FREE STATE PROVINCIAL

MEDIUM-TERM BUDGET POLICY STATEMENT

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MEC's FOREWORD

In the past few years, the resilience and strength of the people of the Free State Province were tested during the unprecedented challenge of COVID-19 which was followed by the Russian-Ukraine war at the beginning of 2022 that brought new challenges when our economy was not yet out of the woods due to COVID-19. We have confidence that the people of this province will draw from the resilience and strength portrayed during the time of COVID-19 to face the current fragile and uncertain global economic recovery attributable to the rising geopolitical tensions (such as the Russia-Ukraine and the Israel-Hamas wars that disrupted trade and trade linkages), high inflation rates and cost-of-living crises (The World Economic Forum, 2024).

Equally, the continuing downside risks of external shocks that are attributed to (i) the increasing geopolitical tensions, (ii) increasing economic fragmentation (iii) the still elevated inflation rates, (iv) high interest rates, (v) declining fiscal support, (vi) high indebtedness, and (vii) extreme weather patterns hamper the domestic economic growth. Similarly, weaker economic growth remains a serious constraint in the country. Structural constraints such as logistics challenges are not supportive of the much-needed growth. Consequently, the country's fiscal position remains limited and there remains a need to manage the high borrowing costs and spending pressures. Downward revision of tax revenue over the MTEF also does not bode well for the fiscus. Moreover, monetary policy remains restrictive in response to inflationary pressures. SA growth is projected at 1.1% for 2024; whilst the global outlook for 2024 is at 3.2% (IMF World Economic Outlook, October 2024).

Furthermore, the Free State economy is projected to grow by 0.5 percent in 2024 because of the performance in the construction, transport, and finance industries. The provincial economy is further estimated to grow by around 1.6 percent in 2025. Projected growth is not sufficient to assist in reducing key challenges of unemployment, inequality, and poverty. Amid these challenges, the choices made in these mid-term allocations will not be easy. The Free State government is committed to providing its residents with economic security and better service delivery to make the future better than today.

I extend my sincere appreciation to the Premier, the Member of the Executive Council, and officials across provincial departments, for their contributions in making the work in this policy statement possible. Similarly, I extend my heartfelt appreciation to the Head of the Department of the Free State Provincial Treasury and the staff of the Free State Provincial Treasury for their dedication and hard work in preparing this policy statement.

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Hon. Mr. Keketso Makume
MEC for Finance, Economic Development and Tourism

EXECUTIVE SUMMARY

The Free State Provincial Medium Term Budget Policy Statement (MTBPS) for 2024 provides the global and domestic macroeconomic outlook within the provincial economy's context. It provides the provincial budget policy framework to support service delivery and drive the policy obligations within the constrained economic and fiscal environment. The current MTBPS outlines the budget policy objectives that support inclusive economic growth at the Free State provincial space which captures the importance of structural transformation for economic diversification, socioeconomic conditions and competition. Moreover, this statement emphasizes policies that remove constraints on growth and inequality and create a level playing field for investment and access to economic opportunities.

The global economic recovery remains fragile and uncertain due to rising geopolitical tensions (such as the Russia-Ukraine and the Israel-Hamas wars that disrupted trade and trade linkages), high inflation rates and cost-of-living crises (The World Economic Forum, 2024). Even though the tightening of monetary policy to reduce these high inflation rates by many countries globally has successfully reduced the global inflation rate from 8.7 per cent in 2022 to an estimated 5.9 per cent in 2024, this policy stance has also reduced consumer and business affordability, dampening economic activity (IMF, 2024). The global economic growth decreased from 3.5 per cent in 2022 to an estimated 3.2 per cent in 2024 but is projected to recover to 3.3 per cent in 2025. The notable decline in the global economic growth rate between 2022 and 2024 is attributed to advanced economies' growth rates which declined from the projected 2.6 per cent in 2022 to an estimated 1.7 per cent in 2024.

On the other hand, the economic growth rates of Emerging Market and Developing Economies (EMDEs) have displayed greater resilience and slightly increased from 4.1 per cent in 2022 to an estimated 4.3 per cent in 2024. Amongst the major EMDEs, the resilient growth rate is mainly credited to China and Russia. Despite its property sector crisis, China benefitted from the post-COVID-19 pandemic release of domestic pent-up demand and investment in manufacturing and infrastructure. Russia’s economic resilience was ascribed to fiscal support, high investment, high consumer demand and a tight labour market. Although India's economic growth rate is comparatively high due to its rising working-age population and domestic demand, the current global economic challenges negatively affect the economy, as shown through its projected waning economic growth rate in 2024 and 2025. Also, Brazil's waning economic growth rate between 2022 and 2024 was attributed to fiscal consolidation and tight monetary policy.

The challenges in the global economy continue to adversely affect the trajectories of the South African and Free State provincial economies. The national and provincial economies continue to face downside risks of external shocks attributed to (i) the increasing geopolitical tensions, (ii) increasing economic fragmentation (iii) the still elevated inflation rates, (iv) high interest rates, (v) declining fiscal support, (vi) high indebtedness, and (vii) extreme weather patterns. On the domestic front, South Africa’s economy has been stuck in a low-level equilibrium with low GDP growth, stagnant fixed capital formation, and falling GNI per capita. These dynamics have resulted in steadily increasing unemployment and rising inequality. Aggregate levels of saving and investment over the past thirty years have been inadequate to sustain the rate of growth and employment creation required. In part, structural constraints have imposed significant limitations on potential economic growth, resulting in a downturn in new investment within the economy (National Treasury, 2024). The global and domestic economies continue to experience increased volatility, which makes the 2025 forecasts highly uncertain. The South African economy is estimated to grow by 1.1 percent in 2024 and increase to 1.7 percent in 2025.

