

MEC ROCKMAN'S MESSAGE TO THE FREE STATERS



It is my heartfelt gratitude to present the 2019 MTEF budget to the people of the Free State. We have taken cognisance of the announcements by the President, the Premier of the province and the Minister of Finance. These announcements mainly relates to the effective use of public resources for the benefits of the populace. The January 8 Statement, Cabinet Lekgotla and Provincial Budget Lekgotla further emphasize on the need to direct resources towards high impact programmes and projects that have the potential to reverse the three burden of poverty, unemployment and inequality. The budget we are presenting responds to the need of the people and seeks to push back the very scourge of unemployment, poverty and inequality.

The 2019 Medium Term Expenditure Framework (the three year budget) is still underpinned by constrained national fiscus which is clearly evidenced by allocations to provinces. The continuing fiscal consolidation stance with the associated budget cuts calls for innovative and prudent approaches in the deployment of limited public resources. We have therefore, as informed by various engagements with stakeholders, allocated more than 74 percent of budget towards the social services departments—namely, Education, Health, Social Development and Sport, Arts, Culture and Recreation. These are key frontline departments in fighting poverty, unemployment and inequality.

We are therefore delighted that the MTEF budget being presented is strategically positioned to respond to the identified priorities as set out in the National Development Plan and key amongst these priorities are Education, Health, Infrastructure, Agriculture, Economy, Fighting Crime and Land restitution. With clear and decisive implementation of our budget through the various departments we are confident that we will succeed in growing an inclusive economy that creates much job opportunities for our people.

Let us continue to work together towards a prosperous and equitable Free State. Together we move South Africa forward.

A stylized, handwritten signature in black ink, appearing to read 'E.C. Rockman', positioned above a horizontal line.

Ms. E.C. Rockman

MEC FOR FINANCE: Free State Treasury

2019/20 FREE STATE PROVINCIAL BUDGET CONCEPT OF BUDGET?

In this context “budget” refers to a plan of action that outlines how the government allocates and utilizes limited public funds over the MTEF period with the view to deliver services to people. Budgeting inherently involves funding of government priorities with the aim of responding to people’s needs such health and education services. Budgeting therefore is about making choices, identifying priorities that will have a greater impact on people’s livelihood and wellbeing. It is about understanding and acknowledging that public funds are limited and cannot meet all the needs and therefore choices made must be informed by the needs on the ground.

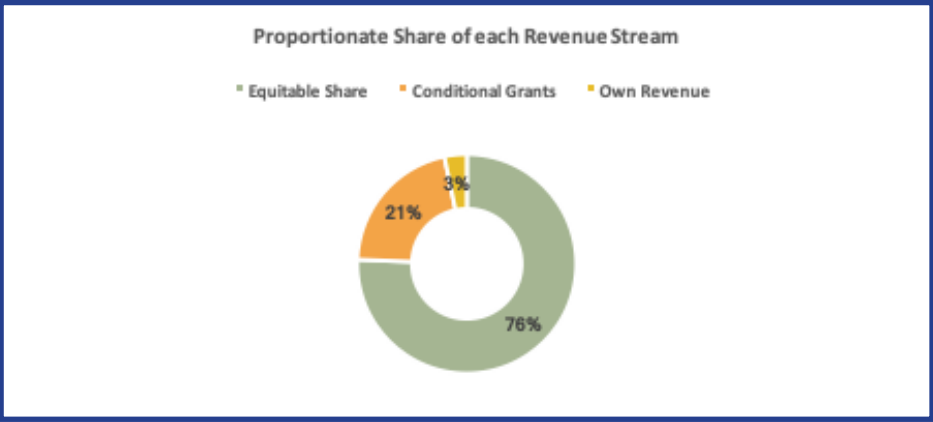
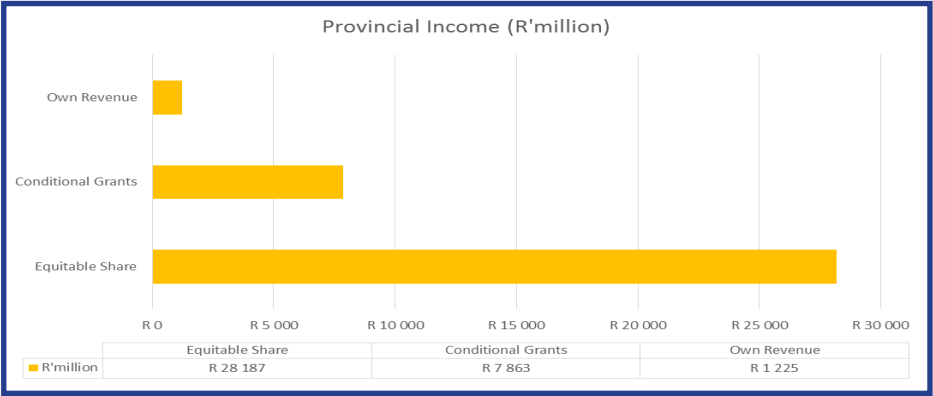


WHERE DOES THE MONEY COME FROM?

