



## MEC SEISO MOHAI'S MESSAGE TO ALL THE FREE STATERS

The 2011 Medium-Term Expenditure Framework (MTEF) expresses government's plans and commitment to deliver on the priorities identified in the 2009 Medium Term Strategic Framework, whilst taking into account resource constraints. Over the next three years, the Province and the Government at large will focus on those priorities that will continue to assist in cushioning the impact of the recent recession; particularly focusing on job creation and provision of an enabling environment for job creation.

Firstly, the 2011 MTEF budget takes cue from the New Growth Path (NGP) policy which strongly emphasizes the need to invest in key sectors of the economy which have the potential of creating work opportunities. These key sectors as identified by the NGP are - infrastructure, agriculture value chain, mining value chain, green economy, manufacturing and tourism. The critical element of this 2011 MTEF is that it is strongly aimed at ensuring that investment in these crucial sectors is promoted with the view to unlock and create decent work opportunities for the province. In the 2011 MTEF budget the Province is allocating almost R10.3 billion for infrastructure development and an estimated R1.7 billion for agriculture and rural development. Secondly, the 2011 MTEF budget reflects on the twelve (12) outcomes as adopted by the national government; close to 70 per cent of the budget makes provision for key outcomes i.e. education and health.

The design of a growth strategy is the first step and thus the next challenge is the implementation of plans which requires the provincial government to play a pivotal role. Therefore, the departments are still required to ensure that their respective plans are geared towards and strictly aligned to provincial and national priorities. Furthermore, departments will have to ensure that their respective plans are aligned and are integrated with other supporting or feeder departments; this basically requires all departments to exercise an integrated approach to service delivery so as to avoid duplications that result in wasteful expenditure of public resources.

The 2011 MTEF budget is a result of vigorous processes which included, amongst others, the bilaterals between the 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 EXCO Lekgotlas which successfully aligned budgets to set priorities. Added to the above processes are the interactions of all the departments with Budget Consultation Committee and Treasury Committee with the view of ensuring that the 2011 MTEF budget is firmly grounded and addresses the set key priorities of government. Whilst the ground work has been achieved in respect of aligning resources to key government objectives, the provincial government still requires departments to exercise prudence, efficiency and effectiveness in the utilization of limited public resources.

# ECONOMIC OVERVIEW OF THE PROVINCE

## FREE STATE ECONOMIC PERFORMANCE

The overall economic structure of the Free State has transformed from a primary economy to a tertiary-industry driven economy. The contribution of the primary sector fell from 17.1 per cent in 2000 to 12.8 per cent in 2009, a decline of around 4.3 per cent, whilst the tertiary sector's relative contribution increased by 4.5 per cent from 64.5 per cent to 69.0 per cent during the same period. The largest industry in the Free State provincial economy between 2000 and 2009 was finance, real estate & business (17.9 per cent), followed by general government services (15.1 per cent), and manufacturing (13.3 per cent), while the smallest industries were construction (1.8 per cent) electricity & water (3.0 per cent), and agriculture, forestry & fishing (4.2 per cent). It is important to note that mining, even though it is on the decline (from contributing 11.4 per cent in 2000 to 8.8 per cent in 2009), is still one of the dominant sectors in the province (in fact, gold mining is the largest sector in the province) and thus continues to play a crucial role in efforts to accelerate economic growth and address some of the socio-economic ills faced by the province. All in all, table 1 confirms the assertion that the provincial economy is becoming less and less reliant on the primary industries as was the case historically and more reliant on the tertiary industries.