Likewise, the provincial economy is projected to recover and grow by 0.5 per cent in 2024, due to the growth rates of the construction industry of 4.8 per cent and the transport and finance industries of 2.3

per cent each. The Free State economy is projected to expand by 1.6 per cent in 2025, due to (i) the stable performance of the finance industry, (ii) increased trade as monetary policy eases and consumer affordability increases, as well as (iii) increased transportation as the global economy recovers. The overarching positive spinoffs are expected as a result of lower global inflation rates, lower interest rates, and ongoing domestic investments by the private and public sectors in the province moving forward.

Despite reduced load shedding in South Africa and the Free State in the 2nd quarter of 2024, the mining and electricity industries are projected to decline by 4.7 per cent and 2.3 per cent respectively in 2024, whilst manufacturing is projected to remain stagnant. The mining industry faces increased volatility and uncertainty in 2024, with positive gains expected through the increase in the price of gold in 2024, amid ongoing geopolitical tensions. However, the industry faces many downside risks related to (i) port congestion, (ii) the deteriorating infrastructure and transportation conditions, (iii) the volatile exchange rate, (iv) elevated and still-a-bit uncertain monetary policy path, (v) crime and (vi) rising operational costs, amongst others (Mining Review Africa, 2024).

Turning our focus on the provincial fiscus, the total provincial budget increased to R44.109 billion in the 2024/25 financial year. And the projected budget over the MTEF amounts to R44.896 billion in 2025/26, R46.511 billion in 2027/28 and R48.096 billion in the last outer year. The mid-year expenditure shows that the province recorded an expenditure of R22.118 billion or 50.6 percent of our total fiscal purse by the end of the second quarter. This spending is 0.6 percent above the benchmark of 50 percent. There is however a projected overspending of R2.463 billion by the end of the financial year—this is mainly driven by the Departments of Education and Community Safety, Roads and Transport on compensation of employees and the Department of Public Works and Infrastructure for municipal services and lease payments. The overall expenditure on conditional grants is at 50.7 percent at the end of the second quarter, which is 0.6 percent above the benchmark.

The province has an estimated own revenue target of R1.233 billion for the 2024/25 financial year and collected own revenue amounted to R736.583 million or 59.7 percent by the end of September 2024. The projections indicate that the target will be surpassed by R42.624 million or 3.5 percent should the same trend continue throughout the financial year. Remarkable performance was realized from the Department of Health because of payments received from Lesotho Government for referral patients treated at Universitas and Pelonomi hospitals. The province will continue to ensure that there are efficiencies in its own revenue processes which will enhance revenue collection.

Overall, the Free State government will carefully manage the fiscal space of the province by implementing the following provincial fiscal strategies:

- Identify inefficiencies in the system and re-channel funding to high-impact programmes/ priorities.
- Improving efficiencies—this includes, among other things, reviewing organograms, identifying duplication within the system, and identifying fiscal leakages.
- Reintroduction of early retirement (55 years) without penalty (Window created for 2025/26 and 2026/27).
- Promote staff rationalization across departments when filling vacant positions.
- Scaling down/postponement of implementation of some programmes/projects.
- Focus on revenue enhancement initiatives/mobilization of additional resources.
- Institutionalize evaluation of programmes to identify their relevance—this must also include spending reviews and reviewing earmarked funding.
- Engage key stakeholders within their respective departments, especially heads of programmes with budget reforms.

- Continue working on measures to cushion the budget cuts shock, especially in social sector departments.

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Mr. M.E. Mohlahlo
Head of Department: Free State Provincial Treasury

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A&RD : Free State Department of Agriculture and Rural Development
AEs : Advanced Economies
BRICS : Brazil, Russia, India, China and South Africa
COGTA : Free State Department of Cooperative Governance and Traditional Affairs
CoE : Compensation of Employees
CPI : Consumer Price Index
DBE : Department of Basic Education
DESTEA : Free State Department of Economic & Small Business Development, Tourism and Environmental
DoE : Free State Department of Education
DoH : Free State Department of Health
DoRA : Division of Revenue Act
DWS : Department of Water Affairs
EMDEs : Emerging Markets and Developing Economies
EMIS : Education Management Information System
EPRE : Estimates of Provincial Revenue and Expenditure
ES : Equitable Share
FS : Free State Province
FSGLTA : Free State Gambling, Liquor and Tourism Authority
FSPG : Free State Provincial Government
FSPT : Free State Provincial Treasury
FY : Financial Year
GDP : Gross Domestic Product
GDP-R : Gross Domestic Product - Regional
GVA : Gross Value Added
HS : Free State Department of Human Settlement
IEA : Infrastructure Enhancement Allocation
IMF : International Monetary Fund
IYM : In-Year Monitoring
MTBPS : Medium Term Budget Policy Statement
MTEF : Medium Term Expenditure Framework
MTSF : Medium Term Strategic Framework
NDP : National Development Plan
NSNP : National School Nutrition Programme
NT : National Treasury
PES : Provincial Equitable Share
PW&I : Free State Department of Public Works and Infrastructure
QLFS : Quarterly Labour Force Survey
REA : Revenue Enhancement Allocation
SA : South Africa
SAC&R : Free State Department of Sports, Arts, Culture and Recreation
SARB : South African Reserve Bank
SD : Free State Department of Social Development
SSA : Sub-Saharan Africa
UK : United Kingdom
US : United States of America