The province finances its expenditure through the following sources:

- **National Transfers:** Transfers from the National Government (National Revenue Fund) in the form of equitable share and conditional grants. National Government generates income through taxes such as VAT, Income tax, Customs and excise duties and then allocates to provinces and municipalities using a formula that includes variables such as population size, health utilization and medical aid coverage, economic activity etc. The conditional grants are meant for specific priorities such as construction of schools, clinics and roads and provision of antiretroviral and tuberculosis medicine.
- **Provincial Own Revenue:** The province generates its own income through, amongst others, renewal of motor vehicle licences, drivers’ licences, patients’ fees, tax on gambling etc. Figure 1 below indicate sources of income and their proportionate share respectively.

Figure 1: Provincial sources of income and Proportionate Share of each



HOW MUCH IS ALLOCATED FOR PROVINCIAL NEEDS IN 2019/20?

The budget provides for various provincial departments for provision of services to our Free State communities. The budgets allocated per department are for implementation of key government objectives reflected in the National Development Plan, the 2014-2019 Medium Term Strategic Framework, the National 14 Outcomes and the Free State Growth and Development Strategy. As indicated earlier, bulk of our budget is allocated to social departments such Health, Education and Social Development.



R626 million for Department of the Premier



R266 million for Legislature



R456 million for Department of Cooperative Governance & Traditional Affairs



R631 million for Department Economic & Small Business Development, Tourism and environmental Affairs



R1.375 billion for Department of Social Development



R14.733 billion for Department of Education



R2.888 billion for Department of Police, Roads & Transport



R11.142 billion for Department of Health



R754 million for Department of Sport, Arts, Culture and Recreation



R821 million for Department of Agriculture and Rural Development



R1.803 billion for Department of Public Works and Infrastructure



R1.409 billion for Department of Human Settlements



R368 million for Provincial Treasury

2019 MTEF ALLOCATIONS AND AREAS OF FUNDING

Over the forthcoming MTEF period (next three financial years) the province planned to spend R119.099 billion on priorities such as Education, Health, Social Services, Agriculture, Economy, Infrastructure development and Fighting Crime. Though the fiscal space of the province is limited going forward, the province will however continue focusing and protecting social services such as health and education. Table 2 below outlines the summary of budget per department over the 2019 MTEF.

Table 1: Summary of provincial budget per department over the 2019 MTEF

Department	FINAL BUDGET ALLOCATIONS: 2019 MTEF							
R'000	Adj 2018/19	2019/20	2020/21	2021/22	2018/19 % Share	2019/20 % Share	2020/21 % Share	2021/22 % Share
Department of the Premier	705 500	625 682	651 631	685 442	2.0%	1.7%	1.6%	1.6%
Free State Legislature	253 118	266 242	285 521	289 197	0.7%	0.7%	0.7%	0.7%
Economic, Small Business Dev, Tourism & Environm Affairs	580 734	630 925	661 348	684 981	1.7%	1.7%	1.7%	1.6%
Provincial Treasury	345 206	367 624	372 693	388 975	1.0%	1.0%	0.9%	0.9%
Health	10 380 370	11 142 372	11 945 764	12 789 487	29.5%	29.9%	30.2%	30.3%
Education	13 622 963	14 733 214	15 872 545	17 071 026	38.8%	39.5%	40.1%	40.5%
Social Development	1 316 131	1 375 324	1 427 689	1 492 383	3.7%	3.7%	3.6%	3.5%
Cooperative Governance & Traditional Affairs	467 404	456 135	478 994	499 918	1.3%	1.2%	1.2%	1.2%
Public Works & Infrastructure	1 701 257	1 803 273	1 929 997	2 018 009	4.8%	4.8%	4.9%	4.8%
Police, Roads & Transport	2 774 074	2 888 688	2 885 836	3 045 602	7.9%	7.7%	7.3%	7.2%
Agriculture & Rural Development	816 293	821 354	871 396	916 891	2.3%	2.2%	2.2%	2.2%
Sport, Arts, Culture & Recreation	808 986	753 543	776 049	807 938	2.3%	2.0%	2.0%	1.9%
Human Settlements	1 356 403	1 409 642	1 423 918	1 470 034	3.9%	3.8%	3.6%	3.5%
Total	35 128 439	37 274 018	39 583 381	42 159 883	100.0%	100.0%	100.0%	100.0%

HOW IS THE PROVINCIAL BUDGET SPENT?