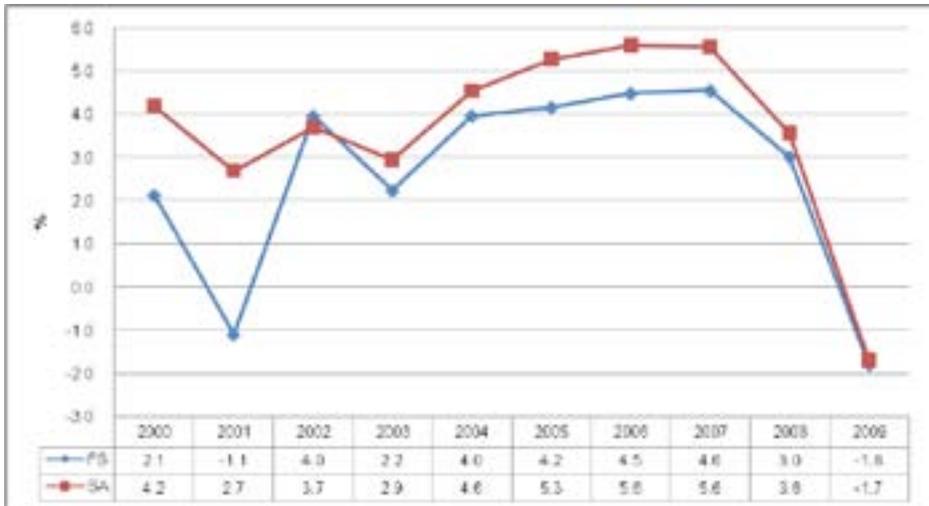
Table 1: Free State GDP Sectoral Composition by industry (constant 2005 prices), 2000 - 2009

Industry	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Primary Industries</b>	<b>17.1%</b>	<b>15.0%</b>	<b>16.4%</b>	<b>16.2%</b>	<b>15.8%</b>	<b>16.0%</b>	<b>14.3%</b>	<b>13.6%</b>	<b>13.1%</b>	<b>12.8%</b>
Agriculture, forestry and fishing	5.6%	4.8%	4.6%	4.2%	4.0%	4.1%	3.5%	3.4%	4.1%	3.9%
Mining and quarrying	11.4%	10.2%	11.8%	12.0%	11.8%	11.9%	10.8%	10.1%	9.1%	8.8%
<b>Secondary Industries</b>	<b>18.6%</b>	<b>19.1%</b>	<b>18.7%</b>	<b>18.3%</b>	<b>18.4%</b>	<b>18.4%</b>	<b>18.8%</b>	<b>18.9%</b>	<b>18.7%</b>	<b>18.3%</b>
Manufacturing	13.8%	14.3%	14.1%	13.6%	13.7%	13.6%	14.0%	14.0%	13.8%	13.3%
Electricity, gas and water	3.1%	3.0%	3.0%	3.0%	3.1%	3.1%	3.1%	3.1%	2.9%	2.9%
Construction	1.6%	1.8%	1.6%	1.6%	1.7%	1.7%	1.7%	1.9%	2.0%	2.1%
<b>Tertiary industries</b>	<b>64.5%</b>	<b>66.0%</b>	<b>65.0%</b>	<b>65.5%</b>	<b>65.8%</b>	<b>65.5%</b>	<b>66.9%</b>	<b>67.5%</b>	<b>68.2%</b>	<b>69.0%</b>
Wholesale, retail, motor trade and accommodation	12.5%	11.6%	11.5%	11.6%	11.8%	11.7%	11.9%	11.8%	11.5%	11.1%
Transport, storage and communication	8.6%	9.0%	9.1%	9.1%	8.9%	8.9%	9.0%	9.1%	9.1%	9.3%
Finance, real estate and business services	15.4%	17.0%	16.9%	16.8%	17.5%	17.7%	18.6%	19.2%	19.9%	19.9%
Personal services	12.4%	12.8%	12.6%	12.9%	12.7%	12.5%	12.7%	12.8%	12.8%	13.0%
General government services	15.6%	15.6%	15.0%	15.1%	14.9%	14.8%	14.7%	14.6%	14.7%	15.6%

Source: Stats SA, Gross Domestic Product, Third Quarter 2010

The analysis that follows will use GDP as a measure of the performance of the provincial economy. The recent performance of the Free State economy can be divided into two phases; the first phase being between 1997 and 2002, and the second between 2003 and 2009. For the period 1997 to 2002 the Free State economic growth averaged a mere 1.1 per cent. During that period the province registered negative growth in 1998 (-3.8 per cent) and 2001 (-1.1 per cent). On the other hand, for the period 2003 to 2009 the provincial economy grew reasonably well, averaging 3.0 per cent; excluding 2009 the average was 3.8 per cent. Since 1997, the provincial economy has experienced negative growth on three occasions; the first being in 1998 which was mainly due to the Asian crises which filtered through to other emerging and developing economies, the second was in 2001 caused mainly by the depreciation of the rand which had a negative impact on the mining sector which makes a large contribution to the provincial economy, and lastly it was in 2009 as a result of the global economic downturn started by the financial crises in the developed economies.

