to represented Political Parties;
- Accountability by institutions through Committees



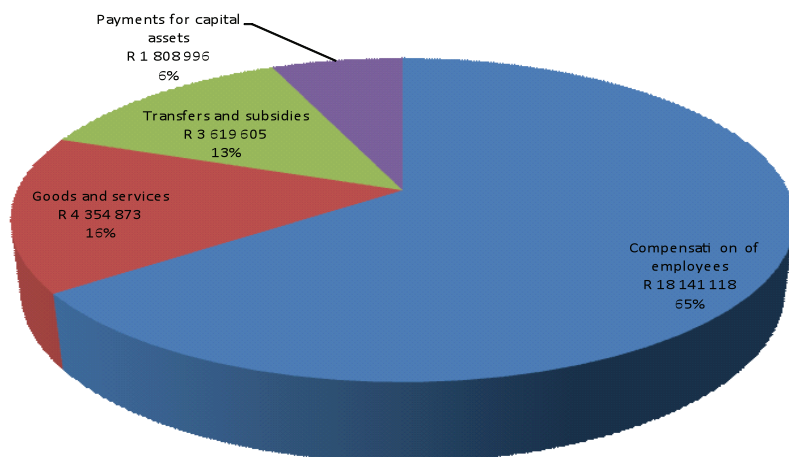
How do we spend the provincial budget by economic classification

“Current Payment” (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.

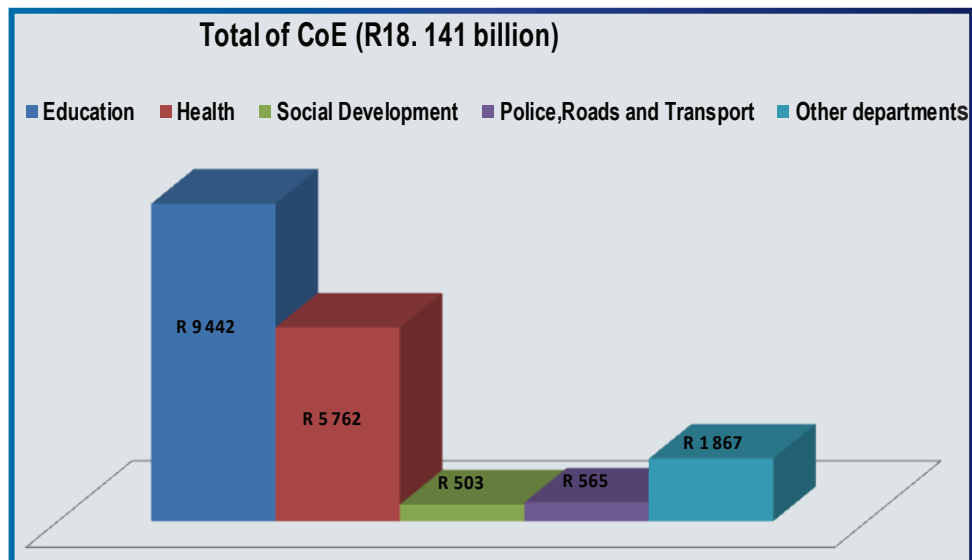
“Transfers and subsidies” - means any payments made one-sided with nothing received in return. These include worker’s allowance, contributions, support and donation, official assistance and pensions. Due to their nature, transfers are not considered real resources that affect profitable production.

“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 county.