Our total provincial expenditure for 2019/20 amounts to R37.274 billion and is classified into three main spending categories, namely, Current Payments, Transfers and Payments for Capital Assets.

Current Payments	<ul style="list-style-type: none"> •Goods and Services (incl. Medicine, Medical Gas, Patients' Food, Learner Teacher Support Materials etc.) •Compensation of employees (Nurses, Teachers, Doctors, Traffic Officers etc.)
Transfers	<ul style="list-style-type: none"> •Support to public schools •Support to municipalities •Support to NGOs etc.
Payments for Capital Assets	<ul style="list-style-type: none"> •Maintenance of government buildings •Construction of schools, clinics, hospitals, roads etc.

Table 2: Allocations per Economic Classification over MTEF

R thousand	Audited outcome			Main appropriation	Adjusted appropriation	Revised estimate	Medium-term estimates		
	2015/16	2016/17	2017/18				2019/20	2020/21	2021/22
Current payments	23 081 244	24 422 553	26 141 839	27 970 232	27 956 180	29 303 250	30 459 008	32 641 400	34 847 391
Compensation of employees	17 798 719	18 964 429	20 168 244	21 410 863	21 485 239	21 799 185	23 261 635	25 247 318	27 007 071
Goods and services	5 279 066	5 453 943	5 944 528	6 559 035	6 470 361	7 499 638	7 196 716	7 393 588	7 839 821
Interest and rent on land	3 459	4 181	29 067	334	580	4 427	657	494	499
Transfers and subsidies to:	3 889 162	4 233 832	4 412 235	4 693 481	4 661 229	5 162 319	4 584 476	4 750 502	4 960 344
Provinces and municipalities	404 821	430 294	424 365	468 808	476 576	645 899	484 581	526 686	546 300
Departmental agencies and accounts	232 396	276 691	269 029	277 315	266 818	266 428	278 749	292 645	303 029
Higher education institutions	182 102	163 059	263 948	264 877	328 461	351 631	271 228	277 246	294 145
Public corporations and private enterprises	274 481	297 201	286 443	310 793	296 960	308 615	328 251	346 408	365 461
Non-profit institutions	1 320 865	1 551 514	1 711 402	1 834 308	1 865 863	2 111 602	1 866 279	1 923 674	2 013 927
Households	1 474 497	1 515 073	1 457 048	1 537 380	1 426 551	1 478 144	1 355 388	1 383 843	1 437 482
Payments for capital assets	2 455 713	2 225 131	2 336 857	2 213 514	2 511 013	2 370 050	2 230 534	2 191 479	2 352 148
Buildings and other fixed structures	2 163 803	1 856 170	1 989 875	1 852 652	2 129 547	2 000 091	1 871 724	1 841 701	1 932 795
Machinery and equipment	290 620	341 860	313 144	347 505	353 661	344 974	347 325	338 556	338 514
Biological assets	65		17 381						
Land and subsoil assets	52	138		600	100		900	900	900
Software and other intangible assets	1 173	26 963	16 457	12 757	27 705	24 985	10 585	10 322	79 939
Payments for financial assets	5 132	10 747	13 393		17	5 758			
Total economic classification	29 431 251	30 892 263	32 904 324	34 877 227	35 128 439	36 841 377	37 274 018	39 583 381	42 159 883

BOOSTING THE ECONOMY THROUGH INFRASTRUCTURE INVESTMENT IN 2019/20

Investment in infrastructure is key for inclusive economic growth and job creation. The budget allocations in the next three years respond to the directives of National Development Plan, namely, tackling challenges of unemployment, poverty and inequality through infrastructure development. The province therefore acknowledges this imperative and thus is setting aside more than R4.534 billion in 2019/20 for infrastructure development. The allocation provides for new projects, upgrading, refurbishment, rehabilitation and maintenance of existing infrastructure. The Table below indicates allocations of infrastructure allocations per above-mentioned classifications (Annexure A give details per department).