Figure 1: South Africa and Free State GDP growth (constant 2005 prices), 2000 - 2009



Source: Stats SA, Gross Domestic Product, Third Quarter 2010

As illustrated in figure 1, over the past ten years (2000 to 2009) the Free State economy grew by 2.6 per cent on average compared to the national average of 3.6 per cent. Throughout the period under review, the provincial economy trailed the national economy except for the year 2002. Barring 2009, both the provincial and national economies performed significantly better, averaging 3.1 per cent and 4.2 per cent respectively. Growth was halted by the global financial crisis which plunged the national and provincial economy into a recession in 2009 when the province registered negative growth for the first time since 2001 as the national economy entered its first recession in seventeen years.

Table 2: Free State GDP growth by sector (constant 2005 prices), 2000 - 2009

Industry	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Primary Industries</b>	<b>0.5</b>	<b>-12.8</b>	<b>14.0</b>	<b>1.2</b>	<b>1.4</b>	<b>5.5</b>	<b>-7.0</b>	<b>-1.0</b>	<b>-0.3</b>	<b>-4.1</b>
Agriculture, forestry and fishing	23.1	-15.1	-0.4	-7.3	0.5	5.2	-9.8	1.5	21.9	-4.4
Mining and quarrying	-7.9	-11.7	20.8	4.5	1.7	5.6	-6.0	-1.9	-7.8	-4.0
<b>Secondary Industries</b>	<b>5.4</b>	<b>1.8</b>	<b>2.1</b>	<b>0.2</b>	<b>4.8</b>	<b>4.1</b>	<b>6.2</b>	<b>5.2</b>	<b>1.7</b>	<b>-3.8</b>
Manufacturing	8.7	2.0	3.1	-0.9	4.0	3.9	6.9	4.3	2.1	-5.4
Electricity, gas and water	0.8	-2.9	3.5	2.1	7.8	4.4	3.0	3.3	-3.6	-1.3
Construction	-9.3	8.8	-8.6	6.0	6.6	5.2	6.1	15.7	7.3	3.7
<b>Tertiary industries</b>	<b>1.8</b>	<b>1.4</b>	<b>2.8</b>	<b>3.2</b>	<b>4.2</b>	<b>3.7</b>	<b>6.2</b>	<b>5.5</b>	<b>4.1</b>	<b>-0.4</b>
Wholesale, retail, motor trade and accommodation	5.4	-7.8	3.4	3.0	5.4	3.0	6.1	4.1	0.5	-5.3
Transport, storage and communication	6.1	3.5	5.7	2.2	2.4	3.4	5.0	5.8	3.8	0.3
Finance, real estate and business services	-2.3	9.5	3.4	2.2	7.9	5.1	9.8	7.6	7.1	-1.4
Personal services	4.8	2.2	2.5	5.5	1.8	3.0	5.1	5.3	3.7	-0.1
General government services	-1.5	-1.2	0.3	3.4	2.4	3.3	3.5	4.0	3.8	4.2
<b>All industries at basic prices</b>	<b>2.4</b>	<b>-1.0</b>	<b>4.4</b>	<b>2.3</b>	<b>3.9</b>	<b>4.0</b>	<b>4.1</b>	<b>4.5</b>	<b>3.1</b>	<b>-1.5</b>
Taxes less subsidies on products	-0.1	-2.2	1.0	1.5	4.8	5.2	8.0	4.7	2.6	-4.2
<b>GDPR at market prices</b>	<b>2.1</b>	<b>-1.1</b>	<b>4.1</b>	<b>2.2</b>	<b>4.0</b>	<b>4.2</b>	<b>4.5</b>	<b>4.6</b>	<b>3.0</b>	<b>-1.8</b>

Source: Stats SA, Gross Domestic Product, Third Quarter 2010

According to Stats SA (2010), the provincial economy grew by -1.8 per cent in 2009, during which only general government services (4.2 per cent growth), construction (3.7 per cent growth), and transport (0.3 per cent growth) grew positively. The growth was largely due to the government's EPWP projects and the preparations for the 2010 FIFA Soccer World Cup. The worst performing industries were manufacturing and wholesale & retail trade, with a negative growth of -5.4 per cent and -5.3 per cent respectively. Considering that these two industries together contribute almost a quarter to the provincial output, this poor showing had a major negative effect on the overall provincial economic performance. In practical terms, actual output in the provincial economy declined, prompting a decline in employment and a worsening in poverty.

