



MEC SEISO MOHAI'S MESSAGE TO ALL THE FREE STATERS

The 2012 MTEF Budget requires extraordinary prudent efforts from all role-players; commitment to cost saving measures and reprioritization of budget to high impact services must be the key guiding principle in the utilization of public resources. As correctly put by the Minister of Finance, the 2012 MTEF budget is presented at a time when our economy is recovering, though there are still winds of uncertainty in the global economy which can rapidly affect us, for better or worse. The global economic turmoil of 2008 has given us a rude awakening, we have learnt that economic shock, positive or negative, emanating far away may prove to be a serious hindrance to our own growth.

The 2012 MTEF Provincial Fiscal Framework remains tight and thus requires austerity approach in the use of additional funds to our Provincial envelope. Furthermore, the limited additional allocations which are basically earmarked and the revisions to the conditional grants framework for specific roll-out of national priorities at provincial level stifle provincial ability to address own provincial priorities. The estimated marginal increase on Provincial Own Revenue will be used towards addressing some of our provincial priorities such as funding of revenue enhancement projects with a view to optimize revenue collection in the province.

It is evident that in the 2012 MTEF ahead public spending will continue to grow though at a slower rate than in the past. What then this means is 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.

Over the next three years, the provincial government will realign and reprioritise the existing baseline budgets towards amongst others, the following priorities in line with broader government goals, namely:

- Improve the quality of basic schooling and higher education through technical colleges for the people of the Free State;
- Improve healthcare and a healthy life for all our citizens, in collaboration with the health care providers;
- Shift the composition of spending to support infrastructure, economic development as well as agriculture;
- Contribute to the fight against crime together with our national partner departments and institutions in the security and safety cluster; and
- Upscale EPWP programme and utilize strategies to ensure that we undertake minor infrastructure projects through labour-intensive approaches.

A handwritten signature in black ink, consisting of the letters 'S', 'J', and 'M' in a stylized, cursive font, enclosed within a hand-drawn oval.

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

ECONOMIC OVERVIEW OF THE PROVINCE

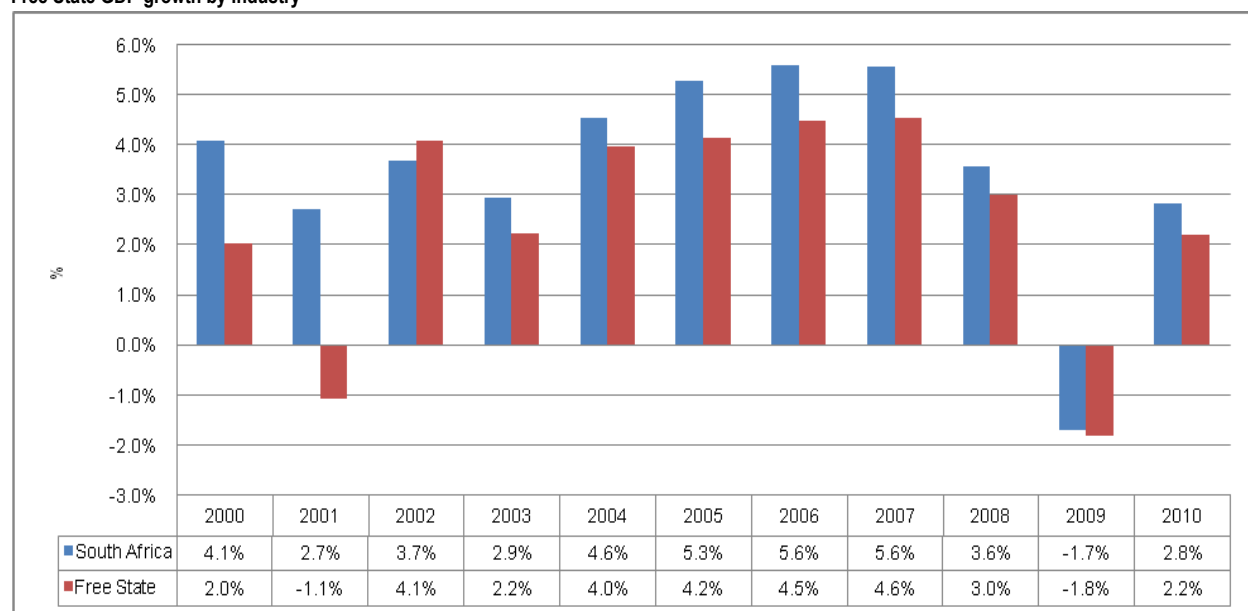
FREE STATE ECONOMIC PERFORMANCE

- The Free State Provincial economy has circumnavigated through the pressures broad about by the 2009 global financial crisis – that saw both the province and the Republic succumbing to the greatest recession in recent history.
- To chart a new growth trajectory, and as such registered growth of 2.3 per cent during 2010, according to the IHS Global Insight figures.