CHAPTER 1

MACROECONOMIC OUTLOOK & LABOUR MARKET REVIEW

Chapter Summary

- The International Monetary Fund (IMF, 2024), has projected global growth to stabilise at 3.2 percent in 2024, holding steady for the first time in three years despite the spreading geopolitical tensions and high interest rates. Global inflation is expected to moderate at a slower pace than previously assumed, averaging 3.5 percent this year.
- The National Treasury projects a real Gross Domestic Product (GDP) of 1.3 percent in 2024, from 0.6 percent in 2023 and 1.6 percent in 2025, due to global and domestic ailments. While IMF forecasts a growth rate of 0.9 percent in 2024 and 1.2 percent in 2025.
- The annual consumer price inflation (CPI) has been within the limit of the SARB's target range of 3 percent to 6 percent since June 2023. The CPI increased slightly to 4.4 percent in August from 4.6 percent in July, mainly driven by housing and utilities, miscellaneous goods and services, food and non-alcoholic beverages, and transport.
- Free State Province's real GDP is expected to increase to 0.8 percent in 2024 (0.4 percent in 2023) and will gradually improve to 1.2 percent in 2025.
- The Free State labour force declined from 1 197 000 to 1 194 000, leading to an increase in employment from 742 000 to 745 000, and a decrease in unemployment from 455 000 to 449 000, in the second quarter of 2024. Regrettably, the labour force has not yet returned to the pre-pandemic level, which was 1,228,000 in the first quarter of 2020.

1.1 INTRODUCTION

This chapter provides an overview of the global, national, and provincial macroeconomic outlook and labour market review. It outlines the economic environment under which the 2024 Medium Term Expenditure Framework (MTEF) is formulated.

1.2 GLOBAL MACROECONOMIC OUTLOOK

Global growth is projected to stabilise at 3.2 percent in 2024, holding steady for the first time in three years despite the spreading geopolitical tensions and high interest rates. Global inflation is expected to moderate at a slower pace than previously assumed, averaging 3.5 percent this year (2024). Central banks in both advanced economies (AEs) and emerging markets and developing economies (EMDEs) are likely to remain cautious in easing policy. As such, markedly higher interest rates than before the pandemic are set to sustain for an extended period. Despite some improvement, the outlook remains subdued.

Table 1.1: Overview of World Economic Outlook projections

Region/Country	GDP (%) Outcomes	GDP (%) Projections	
	2023	2024	2025
World Output	**3.2**	**3.2**	**3.2**
Advanced Economies	**1.6**	**1.7**	**1.8**
United States	2.5	2.7	1.9
Euro Area	0.4	0.8	1.5
United Kingdom	0.1	0.5	1.5
Japan	1.9	0.9	1.0
Emerging Market and Developing Economies	**4.3**	**4.2**	**4.2**
Brazil	2.9	2.2	2.1
Russia	3.6	3.2	1.8
India	7.8	6.8	6.5
China	5.2	4.6	4.1
South Africa	**0.6**	**0.9**	**1.2**

South Africa	0.6	0.9	1.2

Source: IMF, 2024

The pace of growth and expansion is low compared to historical standards, due to the results of still-high borrowing costs and withdrawal of fiscal support; longer-term effects from the COVID-19 pandemic; Russia's invasion of Ukraine; weak growth in productivity; and increasing geo-economic fragmentation. Against this backdrop, global growth is estimated at 3.2 percent in 2023, is projected to continue at the same pace in 2024 and 2025.

1.3 MACROECONOMIC OUTLOOK FOR ADVANCED ECONOMIES (AEs)

Growth in advanced economies was 1.6 percent in 2023, and it is expected to increase slightly to 1.7 percent in 2024 and rise to an estimated 1.8 percent in 2025. This is due to the weak activity in the Euro Area (EA), United Kingdom (UK) and Japan, due to the continued delicate domestic demand; and the resilient growth in the United States (US). Thus, the most contributor of AEs growth was the US. Growth in the US strengthened to 2.5 percent in 2023, owing primarily to robust consumption, government spending, and significantly reduced imports of goods and services. Consumption was supported by continued spending out of savings accumulated during the pandemic and a healthy expansion of household balance sheets as equity prices gained rapidly last year (IMF, 2024).

The US economic growth is expected to increase from 2.5 percent in 2023 to 2.7 percent in 2024. It is expected to slow down to 1.8 percent in 2025 due to the cumulative effects of past monetary tightening and a contractionary fiscal stance. Elevated real borrowing rates are set to restrain household spending on durable goods and residential investment. In the Euro Area, growth in 2023 was 0.4 percent and estimated to 0.8 percent in 2024 and expected to increase further to 1.5 percent in 2025. The slowdown growth in 2023 (from 3.5 percent in 2022), was reflecting tight credit conditions, feeble exports, and elevated energy prices. Trade volumes declined in 2023 for the first time outside of an annual euro area contraction, in large part reflecting a loss of export competitiveness amid elevated energy prices. Services activity suggests incipient improvement in early 2024, but this has been offset by weaker than-expected industrial activity, especially in the manufacturing sector in Germany. Growth is forecast to firm only slightly in 2024, to 0.8 percent, supported by an ongoing recovery in real incomes but dampened by still-subdued investment and export growth. Consumer spending is expected to edge higher in 2024, as inflation declines and wages continue to rise, albeit at a more moderate pace. Growth is forecast to pick up in 2025, to 1.5 percent, as the recovery in export and investment growth gathers pace, with the latter benefiting from lower policy rates and the absorption of EU funds.

The economy of the UK is projected to rise from an estimated 0.1 percent in 2023 to 0.5 percent in 2024, as the lagged negative effects of high energy prices decline, then to 1.5 percent in 2025, as disinflation allows financial conditions to ease and real incomes to recover. The estimates were based on several reasons for optimism. Consumption has been supported by the cuts to National Insurance Contributions, which are expected to boost real household disposable income by 1%. Against this backdrop, consumer confidence is gradually recovering, consistent with continued tightness in the labour market and further falls in inflation. Further improvements in underlying inflationary pressures will favour a gradual withdrawal of monetary policy restrictiveness in the coming months, and Bank Rate is forecasted to fall towards 3% by the second half of 2025 (KPMG UK, 2024).