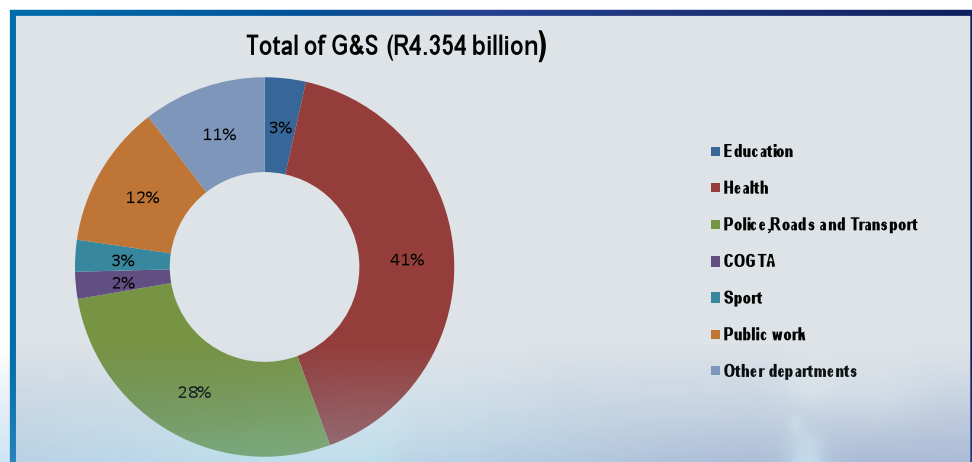
BREAKDOWN OF THE R27.925 BILLION BY MEANS OF ECONOMIC CLASSIFICATION



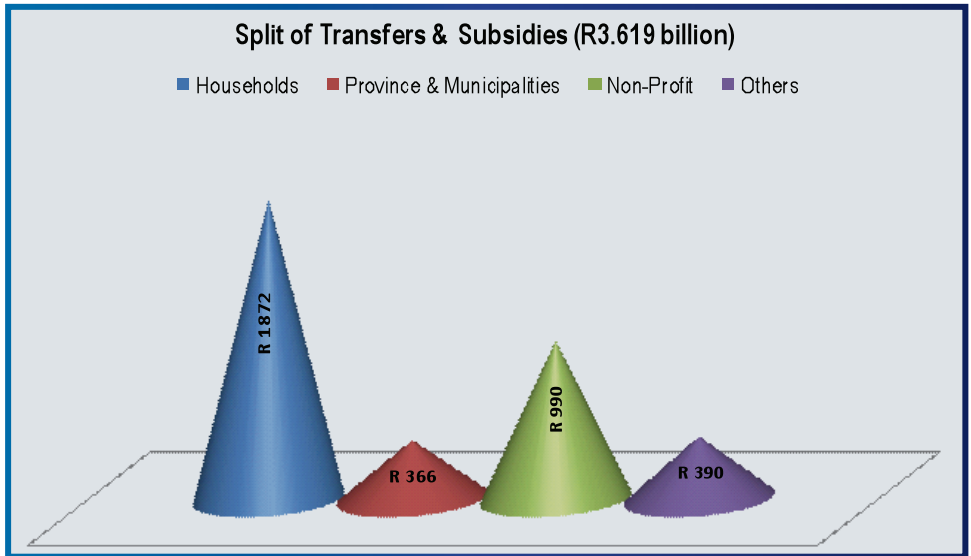
COMPENSATION OF EMPLOYEES



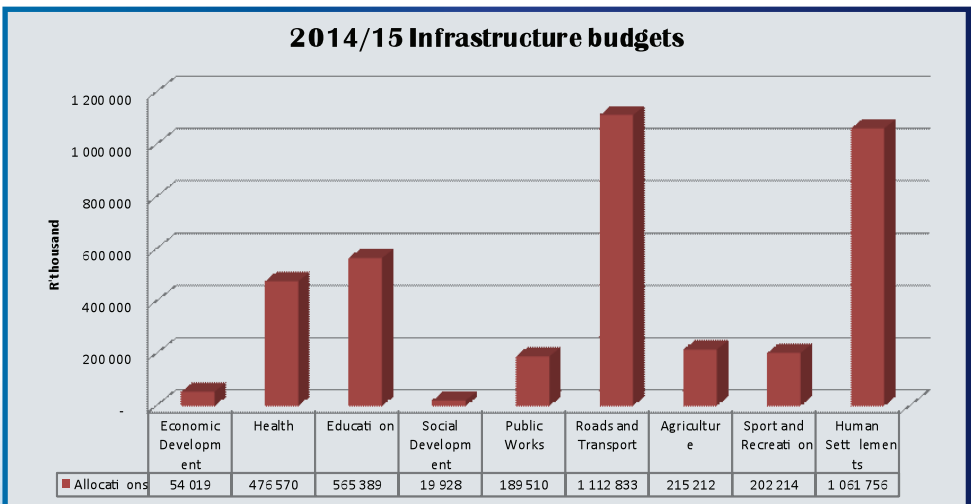
GOODS AND SERVICES



TRANSFERS AND SUBSIDIES



SUMMARY OF INFRASTRUCTURE BUDGET PER DEPARTMENT (TOTAL R3.897 BILLION)



INFRASTRUCTURE BUDGET BY CATEGORY

Department	New Infrastructure	Maintenance and repairs	Upgrading and addition	Rehabilitation and refurbishments	Infrastructure Transfers		Total
R'000					Current	Capital	
Education	126 357	4 000	283 471	113 917		37 644	565 389
Health	82 888		170 965	192 291	30 426		476 570
Economic Development	25 400	2 119	26 500				54 019
Social Development	11 828	1 100	2 000			5 000	19 928
Public Works	7 000	182 510					189 510
Police, Roads & Transport	25 916	926 012	7 200	153 705			1 112 833
Agriculture	136 737		40 475	3 000		35 000	215 212
Human Settlements			1 061 756				1 061 756
Sports	93 765	6 502	98 947			3 000	202 214
Total	509 891	1 122 243	1 691 314	462 913	30 426	80 644	3 897 431

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