Table 3: Infrastructure Allocations per classification

R thousand	Audited outcome			Main appropriation	Adjusted appropriation	Revised estimate	Medium-term estimates		
	2015/16	2016/17	2017/18	2018/19			2019/20	2020/21	2021/22
Existing infrastructure assets	2 604 430	2 397 797	2 630 758	2 576 706	2 704 706	2 705 570	2 655 530	2 394 674	2 554 775
Maintenance and repairs	726 378	980 541	1 112 475	1 183 213	1 075 313	1 036 465	1 280 655	1 233 445	1 338 070
Upgrades and additions	850 452	461 875	605 561	671 767	1 059 202	1 031 670	926 170	882 444	924 997
Refurbishment and rehabilitation	1 027 600	955 381	912 722	721 726	570 191	637 435	448 705	278 785	291 708
New infrastructure assets	355 062	321 406	338 562	473 557	411 286	418 143	466 232	644 087	675 796
Infrastructure transfers	1 131 499	1 223 589	1 296 034	1 102 369	1 062 138	1 062 138	1 193 853	1 201 823	1 235 571
Infrastructure transfers - Current	80 000	78 874	32 662	30 000	19 769	19 769	101 256	76 707	76 258
Infrastructure transfers - Capital	1 051 499	1 144 715	1 263 372	1 072 369	1 042 369	1 042 369	1 092 597	1 125 115	1 159 313
Infrastructure: Payments for financial assets									
Infrastructure: Leases									
Non Infrastructure	94 020	100 779	178 470	259 815	189 385	179 252	219 381	154 018	170 932
Total provincial infrastructure payments and estimates	4 185 011	4 043 571	4 443 824	4 412 447	4 367 515	4 365 103	4 534 996	4 394 602	4 637 074

ECONOMIC OVERVIEW OF THE PROVINCE



The provincial economy continues to be driven by sectors such as community services, finance, real estate and business services, trade, catering and accommodation as well as manufacturing. Sectors such as construction, electricity, gas and water and agriculture as well as forestry and fishing continue contributing to the provincial economy albeit declining. The economy can be characterised in the main, by a move away from primary and manufacturing production, towards a greater emphasis on output in the services sector. The subdued projected national economy is expected to impact negatively on the provincial economy going forward (see figure 3 below).

FAST FACTS (FREE STATE ECONOMY)

Free State population increased by 9.1 percent over the last eighteen years (when comparing 2001 Census with the 2018 Mid-year population estimates). However, the contribution to national population has declined over the same period which is suggestive of out-migration of people to other provinces such as Gauteng and North West provinces.

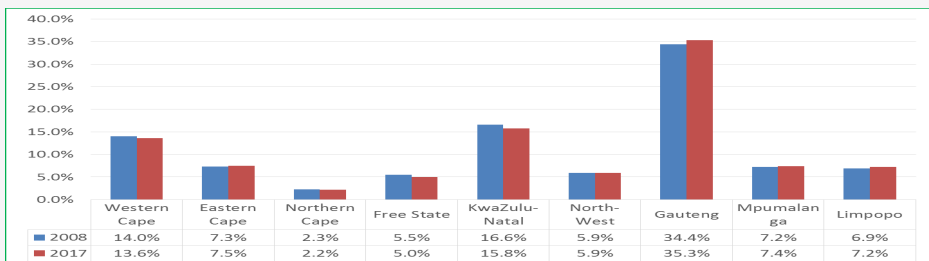
Table 4: SA Population

	Census	% of total population	Census	% of total population	Mid-year population	% of total population
	2001		2011		2018	
Eastern Cape	6 278 651	14.0	6 562 053	12.7	6 522 700	11.3
Free State	2 706 775	6.0	2 745 590	5.3	2 954 300	5.1
Gauteng	9 388 854	20.9	12 272 263	23.7	14 717 000	25.5
KwaZulu-Natal	9 584 129	21.4	10 267 300	19.8	11 384 700	19.7
Limpopo	4 995 462	11.1	5 404 868	10.4	5 797 300	10.0
Mpumalanga	3 365 554	7.5	4 039 939	7.8	4 523 900	7.8
Northern Cape	2 984 098	6.7	3 509 953	6.8	1 225 600	2.1
North West	991 919	2.2	1 145 861	2.2	3 979 000	6.9
Western Cape	4 524 335	10.1	5 822 734	11.2	6 621 100	11.5
Total	44 819 777	100	51 770 561	100	57 725 600	100

Source: Statistics South Africa, 2018

The province contribution to national GDP has remained stagnant over the last ten years. It declined from 5.5 percent in 2008 to 5 percent in 2017. Considering the subdued economic outlook the provincial contribution is likely to remain unchanged.