FREE STATE ECONOMIC STRUCTURE

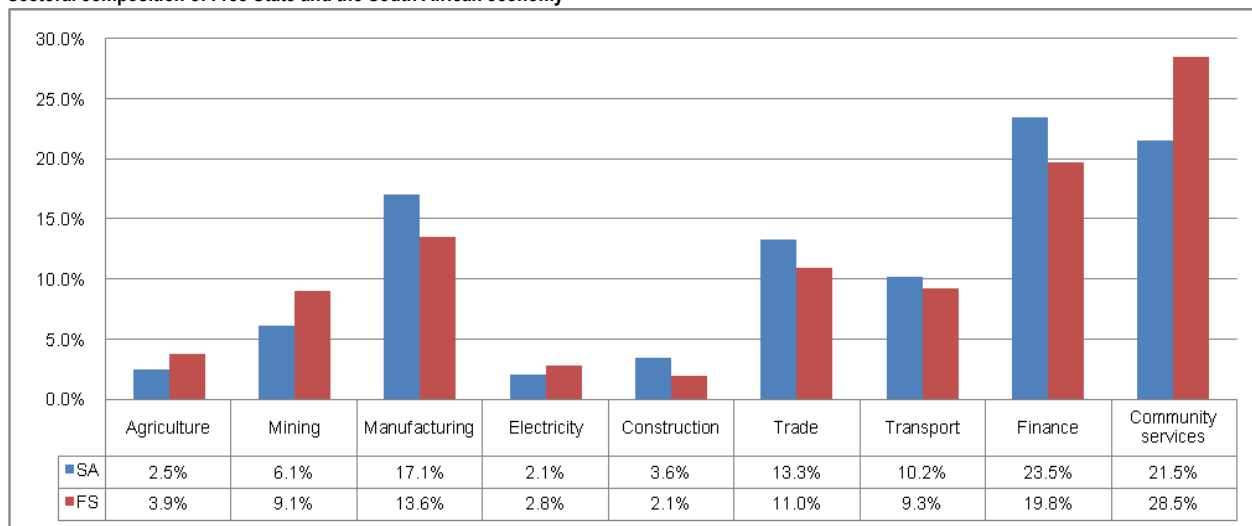
- The tertiary sector is the backbone of the provincial economy with roughly 61.3 per cent contribution towards the provincial economy during 2010.
- Whilst, the secondary and primary industries contributed on average 16.5 per cent and 13.1 per cent, respectively during the period 2002 to 2010.
- The largest sector in the province is the financial services sector, with an averaged contribution of 16.6 per cent, over the review period (2002-2010).

Free State GDP growth by Industry



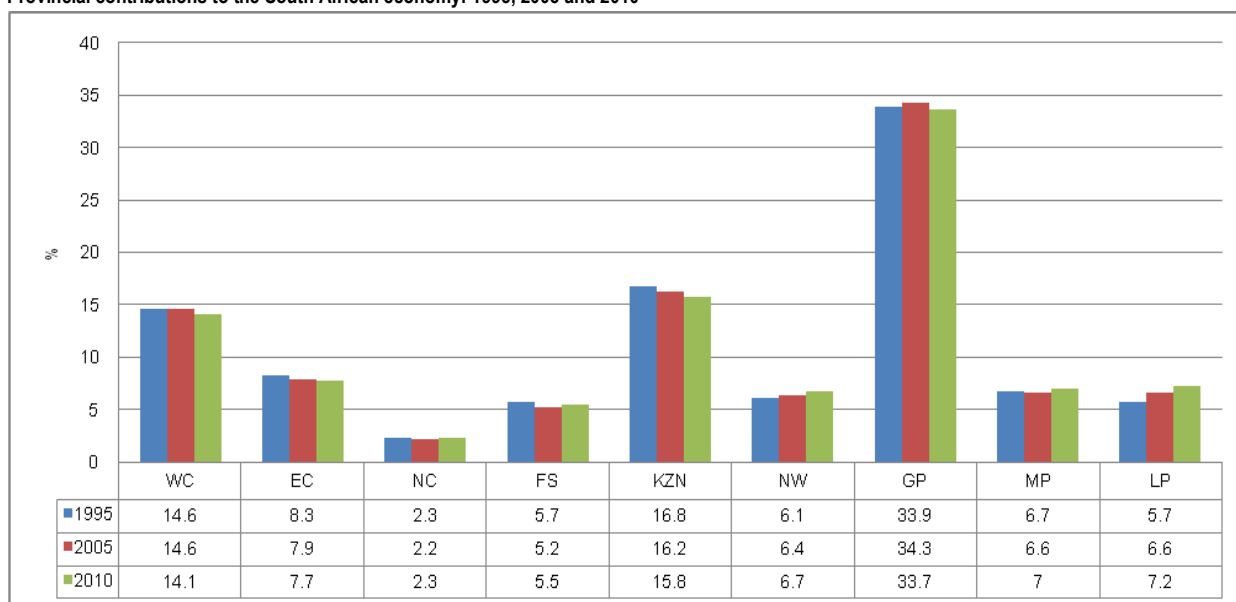
- According to Statistics South Africa (2011), the Free State economy grew by 2.2 per cent in 2010.
- During which only the construction (-5.2 per cent growth) and the personal services (-0.4 per cent) sectors experienced a negative growth.
- Whilst in the manufacturing and the mining sector; there has been significant positive improvements, with the former growing by 5.1 per cent, whilst the latter growing by 4.9 per cent.