Table 2: Outlook of the Free State economy, 2010-2014

Indicator	2009	Average 1996-2009	2010 (forecast)	2011 (forecast)	2012 (forecast)	2013 (forecast)	2014 (forecast)	Average 2009-2014
GDPR (R million, constant prices)	90 413	77 304	92 015	94 598	97 477	100 715	104 373	96 598
Real GDPR % growth	-1.4%	2.1%	1.8%	2.8%	3.0%	3.3%	3.6%	2.9%
<b>GDPR by sector (real change)</b>								
Agriculture	-3.2%	-0.7%	2.5%	2.7%	3.3%	3.5%	3.7%	3.1%
Mining	-7.2%	-2.6%	-3.6%	-3.9%	-4.1%	-4.2%	-3.7%	-3.9%
Manufacturing	-10.7%	2.5%	2.4%	2.8%	3.3%	3.5%	3.9%	3.2%
Electricity & water	-0.5%	1.5%	2.1%	3.0%	3.6%	3.9%	4.4%	3.4%
Construction	7.8%	3.3%	2.0%	1.7%	2.7%	2.3%	3.2%	2.4%
Trade & accommodation	-2.9%	2.2%	2.1%	2.6%	3.2%	3.5%	3.7%	3.0%
Transport & communication	0.5%	3.9%	3.3%	3.6%	3.8%	4.1%	4.4%	3.8%
Finance	1.3%	4.7%	2.8%	3.4%	3.8%	4.0%	4.4%	3.7%
Government & other services	3.8%	2.6%	3.5%	3.9%	3.8%	3.9%	4.1%	3.8%

Source: IHS Global Insight, 2010

For the period under review (2010 – 2014), the provincial economy is projected to grow, on average, by 2.9 per cent, compared to the forecast national average of 3.8 per cent. 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. Gold mining in South Africa is on a declining trend and is forecast to shrink by around 5 per cent per year in the Free State. In fact, it is expected that by 2013, the gold mining sector in the Free State will no longer be the most important sector, dropping all the way down to fourth.

The provincial economy was projected to grow by 1.8 per cent in 2010, with the fastest growth occurring in the government & other services industry at 3.5 per cent, followed by the transport & communication industry (3.3 per cent) and the finance industry (2.8 per cent). This will be beneficial for the Free State economy since the community services industry and the finance industry collectively contribute 49.3 per cent towards the provincial GDP. Mining is the only industry projected to grow negatively throughout the period under review, averaging 3.9 per cent. Most industries are expected to grow at an increasing rate throughout the forecasted period, with the electricity & water industry, the transport & communication industry and the finance industry growing the fastest by 2014 at 4.4 per cent each. From averaging -0.7 per cent between 1996 and 2009, the agricultural industry is forecast to grow by 3.7 per cent in 2014. All in all, the provincial economy is projected to grow at an increasing rate, but still below the pre-recession rate and worryingly below the national average. As the economy grows, it is important that such growth is linked to the creation of jobs primarily for the poor in order for the benefits of economic growth to accrue to the poor in a significant manner.

## 2011 PROVINCIAL BUDGET

### WHY DO WE NEED A BUDGET?

A budget is a 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 a particular year.

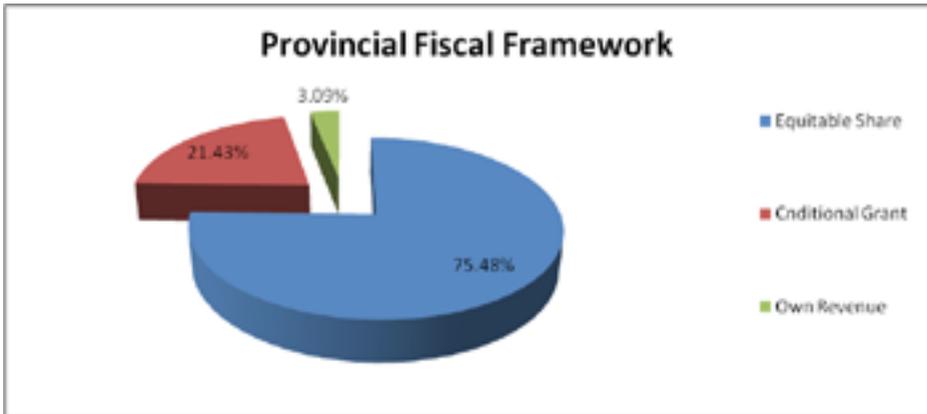
### WHERE DO WE GET OUR MONEY FROM?