Economic growth in Japan is expected to decelerate to 0.9 percent in 2024 (from 1.9 percent in 2023), due to a feeble expansion in consumption and slowing exports amid normalizing auto production and stabilizing tourism demand. Output is projected to grow at an average rate of 1.0 percent in 2025 due to slight improvements in consumer spending and capital investment. The Bank of Japan discontinued major unconventional policy measures, thus yield curve control, negative interest rates, and some asset purchases, in March 2024.This raised the range for the short-term policy rate to 0.1 percent, while also signalling possible further monetary action should inflation risks rise, including in the context of rapid depreciation of the yen (IMF, 2024).

1.4 MACROECONOMIC OUTLOOK FOR EMERGING MARKETS AND DEVELOPING ECONOMIES (EMDEs)

EMDEs growth is projected to edge down from 4.3 percent in 2023 to 4.2 percent in 2024 and 2025. Aggregate EMDEs output is projected to remain on a path notably below its pre-pandemic trajectory, indicating sizable long-term scarring from the crises of the past four years. Economic conditions have nonetheless continued to diverge, with ongoing weakness among vulnerable EMDEs. Growth in countries with stronger credit ratings has so far outpaced growth in weaker-rated countries, including many grappling with high debt and financing costs, and those facing acute challenges, such as elevated levels of domestic conflict and violence (IMF, 2024).

In Brazil, growth is expected to moderate to 2.2 percent in 2024 on the back of fiscal consolidation, lagged effects of still-tight monetary policy, and a smaller contribution from agriculture. The moderation reflects a prospective decline of growth in Russia from 3.2 percent in 2024 to 1.8 percent in 2025 as the effects of high investment and robust private consumption, supported by wage growth in a tight labour market, fade. Growth in India is projected to remain strong at 6.8 percent in 2024 and 6.5 percent in 2025, with the robustness reflecting continuing strength in domestic demand and a rising working-age population.

China's growth rate is projected to decline from 5.2 percent in 2023 to 4.6 percent in 2024, to 4.1 percent in 2025, indicating a gradual slowdown. Growth in China edged up in early 2024, supported by a positive contribution from net exports that offset softening domestic demand. Following the weakness last year, exports and imports have both strengthened. Meanwhile, overall investment growth has remained firm, with solid infrastructure and manufacturing investment set against declining real estate investment as the property sector downturns.

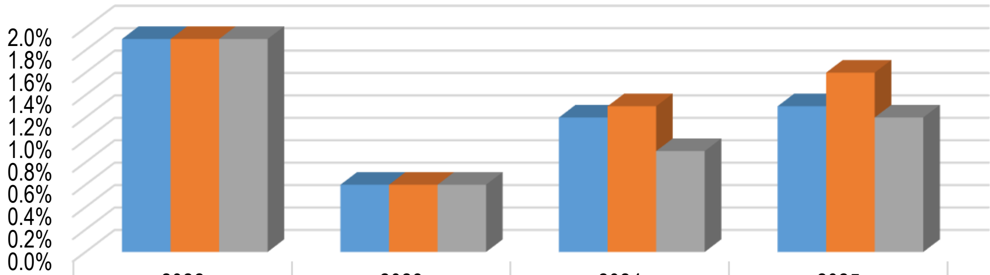
1.5 SOUTH AFRICAN ECONOMIC REVIEW AND OUTLOOK

In South Africa, growth weakened to 0.6 percent in 2023. Economic activity remained subdued in early 2024 as the economy continued to struggle with a broad-based deterioration in public service delivery, including electricity supply shortages, transport bottlenecks, and a high crime rate (World Bank 2024). Household consumption continues to be constrained by high unemployment, while investment deteriorates amid weak business confidence. Growth has been further dampened by necessary fiscal restraint, as public debt levels remain high, while lower global prices for the country's key commodity exports have reduced tax revenues from the mining sector.

Increasingly severe domestic constraints, alongside slowing global demand, led to SA's economic growth falling to just 0.6 percent in 2023, from 1.9 percent in 2022. The mining sector contracted while manufacturing production edged higher, as load shedding and transport bottlenecks intensified. The services sectors (finance, transport, and personal services sectors) and domestic trade were key drivers of growth. Consequently, the labour market remained weak. The weak structural growth and the COVID-19 pandemic have intensified socio-economic challenges. South Africa's GDP has recovered to its pre-pandemic levels, but the strength of the recovery has been hindered by multiple structural constraints, including ongoing power shortages and logistics bottlenecks, in the past years.

Meanwhile, during the second quarter of 2024, the South African Reserve Bank (SARB) increased SA's 2024 GDP forecast modestly to 1.2 percent. However, the growth rate forecast for 2025 has remained unchanged at 1.3 percent from the previous quarter (SARB, 2024). The National Treasury projected real GDP growth of 1.3 percent for 2024, and the growth is further projected to average 1.6 percent for 2025. The outlook is supported by an expected recovery in household spending as inflation declines, and an increase in energy-related fixed investments. Power cuts and operational problems in freight rail and ports continue to disrupt economic activity and limit the country's export potential. Comprehensive reforms are underway, although it will take time to see a recovery in growth. House consumption is under pressure from high living costs, and investment remains low due to weak confidence and challenging business conditions linked to structural constraints (National Treasury, 2024).