Sectoral composition of Free State and the South African economy



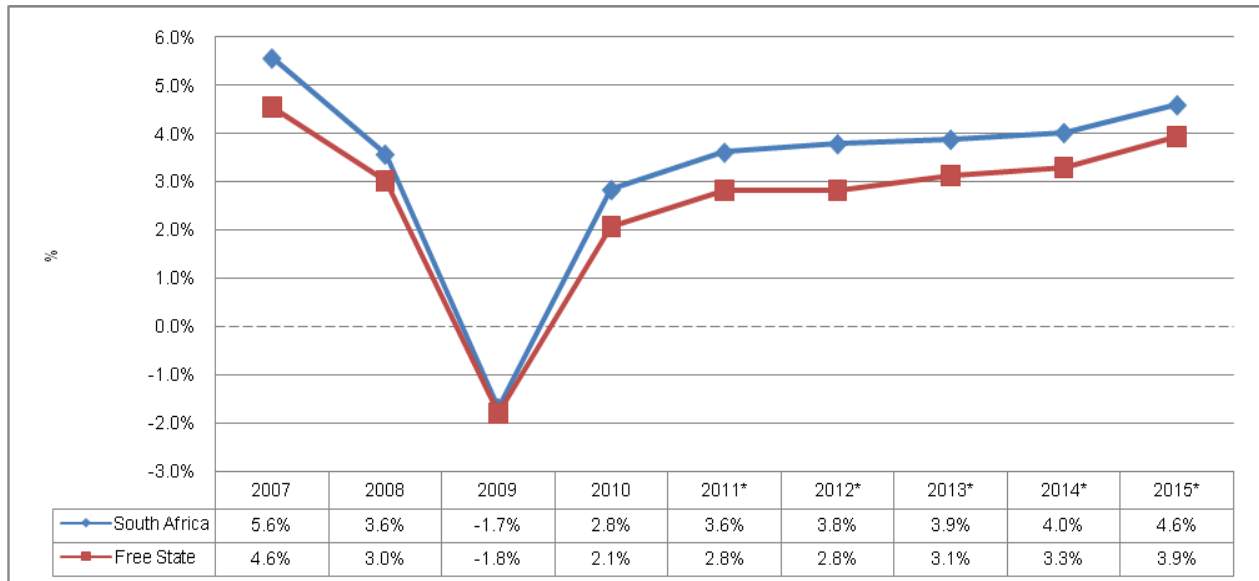
- The biggest sectors of the South African economy is the finance (23.5 per cent), followed by the community services sector (21.5 per cent).
- Meanwhile for the Free State the community service 28.5 per cent is the largest sector followed by the financial sector (19.8 per cent).
- Both the Free State and South Africa seem to have a modestly strong manufacturing sector, with the sector being the third largest sector for the province (13.6 per cent) and the country (17.1 per cent).
- The electricity sector is the smallest sector nationally with a 2.1 per cent contribution to the South African economy, whilst for the Free State; the construction sector is the smallest sector, contributing a minute 2.1 per cent towards the provincial economy.

Provincial contributions to the South African economy: 1995, 2005 and 2010



- Gauteng province has contributed the most to the national economy, contributing 33.9 per cent in 1995 and 34.3 per cent in 2005, and marginally declining in 2010 to 33.7 per cent.
- Gauteng province has the biggest economy in South Africa, followed by Kwazulu-Natal and the Western Cape Province, with a contribution of 15.8 per cent and 14.1 per cent, respectively.
- The Free State provincial contribution to the national economy has been on a tumultuous route, contributing 5.7 per cent during 1995, and falling to 5.2 per cent in 2005, only to improve during 2010 by recording 5.5 per cent.
- The least contributor to the South African economy has been the Northern Cape, with a 2.3 per cent average contribution, in the three years studied.

Provincial Economic Outlook



- The provincial economic outlook seems to be a sombre outlook, taking queue from the South African economy, which according to the IMF projection would average 3.6 per cent between 2011 and 2015.
- The province's growth is expected to hover around the 3.2 per cent mark for the period 2011 to 2015. This is owing to the fact that the Eurozone sovereign debt crisis remains largely unresolved and fears of a double dip recession have resurfaced.