**The main sources of Provincial Government revenues are:**

- **Transfers from National Revenue Fund:** 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 the South Africa. Examples of revenues that are collected provincially are patient fees; motor vehicle licenses fees and gambling and liquor license fees, etc.

**The total provincial receipts for the 2011/12 financial year amount to R23.214 billion. The split of R23.214 billion is as follows:**

Equitable Share	R 17.521 billion
Conditional Grants	R 4.975 billion
<b>Total allocation from National Revenue Fund</b>	<b>R 22.496 billion (96.91 per cent)</b>
Provincial Own Revenue	R 0.718 billion (3.09 per cent)
<b>Total receipts</b>	<b>R 23.214 billion</b>



**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 2011 allocation for the province is mainly guided by below stated priorities:**

- Improving quality of Education;
- Enhancing health services;
- Making communities safer;
- Creating jobs;
- Economic development and Industrial promotion; and
- Rural development and agriculture.

From the total provincial receipts of R23.214 billion, an amount of R26.192 million is not allocated as it relates to the Incentive Grants for Provinces. This implies that the departments must first spend their allocation and thereafter claim from the grants.

**The budget allocation of R23.188 billion is allocated to thirteen (13) provincial departments as follows:**

**Education: R9.496 billion or 41 per cent of total provincial budget**



**The allocation for this department is mainly earmarked for the following priorities:**

- No-fee policy;
- Learner Teacher Support Materials;
- OSD for educators;
- Expansion of the teachers to reduce the teacher to learner ratio in quintile 1 schools;
- Provision of inclusive education to accommodate learners with disabilities in mainstream and special schools;
- In School Sport and Culture;
- Tertiary bursaries; and
- Education Infrastructure.

**Health: R6.821 billion or 29.4 per cent of total provincial budget**



**The allocation for this department is mainly earmarked for the following priorities:**

- Addressing of shortfalls in Occupation Specific Dispensation (OSD) for Doctors, Therapists and nurses;
- General health capacity;
- National health laboratories and blood services;
- Family Health teams and Re-engineering of primary health care
- Medical Male Circumcision;
- Public Hospital norms and standards; and
- Health infrastructure.

**Social Development: R801.787 million or 3.5 per cent of total provincial budget**



**The allocation for this department is mainly earmarked for the following priorities:**

- Sustainable livelihood;
- Recruiting and retaining of Social Workers; and
- Early Childhood Development.

**Police, Roads and Transport: R1.465 billion or 6.3 per cent of total provincial budget**



**The budget for this department mainly provides for the following:**

- Provincial roads infrastructure;
- Procurement of yellow fleet;
- Filling of critical vacancies such as engineers, etc; and
- Law enforcement through visible policing.

**Public Works: R1.226 billion or 5.3 per cent of total provincial budget**



**The budget for this department mainly provides for the following:**

- Property rates;
- Leases;
- Revitalisation of Government buildings;
- Expanded Public Works Programme (EPWP); and
- Establishment of Project Management Unit with a view of fasttracking infrastructure delivery.

**Agriculture and Rural Development: R519.341 million or 2.2 per cent of total provincial budget**



The allocation for this department mainly deals with the following:

- Food security;
- Poverty relieve;
- Agro processing;
- Agrarian reform; and
- Rural development.

**Human Settlements: R987.790 million or 4.3 per cent of total provincial budget**



The allocation for this department is primarily earmarked for construction of houses though out the province.

**Sport, Arts, Culture and Recreation: R479.300 million or 2.1 per cent of total provincial budget**



The budget allocation for this department mainly provides for the following:

- Legacy Projects;
- All Sport Development;
- Phakisa Major Sport Event; and
- Arts and Culture.