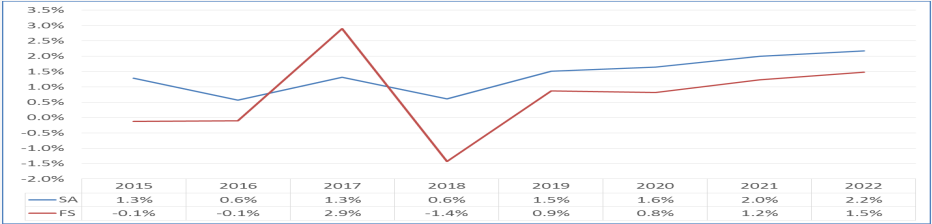
Figure 2: Free State Contribution to National Gross Domestic Product (GDP)



Source: Statistics South Africa, , GDP, 4th Quarter 2017 and IHS Markit, Regional Explorer, 2019

Provincial growth recorded a decline of 1.4 percent in 2018 and is projected to grow by 0.9 percent in 2019. In a way the provincial economy mimics that of national albeit with lower projected growth.

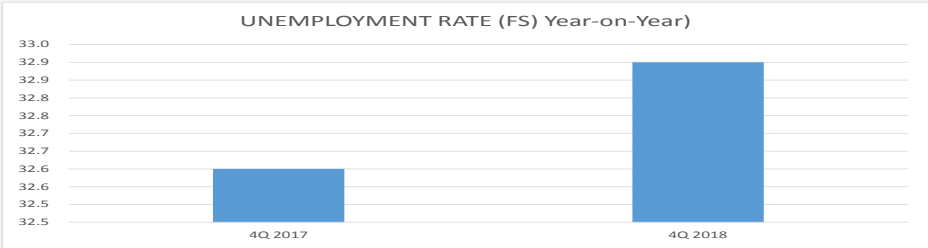
Figure 3: South Africa and Free State GDP annual growth rates (2010 constant prices)



Source: Statistics South Africa, Gross Domestic Product, First Quarter 2017; IHS Markit, Regional eXplorer, 2018

Unemployment remains a challenge for the country as a whole, mainly as a result of stagnant economic growth. For Free State there was a slight increase from 32.6 percent in the last quarter of 2017 to 32.9 percent in the last quarter of 2018, indicating a year-on-year change of 0.3 percent.

Figure 4: Unemployment Rate over the past five years



Source: Statistics South Africa

IMPLICATIONS FOR THE FISCUS

The unfavorable growth forecasts (global, national and provincial) and the high projected inflation rate over the MTEF period ahead is likely to have a negative impact on the fiscal position of the province. In mitigating the impact the province will continue implementing stringent measures in the utilization of resources, this will include strict adherence to fiscal consolidation (reducing spending on non-core items in favour of high impact programmes and projects) and fiscal discipline with the view to maintain provincial fiscal sustainability.