Figure 1.1: South Africa's real GDP performance and forecasts

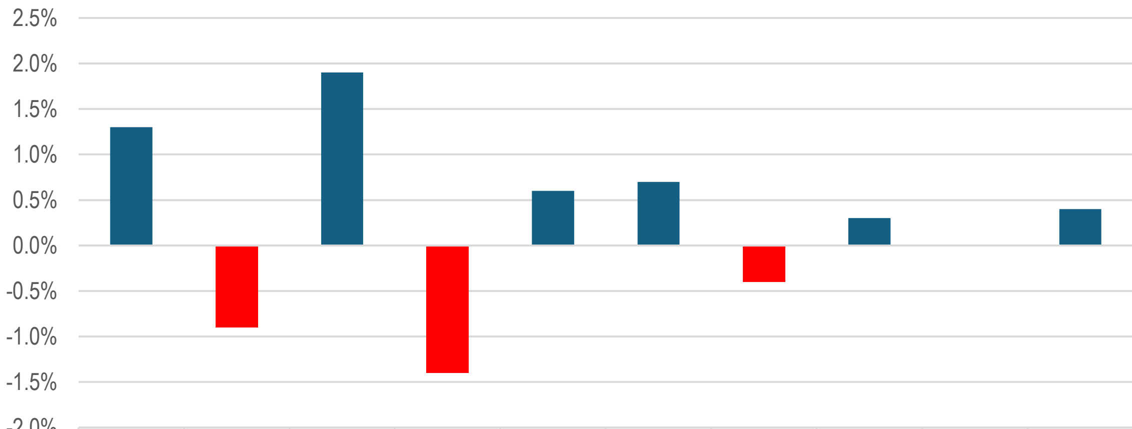


	2022	2023	2024	2025
SARB	1.9%	0.6%	1.2%	1.3%
NT	1.9%	0.6%	1.3%	1.6%
IMF	1.9%	0.6%	0.9%	1.2%

Source: IMF, 2024; SARB, 2024; National Treasury, 2024

As illustrated in Figure 1.2 below, Statistics South Africa's latest data shows that the real GDP increased by 0.4 percent in the second quarter of 2024, compared to no growth in the first quarter of 2024. Seven industries recorded positive growth between the first quarter and the second quarter of 2024. The finance industry increased by 1.3 percent and contributed 0.3 of a percentage point to the GDP growth. The trade industry increased by 1.2 percent and contributed 0.1 of a percentage point. The manufacturing industry increased by 1.1 percent and contributed 0.1 of a percentage point. The transport industry was the main negative contributor, decreasing by 2.2 percent and contributing -0.2 of a percentage point.

Figure 1.2: GDP at constant 2015 prices, seasonally adjusted and annualised



	2022:Q1	2022:Q2	2022:Q3	2022:Q4	2023:Q1	2023:Q2	2023:Q3	2023:Q4	2024:Q1	2024:Q2
GDP	1.3%	-0.9%	1.9%	-1.4%	0.6%	0.7%	-0.4%	0.3%	0.0%	0.4%

Source: Statistics South Africa, Gross Domestic Product, 2024

The primary sector decelerated by 1.5 percent in 2024:Q2. The agriculture, forestry and fishing industry decreased by 2.1 percent, contributing -0.1 of a percentage point to the GDP growth. This was primarily due to decreased economic activities reported for field crops and animal products. The mining and quarrying industry decreased by 0.8 percent. Decreased economic activities were reported for iron ore, coal, diamonds and gold.

Growth in the second quarter of 2024 was enhanced by the secondary sector, with a growth rate of 1.6 percent. The manufacturing industry increased by 1.1 percent in the second quarter of 2024, contributing 0.1 of a percentage point to the GDP growth. Six of the ten manufacturing divisions reported positive growth rates in the second quarter. The following divisions made the largest positive contributions: motor vehicles, parts and accessories and other transport equipment; food and beverages; and basic iron and steel, non-ferrous metal products, metal products and machinery. The electricity, gas and water industries increased by 3.1 percent, contributing 0.1 of a percentage point. This was largely due to increases in electricity production and consumption, as well as water consumption. The construction industry increased by 0.5 percent. Increases were reported for residential and non-residential buildings.

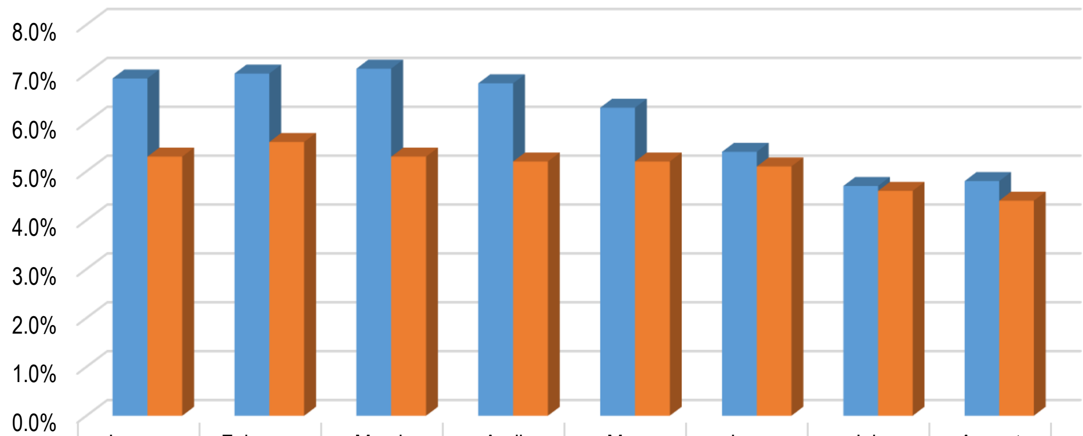
Growth in the tertiary sector accelerated to 0.2 percent in the second quarter of 2024. The trade, catering and accommodation industry increased by 1.2 percent in the second quarter of 2024, contributing 0.1 percentage points to the GDP growth. Increased economic activities were reported for wholesale trade, retail trade and accommodation. The transport, storage and communication industry decreased by 2.2 percent, contributing -0.2 of a percentage point. Decreased economic activities were reported for land transport and transport support services. The finance, real estate and business services industry increased by 1.3 percent, contributing 0.3 of a percentage point. Increased economic activities were reported for financial intermediation, auxiliary activities, real estate activities and other business services. General government services increased by 0.5 percent, mainly due to increased employment in the national government, the provincial government and extra-budgetary institutions. The personal services industry increased by 0.2 percent. Increased economic activities were reported for health and education (Statistics South Africa, 2024).