**Cooperative Governance and Traditional Affairs: R375.641 million or 1.6 per cent of total provincial budget**



**The allocation for this department mainly deals with the following:**

- Assistance and financial capacity building to municipalities;
- Operation Clean Audits;
- Revitalization of VIP toilets; and
- House of Traditional Leaders.

**Economic Development, Tourism and Environmental Affairs: R390.303 million or 1.7 per cent of total provincial budget**



**The budget for this department largely provides for the following:**

- Tourism marketing;
- Infrastructure Enhancement; and
- Public Entities.

**Provincial Treasury: R201.033 million or 0.9 per cent of total provincial budget**

The allocation for this department mainly focuses on payment for SITA accounts as well as continuing capacity building to various municipalities through MFMA component.

**Department of the Premier: R220.756 million or 0.9 per cent of total provincial budget**

**The allocation for this department primarily deals with the following:**

- EXCO Meets the People & Izimbizos;
- Thusanong Centre;
- Provincial Planning Commission;
- Communications & Operation Hlasela advocacy;
- Review of the FSGDS;
- Presidential and Provincial Hotline; and
- Integrated Website.

Provincial Legislature: R203.406 million or 0.8 per cent of total provincial budget



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

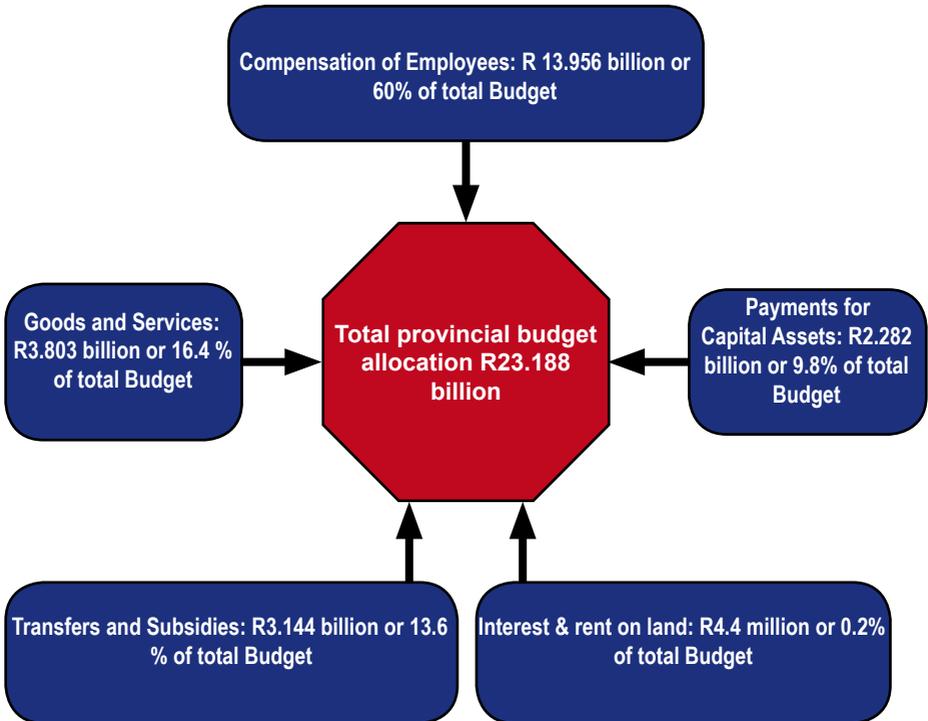
## HOW DO WE SPEND THE PROVINCIAL BUDGET BY ECONOMIC CLASSIFICATION

**“Current Payment”** – means any payment made by a provincial department in respect of the operational requirement of a department and includes, amongst others, compensation of employees, goods and services, interest and rent on land.