2012 PROVINCIAL BUDGET

WHAT IS A BUDGET?

A budget could be defined as:

- An indicator of how much revenues government forecasts to raise through different kinds of taxes; and
- A plan of how the government intends to spend tax payer's money (revenue raised) over a period of three years focusing on the 1st year of the MTEF.

WHERE DO WE GET OUR MONEY FROM?

The main sources of Provincial Government revenues are:

- **National Allocation:** 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 receipts that are collected provincially are patient fees; motor vehicle licenses fees and gambling and liquor license fees, etc.

The total provincial receipts for the 2012/13 financial year amount to **R24.870 billion**. The split of this amount is as follows:

National Allocation



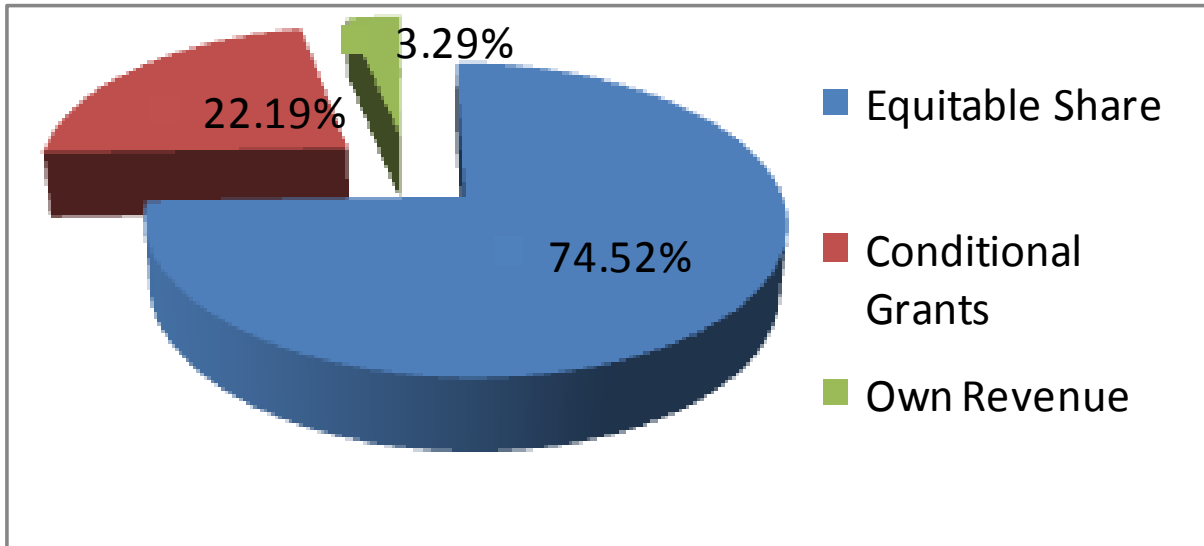
Equitable Share	R 18.531 billion
Conditional Grants	R 5.519 billion
Total	R 24.050 billion (96 per cent)

Provincial Own Revenue



Own revenue R0.819 billion

Total Net Revenue = R 24.870 billion



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 2012 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
- Rural development and agriculture.

The budget allocation of **R24.870 billion** is allocated to fourteen (14) provincial departments as follows:

Education: R10.045 billion or **40.39 per cent** of the total provincial budget and the following priorities are funded:



- Learning & Teaching Materials
- Tertiary and Education Bursaries
- No- fee policy
- Mathematics and Science
- Universalization of Grade R
- School Furniture
- Revitalization of Agriculture School
- In - School Sport Learner Transport
- Hostel Projects
- Schools infrastructure

Health: R7.383 billion or **29.68 per cent** of the total provincial budget and the allocation covers the following priorities:



- Medicines and medical supplies
- Re-engineering of Primary Health Care
- Medical Male Circumcision
- In-sourcing cleaning and security services
- HIV/Aids
- TB
- Emergency medical services
- Reducing Infant & Child Morality
- Medical goods & services

Social Development: R865.5 million or 3.48 per cent of the total provincial budget and the following priorities are implemented by the department:



- Children in conflict with the law
- Parity in Services Disability
- Early Childhood Development
- Parity in Service Children Home
- Home Community based care
- Youth Development Programme (Masupatsela)
- Secure Care Centre

Police, Roads and Transport: R1.756 billion or 7.06 per cent of the total provincial budget and the following priorities are covered:



- Provincial Roads Maintenance
- Transport subsidies
- Civilian oversight including traffic policing
- Harrismith Logistical Hub
- Refurbishment of Yellow Fleet/support to fleet management