ANNEXURE A

TABLE 5: DETAILS OF PAYMENTS AND ESTIMATES OF PROVINCIAL INFRASTRUCTURE BY CATEGORY

R thousand	Audited outcome			Main appropriation	Adjusted appropriation	Revised estimate	Medium-term estimates		
	2015/16	2016/17	2017/18	2018/19			2019/20	2020/21	2021/22
New infrastructure assets	355 062	321 406	338 562	473 557	411 286	418 143	466 232	644 087	675 796
Economic, Small Business Development, Tourism and Environmental Affairs	1 284		604						
Health	117 939	53 161	1 659	84 867	46 567	27 034	40 646	241 686	268 446
Education	134 226	152 846	247 645	233 492	197 990	246 378	296 800	275 500	279 500
Social Development	5 131	14 565	7 229		45 942	23 944			
Public Works and Infrastructure	8 225	11 962	8 205	40 369	8 298	8 298	18 306	19 777	22 762
Police Roads and Transport		6 182	35 100	21 000	17 641	17 641	16 500	10 000	10 000
Agriculture and Rural Development				9 000	10 019	10 019	7 000	7 385	
Sport, Arts, Culture and Recreation	88 257	82 690	38 120	84 829	84 829	84 829	86 980	89 739	95 088
Existing infrastructure assets	2 604 430	2 397 797	2 630 758	2 576 706	2 704 706	2 705 570	2 655 530	2 394 674	2 554 775
Upgrades and additions	850 452	461 875	605 561	671 767	1 059 202	1 031 670	926 170	882 444	924 997
Economic, Small Business Development, Tourism and Environmental Affairs	15 176	13 027	3 045	17 998	17 998	17 998	12 000	18 385	17 300
Health	108 619	9 210	7 239	27 547	16 547	11 655	47 000	8 811	
Education	385 405	117 967	283 321	310 750	357 825	335 185	336 092	248 796	264 974
Social Development	433								
Public Works and Infrastructure	174 516	184 207	174 129	153 944	137 684	137 684	172 895	183 276	184 961
Police Roads and Transport	13 833	9 907	36 358	38 552	415 522	415 522	253 977	309 000	336 500
Agriculture and Rural Development	20 047	27 694	19 335	30 275	20 925	20 925	25 306	28 877	36 262
Sport, Arts, Culture and Recreation	132 423	99 863	82 134	92 701	92 701	92 701	78 900	85 299	85 000
Rehabilitation and refurbishment	1 027 600	955 381	912 722	721 726	570 191	637 435	448 705	278 785	291 708
Economic, Small Business Development, Tourism and Environmental Affairs				3 500	3 500	3 500	2 500		
Health	234 431	296 490	415 179	412 015	473 745	540 989	387 349	236 485	249 108
Education	122 614	35 664	108 319	39 000	71 500	71 500	14 000	14 600	14 600
Public Works and Infrastructure				1 200	2 912	2 912	14 803	9 700	10 000
Police Roads and Transport	670 555	623 227	389 224	266 011	18 534	18 534	30 053	18 000	18 000
Maintenance and repairs	726 378	980 541	1 112 475	1 183 213	1 075 313	1 036 465	1 280 655	1 233 445	1 338 070
Economic, Small Business Development, Tourism and Environmental Affairs	1 783	2 232	9 441	12 800	12 800	12 800	20 427	19 728	20 813
Health	122 845	100 350	41 122	49 062	44 439	22 087	19 136	40 928	42 928
Education	49 155	186 172	195 235	132 543	86 112	69 616	144 668	146 175	173 741
Social Development	3 549	2 603	4 980	10 257	18 293	18 293	12 485	14 361	15 987
Public Works and Infrastructure	1 179	9 270	5 217	9 941	9 941	9 941	21 300	15 000	15 000
Police Roads and Transport	533 927	667 313	839 873	944 610	879 728	879 728	1 033 560	973 253	1 045 601
Agriculture and Rural Development	6 177	4 495	5 575	10 000	10 000	10 000	10 000	10 000	10 000
Sport, Arts, Culture and Recreation	7 763	8 106	11 032	14 000	14 000	14 000	19 079	14 000	14 000
Infrastructure transfers - current	80 000	78 874	32 662	30 000	19 769	19 769	101 256	76 707	76 258
Agriculture and Rural Development	80 000	26 010	32 662	30 000	19 769	19 769	30 000	30 000	30 000
Infrastructure transfers - Capital	1 051 499	1 144 715	1 263 372	1 072 369	1 042 369	1 042 369	1 092 597	1 125 115	1 159 313
Agriculture and Rural Development		46 253		30 000			30 000	30 000	30 000
Sport, Arts, Culture and Recreation	24 818	3 000	58 583						
Human Settlements	1 026 681	1 095 462	1 204 789	1 042 369	1 042 369	1 042 369	1 062 597	1 095 115	1 129 313
Non Infrastructure	94 020	100 779	178 470	259 815	189 385	179 252	219 381	154 018	170 932
Health	25 339	57 004	49 314	23 718	22 968	22 087	31 504	33 922	42 733
Education	68 681	43 775	34 314	52 768	62 588	53 336	58 303	55 303	63 406
Police Roads and Transport			69 593	110 240	30 740	30 740	90 000	33 000	33 000
Human Settlements			25 249	73 089	73 089	73 089	39 574	31 793	31 793
Total provincial infrastructure	4 185 011	4 043 571	4 443 824	4 412 447	4 367 515	4 365 103	4 534 996	4 394 602	4 637 074

For more information regarding the detailed budget document contact the following website: www.treasury.fs.gov.za