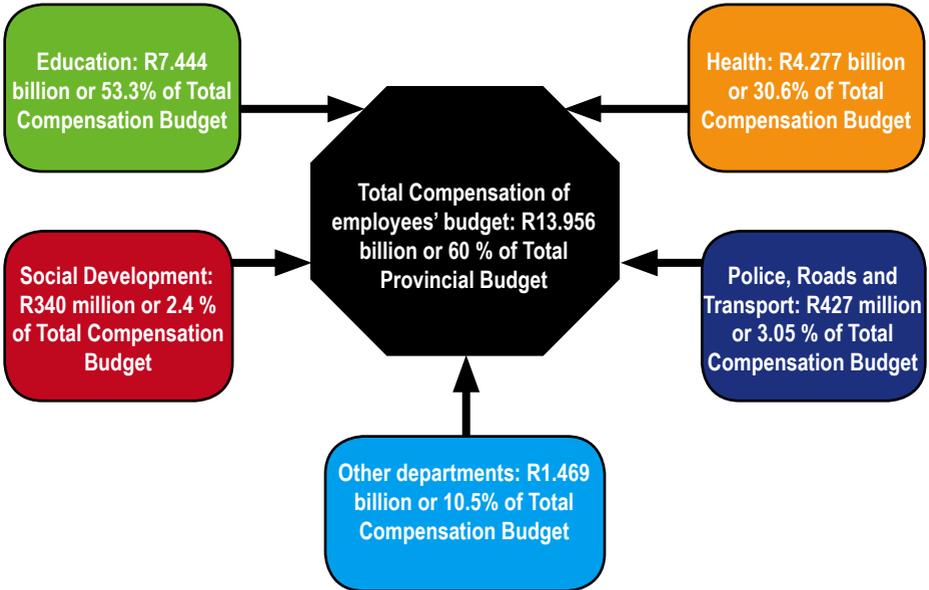
**“Transfers and subsidies”** - means any payments made by a provincial department to another organ of state or any other person in respect of which that department does not receive anything of similar value directly in return.