1.5.1 Consumer Price Index (CPI)

In August 2024, the annual consumer price inflation rate registered a slight decrease, reaching 4.4 percent, compared to the 4.8 percent recorded in August 2023, and 4.6 percent recorded in July 2024. The CPI increased by 0.2 percent month-on-month in August 2024. This marks the lowest inflation rate since April 2021, falling just below the South African Reserve Bank's preferred midpoint target of 4.5 percent. The headline consumer price inflation has remained within the inflation target range for 15 consecutive months. Lower annual inflation rates were observed across several product groups, between August 2024 and July 2024, most notably in transport (2.8 percent from 4.2 percent), namely fuels (1.8 percent from 4.5 percent), housing and utilities (4.8 percent from 5.3 percent), and restaurants and hotels (6.6 percent from 7.1 percent). However, prices accelerated mostly for food and non-alcoholic beverages (4.7 percent from 4.5 percent) and alcoholic beverages and tobacco (4.3 percent from 3.8 percent).

However, the primary drivers behind the 4.4 percent annual inflation rate in August 2024 were housing and utilities (4.8 percent and contributing 1.1 percentage points); miscellaneous goods and services (7.0 percent and contributing 1.0 percentage points); food and non-alcoholic beverages (4.7 percent and contributing 0.9 of a percentage point); and transport (2.8 percent and contributing 0.4 of a percentage point). The South African Reserve Bank forecasts inflation to average 4.8 percent in 2024, 4.3 percent in 2025 and 4.4 percent in 2026. In 2022 and 2023 the average inflation was 6.9 percent and 6.0 percent, respectively.

Figure 1.3: Headline CPI, year-on-year rates



	January	February	March	April	May	June	July	August
2023	6.9%	7.0%	7.1%	6.8%	6.3%	5.4%	4.7%	4.8%
2024	5.3%	5.6%	5.3%	5.2%	5.2%	5.1%	4.6%	4.4%

Source: Statistics South Africa, 2024

1.6 PERFORMANCE AND OUTLOOK FOR THE FREE STATE ECONOMY

Free State is a much better place today than it was 30 years ago, as we celebrate three decades of democracy. Amongst other things, the democratic transformation process was improving the living conditions of South Africans and fostering shared economic growth. Over the past 30 years, the province has invested time, resources and commitment in fighting the triple challenges of unemployment, poverty and inequality. Nevertheless, the emphasis is still on economic recovery, job creation, and diversification to inspire the growth of other and new economic sectors. For the past 3 decades, Free State and the country at large had faced various economic, financial, social and political challenges. These challenges were not only at the macro-economic level but impacted significantly on people, households and businesses at all levels. The province is now on the path to recovery, and it has not been easy.

Free State government managed to get investment support and trade locally and internationally. For instance, Matla-a-Tau Maize Meal in Frankfort is exporting maize and samp to Lesotho, Swaziland and the Democratic Republic of Congo because of government support. The province will also invest R1,993 billion in upgrading and maintaining roads as part of the Township Revitalization Programme. The R38 million funding agreement with the Unemployment Insurance Fund to provide skills development to an additional 2,000 unemployed people will soon be concluded (SOPA, 2024). Please refer to box 1.1 below for current socio-economic achievements by the province.

Meanwhile, the Free State economic annual growth rate was 0.4 percent in 2023, down from 1.6 percent in 2022. The growth was driven by growth in transport at an average of 6.6 percent annually in 2023, from R17.3 billion in 2022 to R 18.4 billion in 2023 and community services at an average of 1.1 percent annually from R60.5 billion in 2022 to R61.2 billion in 2023. The community services sector was the largest sector within the Free State in 2023, with a share of R61.2 billion of the total Gross Value Added (GVA) (as measured in constant prices). The other sectors that contributed positively towards the GDP-R were the agriculture and finance sectors, which contributed 0.3 percent and 1.0 percent, respectively. The remaining five sectors contributed negatively towards the GDP-R.

Table 1.2: Gross Value Added by Region (GVA-R), Constant 2015 Prices, by sector

Sectors	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027

Agriculture	28,5%	3,3%	-4,3%	15,8%	3,0%	3,9%	0,3%	1,0%	0,4%	1,1%	1,4%
Mining	0,3%	-7,8%	-1,8%	-14,0%	8,8%	-8,9%	-1,1%	-4,7%	-1,4%	-4,4%	-2,7%
Manufacturing	0,0%	0,9%	-1,4%	-15,9%	1,4%	1,5%	-1,9%	0,0%	0,7%	1,2%	1,6%
Electricity	-1,1%	0,7%	-2,5%	-5,8%	2,0%	-3,7%	-4,3%	-2,3%	0,1%	0,8%	1,4%
Construction	-6,0%	-0,9%	-2,7%	-18,0%	-3,3%	-2,2%	-0,1%	4,8%	1,9%	2,7%	3,1%
Trade	-0,6%	1,1%	-0,4%	-16,4%	6,0%	2,6%	-3,5%	0,3%	2,4%	0,4%	1,3%
Transport	0,3%	2,1%	-1,0%	-9,5%	8,8%	8,6%	6,6%	2,3%	2,1%	2,7%	2,8%
Finance	0,9%	2,7%	2,1%	-0,2%	3,3%	1,6%	1,0%	2,3%	2,2%	2,9%	3,1%
Community services	1,5%	0,9%	1,0%	-0,6%	2,0%	1,9%	1,1%	0,7%	0,6%	1,5%	2,0%
Total Industries	**1,5%**	**0,8%**	**-0,1%**	**-5,7%**	**3,6%**	**1,6%**	**0,4%**	**0,8%**	**1,2%**	**1,4%**	**1,9%**

Source: South Africa Regional eXplorer 2496 (2.6w)

As illustrated in Table 1.2, the sector that had the least growth was electricity (utilities) with an average annual growth rate of -4.3 percent in 2023, from -3.7 percent growth in 2022. This was largely due to decreases in electricity and water consumption. It was followed by the trade sector, which had a -3.5 percent annual growth rate in 2023, from a positive 2.6 percent growth in 2022. The mining sector has been volatile for the past seven years and it is expected to contribute negatively towards the GDP-R for the coming four years. The construction sector has grown negatively for the past seven years, since 2017. The decreases were reported for both residential and non-residential buildings and construction works.