Public Works: R1.270 billion or 5.11 per cent of the provincial budget which caters for the following priorities:



- Efficient Governance and Administration
- Economic, Growth, Development and Employment
- Office leases
- Municipal Services
- Property rates and taxes
- Coordination of EPWP projects in the province

Agriculture: R579.5 million or 2.33 per cent of the provincial budget and the following priorities are covered:



- Veterinary Services
- Agri-Business Development
- Dairy Farmers
- “Mohoma Mobung” initiative

Human Settlements: R1.058 billion or 4.25 per cent of the provincial budget and the following priorities are funded:



- Eradication of Informal Settlements
- Upgrading of 2 roomed houses
- Township Revitalization
- Restitution and Military Veterans
- Infrastructure/Internal Engineering Services (Water & Sewer)

Sport, Arts, Culture and Recreation: R435.6 million or 1.75 per cent of the provincial budget which covers the following priorities:



- Library Services
- Support to Provincial Arts and Culture Council
- Arts and Culture Programme
- Craft development
- Support to Provincial Sport codes
- Protection and preservation of heritage sites

Cooperative Governance and Traditional Affairs: R323.1 million or 1.30 per cent and the following priorities are funded:



- Integrated Website
- Financial Assistance at Municipalities
- Bulk Infrastructure and Basic Services
- Operation Clean Audit (All Municipalities)
- Revitalization of VIP Toilets

Economic Development, Tourism and Environmental Affairs: R436.9 million or 1.76 per cent of the provincial budget which caters for the following priorities:



- Decent employment through inclusive economic growth
- Protect and enhance our environment and natural resources
- Xhariep Transfrontier Park
- Re-development of resorts
- Vredefort
- Support to the Provincial Public Entities

Provincial Treasury: R212.1 million or 0.85 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

Department of the Premier: R253.1 million or 1.02 per cent of the provincial budget to cover the following priorities:



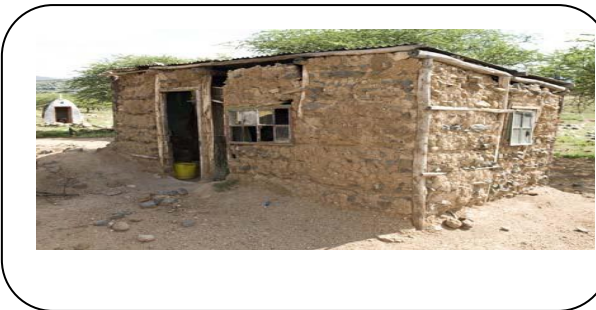
- Provincial Communication Strategy
- Provincial integrated planning
- Provincial Monitoring and Evaluation
- Thusong Service Centers
- Special Programmes
- Premier's Service Delivery Intervention Unit
- Free State Training and Development Institute
- Redesigning of the website

Provincial Legislature: R212.4 million or 0.85 per cent of the total provincial budget.



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

Rural Development: R40.6 million or 0.16 per cent of the provincial budget to cover the following priorities:



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

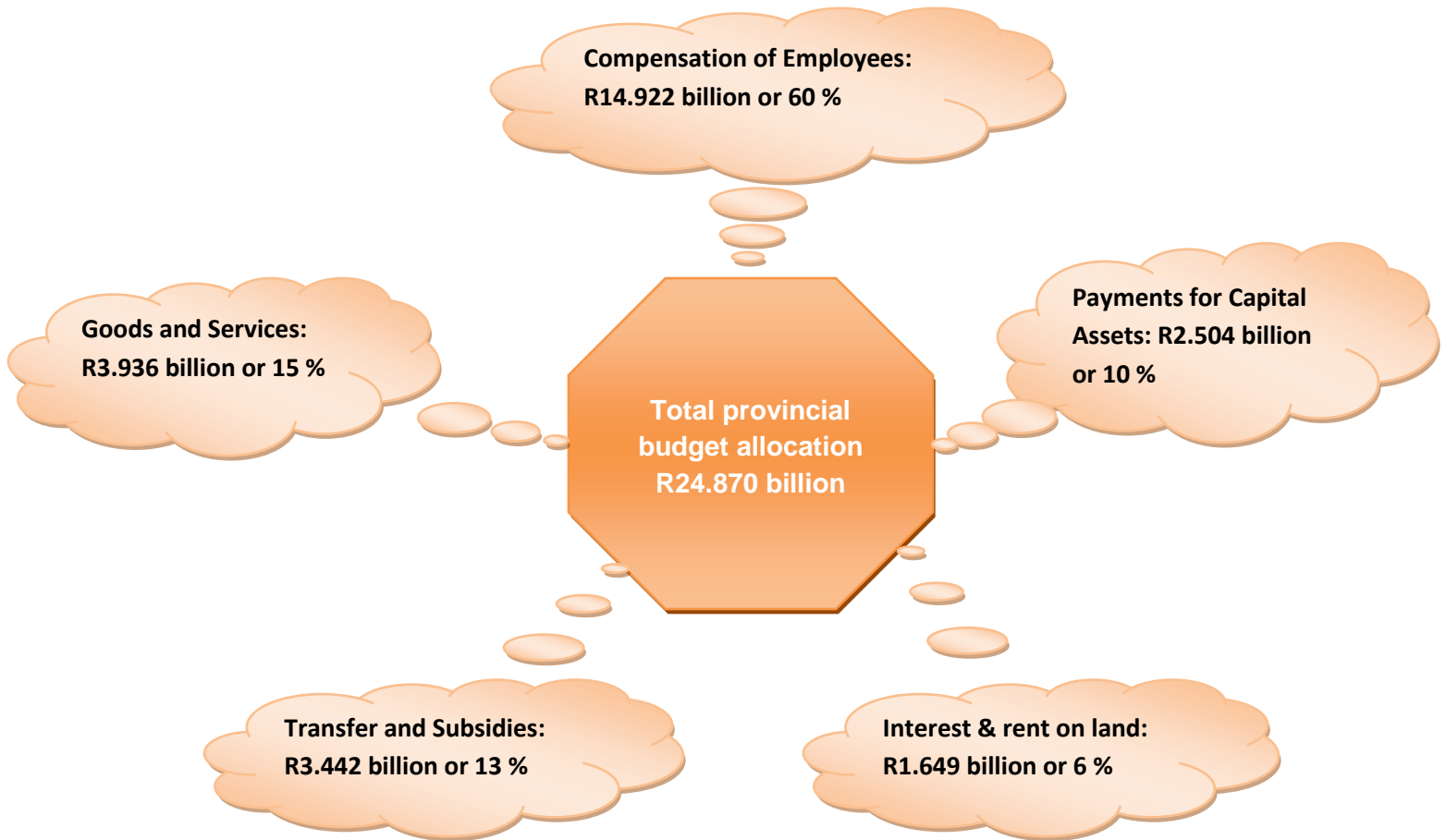
HOW DO WE SPEND THE PROVINCIAL BUDGET BY ECONOMIC CLASSIFICATION

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

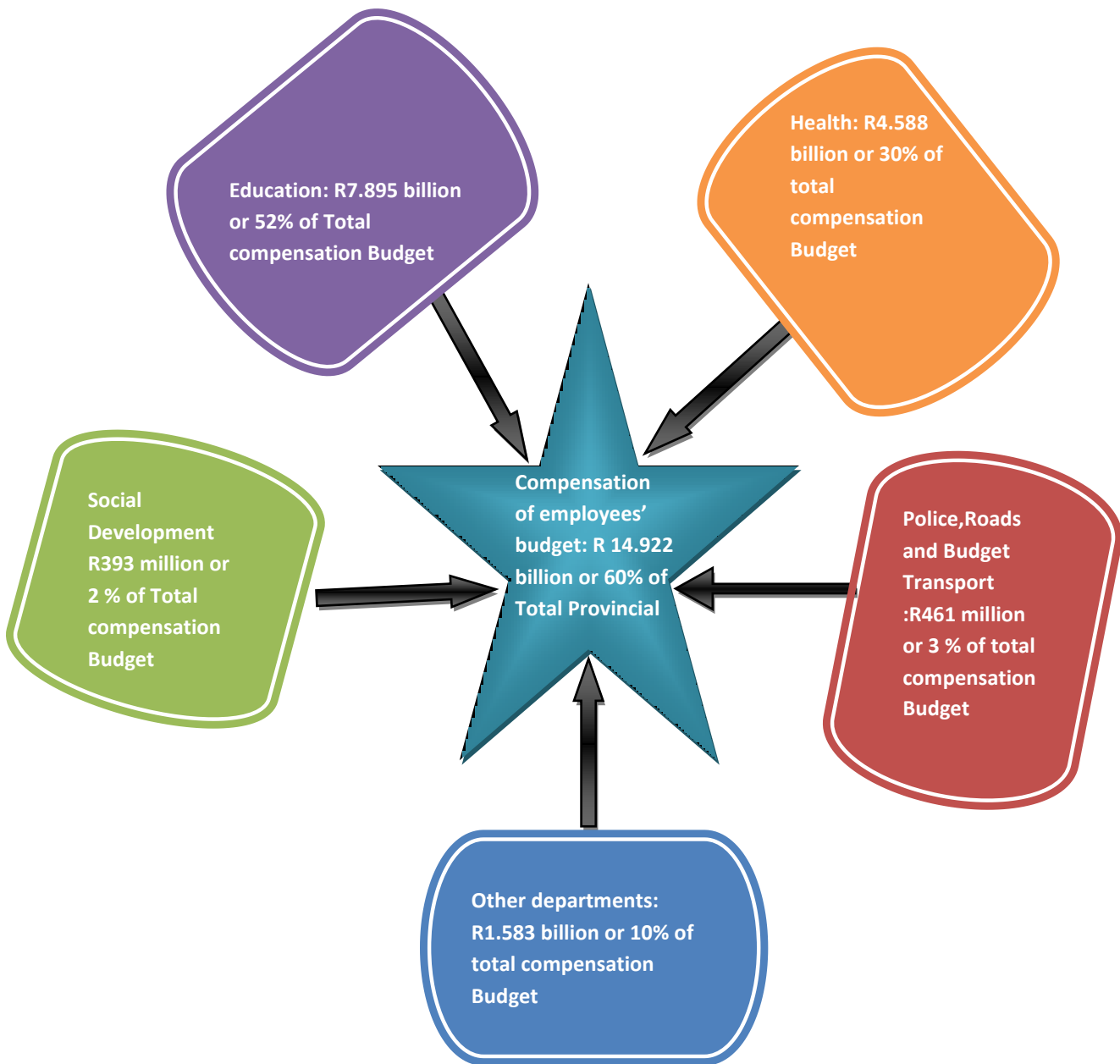
“Transfers and subsidies” - means any payments made by a provincial department to another organ of state or any other person in respect of which that department does not receive anything of similar value directly in return.