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

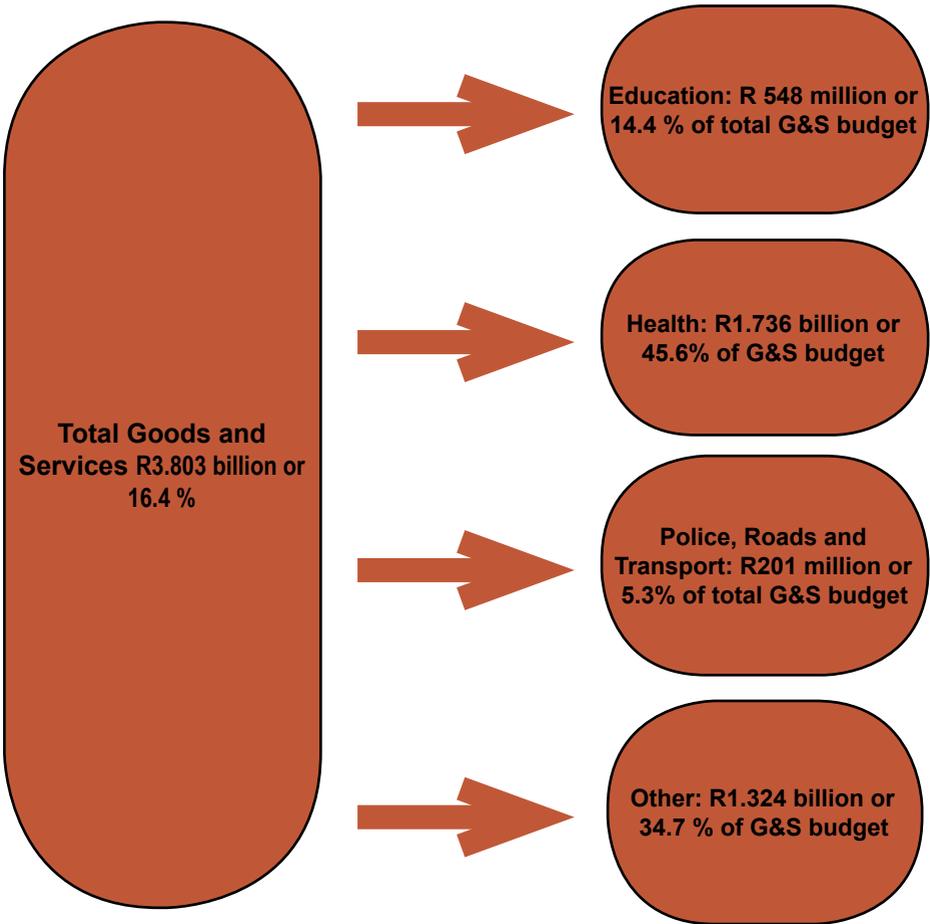
# BREAKDOWN OF THE R23.188 BILLION BY MEANS OF ECONOMIC CLASSIFICATION



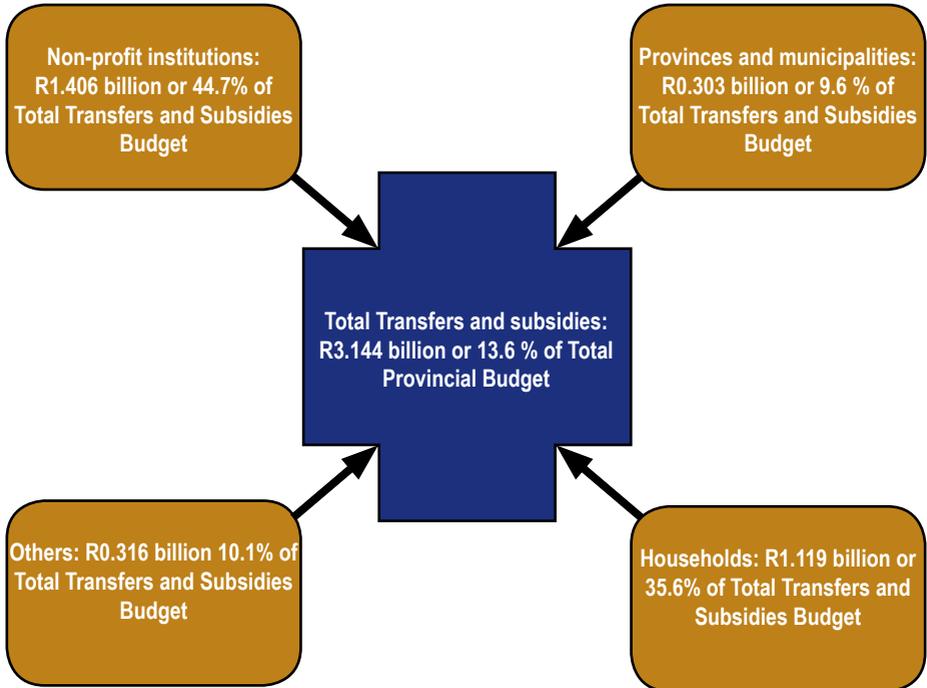
# COMPENSATION OF EMPLOYEES



# GOODS AND SERVICES



## TRANSFERS AND SUBSIDIES



# SUMMARY OF INFRASTRUCTURE BUDGET PER DEPARTMENT

**Economic Development, Tourism & Environment Affairs**  
R46.806 million



**Social Development**  
R38.000 million



**Education**  
R418.776 million



**Health**  
R547.504 million



**Sport, Art, Culture and Recreation**  
R194.049 million



**Public Works**  
R227.046 million



**Agric & Rural Development**  
R173.945 million



**Human Settlements**  
R913.907 million



**Police, Roads and Transport**  
R836.631 million



**Legislature**  
R42 million



## INFRASTRUCTURE BUDGET BY CATEGORY

Department	New Infrastructure	Maintenance and repairs	Upgrading and additions	Rehabilitation and refurbishments	Infrastructure Transfers		Total
					Current	Capital	
R'000							
Education	63 200	6 000	242 161	54 093	1 000	52 322	418 776
Health		24 883		522 621			547 504
Economic Development	24 076	5 000	17 730				46 806
Social Development	35 000		3 000				38 000
Public Works		15 946	211 100				227 046
Police,Roads and Transport	40 590	33 000	23 000	740 041			836 631
Agriculture and Rural development	140 894	4 622		28 429			173 945
Sport,Arts, Culture and Recreation	46 578	6 500	120 971			20 000	194 049
Legislature	42 000						42 000
Total Infrastructure Budget	392 338	95 951	617 962	1 345 184	1 000	72 322	2 524 757

The total infrastructure budget of R2.525 billion does not include an amount of R913.907 million for Human Settlement Development Grant, however with the inclusion of R913.907 million, the total allocation for infrastructure amounts to R3.439 billion.

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