It is expected that Free State Province's GDP is anticipated to grow slightly in 2024 to 0.8 percent and is expected to upsurge at an average annual rate of 1.5 percent between 2025 to 2027. SA is estimated to grow at 1.2 percent in 2024 and is expected to grow at an average annual rate of 1.8 percent in the same period. When looking at the municipalities in FS, it is expected that Fezile Dabi will achieve the highest average annual growth rate of 2.2 percent between 2025 to 2027. Mangaung Metropolitan Municipality is expected to achieve the second highest average annual growth rate, averaging 1.7 percent in the same period.

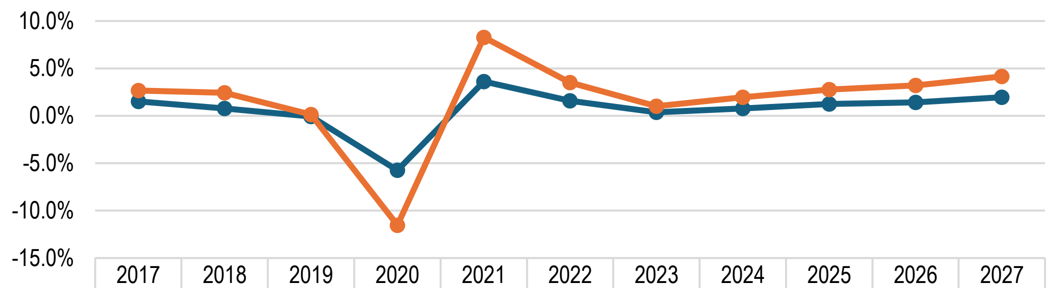
Table 1.3 Gross Value Added by Region (GVA-R), Constant 2015 Prices, by region

Region	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Free State	**1,5%**	**0,8%**	**-0,1%**	**-5,7%**	**3,6%**	**1,6%**	**0,4%**	**0,8%**	**1,2%**	**1,4%**	**1,9%**
Mangaung	1,4%	1,1%	-0,3%	-4,5%	4,8%	2,6%	-0,2%	0,9%	1,3%	1,7%	2,1%
Xhariep	1,5%	0,3%	1,3%	-6,0%	2,0%	2,3%	1,4%	0,3%	0,7%	1,2%	1,7%
Lejweleputswa	3,3%	-0,6%	-3,2%	-11,8%	1,5%	3,6%	-3,0%	-1,3%	0,1%	-0,5%	0,3%
Thabo Mofutsanyane	2,5%	1,4%	0,5%	-4,3%	4,9%	1,9%	1,0%	0,8%	1,1%	1,5%	1,9%
Fezile Dabi	-0,4%	0,8%	1,9%	-5,2%	1,9%	-2,1%	3,2%	1,9%	2,1%	2,0%	2,6%

Source: South Africa Regional eXplorer 2496 (2.6w)

Lejweleputswa is expected to perform the poorest with an average annual growth rate of 0.0 percent (due to the decline in mining activities, despite the new Virginia gas project). Of concern to the province, is the fact that Mining will slump by -2.9 percent between 2025 and 2027. Mining will thus be the highest negative contributor in the projected period. The natural gas that has been discovered in Matjhabeng – 'The Virginia Gas Project' - by Tetra4, which is owned by Renergen, will surely change the face of the economy in this area in the coming years. The site of the gas project also happens to be close to where gold has been mined for the past several decades. Therefore, the discovery of gas in this area represents an opportunity for the creation of hundreds of jobs in the downstream economies.

Figure 1.4: Gross Value Added by Region (GVA-R), Average annual growth (%, Constant 2015 prices)



	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
South Africa	1.2%	1.6%	0.2%	-5.8%	4.7%	1.9%	0.7%	1.2%	1.5%	1.8%	2.2%
Free State	1.5%	0.8%	-0.1%	-5.7%	3.6%	1.6%	0.4%	0.8%	1.2%	1.4%	1.9%

Source: South Africa Regional eXplorer 2496 (2.6w)

Free State Province recorded a positive annual growth rate of 0.4 percent in 2023, which was slightly lower than the national growth, where the GDP growth rate was 0.7 percent during the same period. The province GDP rate has only surpassed the national growth rate in 2017 during the review period, where the provincial GDP was 1.5 percent, while the national growth rate was 1.2 percent.

1.7 LABOUR MARKET TRENDS IN THE FREE STATE PROVINCE

South Africa constitutes a youthful population and one that continues to bear the unemployment burden with the highest youth unemployment rate. Participation in employment, education or training is important for youth to become established in the labour market and achieve self-sufficiency. South Africa, like many other countries globally, grapples with the challenge of youth unemployment. In 2024:Q2, 59.6 percent of young people aged 15-34 in South Africa were unemployed. Free State, like any other province in the country, is not immune to this challenge. Youth unemployment rate (aged 15-34 years) in Free State was 51.9 percent in 2024:Q2 while provincial unemployment rate was 36.7 percent (which was 14.3 percentage points above the provincial rate).