“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 or repeatedly in production for more than one year.

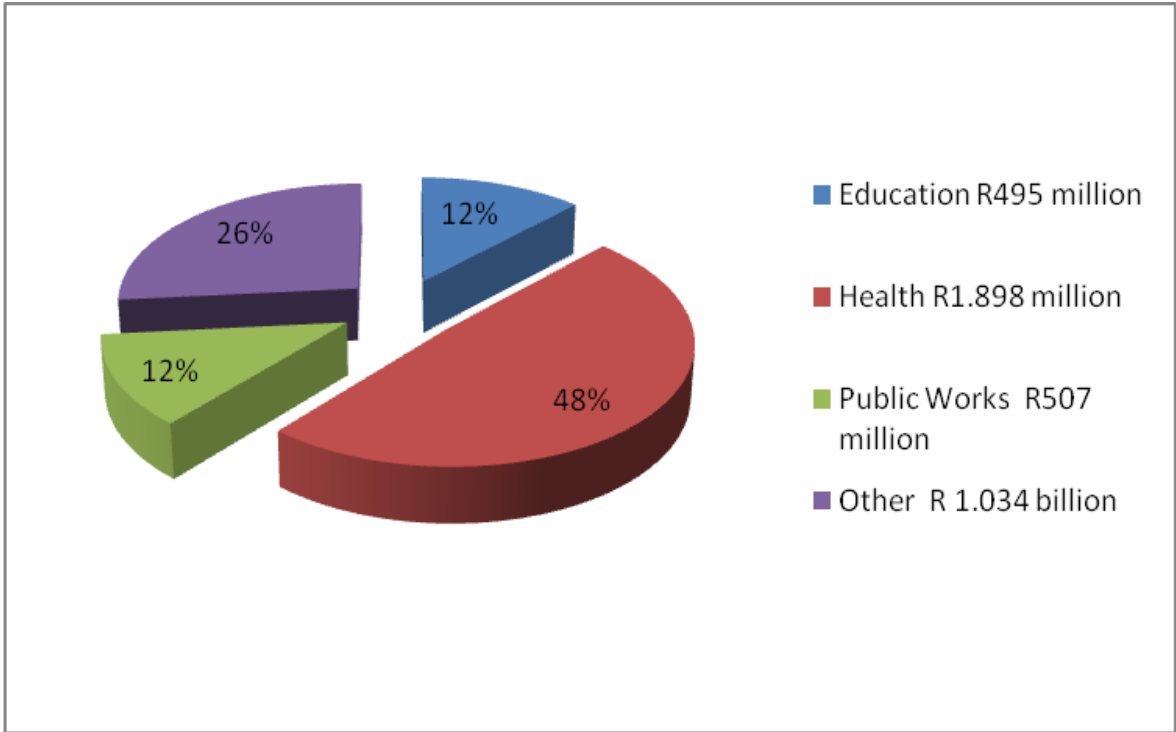
BREAKDOWN OF THE R24.870 BILLION BY MEANS OF ECONOMIC CLASSIFICATION



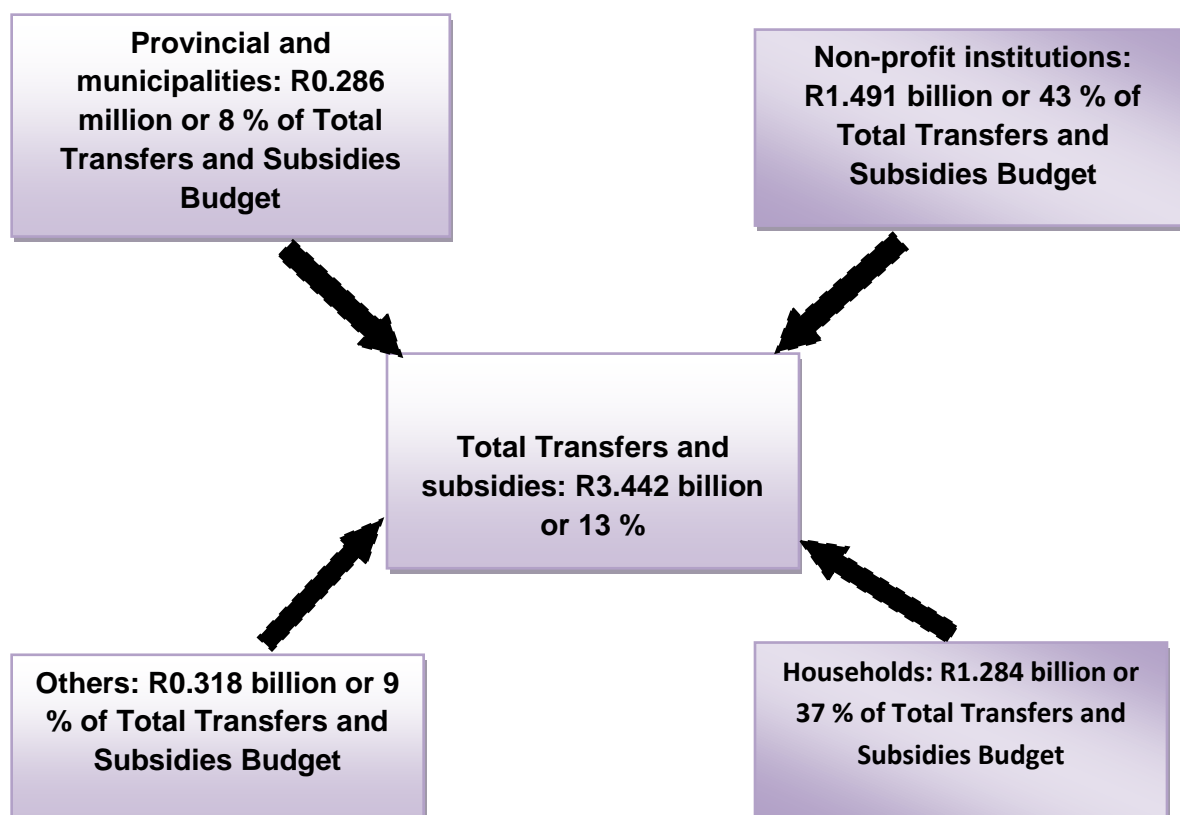
COMPENSATION OF EMPLOYEES



GOODS AND SERVICES



TRANSFERS AND SUBSIDIES



SUMMARY OF INFRASTRUCTURE BUDGET PER DEPARTMENT

Economic Development: R67.172million



Social Development: R35.000 million



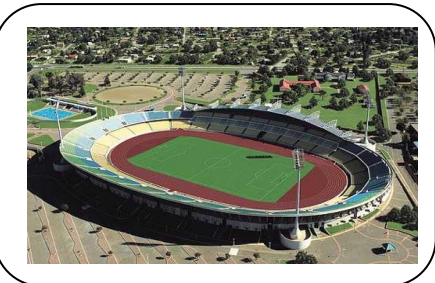
Education: R472.635 million



Health: R637.649 million



Sports, Art, Culture: R76.479 million



Public Works: R140.193 million



Agriculture: R259.233 million



Legislature: R44.500 million



PRT: R1.102 billion



Human Settlements: 961.619 million



**R3.569
billion**

INFRASTRUCTURE BUDGET BY CATEGORY

Department	New Infrastructure	Maintenance and repairs	Upgrading and addition	Rehabilitation and refurbishments	Infrastructure Transfers		Total
					Current	Capital	
R'000							
Education	160 052	10 000	183 200	81 225	-	37 158	471 635
Health	278 206	44 510	343 901	-	-	-	666 617
Tourism	26 500		26 347				52 847
Social Development	40 000		5 000				45 000
Public Works	24 248	37 442	149 080	-	-	-	210 770
Police, Roads & Transport	39 801	382 377	193 241	142 042	1 789		759 250
Agriculture			26 851	4 450	41 927	29 863	103 091
Rural Development			22 700				22 700
Sports	56 836	6 525	36 664	-	-	-	100 025
Total	625 643	480 854	986 984	227 717	43 716	67 021	1 960 300

The total infrastructure budget of R2.431 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 R3.442 billion.

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