Meanwhile, the province's labour force has not yet returned to the pre-pandemic level, which was 1 228 000 in the first quarter of 2020. However, when compared to three years ago, the economically active population has grown from 1 130 000 (2021:Q2) to 1 194 000 in 2024:Q2. Thus 56 000 more economically active population. The working-age population increased by 5 000 or 0.3 percent in the second quarter of 2024 compared to the second quarter of 2023. The number of employed persons decreased by 15 000 to 745 000, while the number of unemployed persons increased by 26 000 to 449 000 compared to last year, resulting in an increase of 41 000 (up by 3.6 percent) in the number of people in the labour force. The number of discouraged work-seekers increased by 9 000 (up by 7.5 percent) and the number of people who were not economically active for reasons other than discouragement (*other*) decreased by 46 000 (down by 7.0 percent), resulting in a net decrease of 36 000 in the not economically active population.

Table 1.4: Labour market review of Free State

	Apr-Jun 2021	Apr-Jun 2023	Apr-Jun 2024	Year on year change	3-year change	Year on year change	3-year change
	Thousand					Percent	
Both sexes							
Population 15-64 years	**1 920**	**1 934**	**1 939**	**5**	**19**	**0,3**	**1,0**
Labour Force	**1 138**	**1 153**	**1 194**	**41**	**56**	**3,6**	**4,9**
Employed	723	730	745	15	22	2,1	3,0
Unemployed	415	423	449	26	34	6,1	8,2

Not economically active	782	781	745	-36	-37	-4,6	-4,7
Discouraged work-seekers	145	120	129	9	-16	7,5	-11,0
Other (not economically active)	636	661	615	-46	-21	-7,0	-3,3
Rates (%)							
Unemployment rate	36,5	36,7	37,6	0,9	1,1		
Employed / population ratio (Absorption)	37,7	37,8	38,4	0,6	0,7		
Labour force participation rate	59,3	59,6	61,6	2,0	2,3		

Source: Statistics South Africa, Quarterly Labour Force Survey, 2024

The labour force participation rate in 2024:Q2 was higher than in 2023:Q2, as a result of the movements from the *not economically active* category to *economically active* category, increasing by 2.0 percentage points to 61.6 percent. The absorption rate also increased by 0.6 percentage points to 38.4 percent, while the unemployment rate increased by 0.9 percentage points to 37.6 percent year on year.

As compared to the previous 3 years (2021:Q2), the working-age population increased by 19 000 or 1.0 percent, while labour force increased by 56 000 (4.9 percent). That led to an increase of 22 000 persons in employment and an increase of 34 000 persons in unemployment, while the *not economically active* decreased by 37 000 persons.

- **Employment by industry and gender**

Since the beginning of democracy, the government has heightened socio-economic programs and activities across different economic sectors to create more employment opportunities for women. However, the labour market in South Africa remains more favourable to men than women, revealing large gender gaps in employment. This is not unique to the Free State. Globally and nationally, workplace disparities between men and women continue to exist. Employment rates amongst women remain lower than men and women are also less likely to find work than men. Women and youth fare worse in labour markets, often bearing the brunt of inequalities in labour markets. Table 1.5 shows that between 2024:Q2 and 2023:Q2, the number of employed women increased by 20 000, while employed men decreased by 6 000. The largest increase in employment among women was recorded in private households (14 000) manufacturing (12 000) and agriculture (4 000). Among men, most jobs were shed in construction (12 000), community and social services (10 000) and trade (8 000).

Table 1.5: Free State employment share by industry by gender

	Apr-Jun 2021	Apr-Jun 2023	Apr-Jun 2024	Year-on-year change	3-year change	Year-on-year change	3-year change
	Thousand					Percent	
Women							
Total Women	**322**	**304**	**324**	**20**	**2**	**6,5**	**0,5**
Agriculture	10	14	18	4	8	28,2	72,4
Mining	3	3	3	0	0	3,2	-10,8
Manufacturing	16	10	22	12	6	119,1	40,9
Utilities	1	1	2	1	1	0,0	119,1
Construction	5	3	2	-1	-3	-31,2	-54,3
Trade	79	78	71	-7	-8	-8,9	-9,7
Transport	7	3	4	1	-3	24,4	-45,1
Finance	26	37	35	-2	9	-6,1	34,4
Community and social services	124	116	115	-1	-9	-1,0	-7,6
Private households	51	38	52	14	1	36,7	1,0
Men							
Total Men	**401**	**427**	**421**	**-6**	**21**	**-1,3**	**5,2**
Agriculture	64	57	66	9	3	16,2	4,2
Mining	15	18	13	-5	-2	-30,2	-15,2
Manufacturing	29	41	39	-2	10	-5,2	33,5
Utilities	4	4	3	-1	-1	-19,4	-14,7
Construction	30	49	37	-12	8	-23,9	26,1
Trade	76	83	75	-8	-2	-10,0	-2,3
Transport	42	32	30	-2	-12	-7,1	-29,2
Finance	39	37	58	21	19	55,9	48,9
Community and social services	70	90	80	-10	10	-10,6	14,5
Private households	32	16	21	5	-12	28,9	-36,3

Source: Statistics South Africa, Quarterly Labour Force Survey, 2024

In comparison to the same period three years ago, a net increase of 23 000 in total employment was largely due to increases in the number of men employed in the province. The highest number of jobs gained (21 000) by men was in finance (19 000), community and social services (10 000) and manufacturing (10 000), while women shed most jobs in the community and social services (9 000) and trade (8 000) for the same period.

- **Employment by occupation and gender**

When women are employed, they are more likely to work in low-paying jobs in vulnerable conditions. According to the ILO, vulnerable employment is a combination of 'own account work' and 'contributing family work' or unpaid household members, both defined as employment statuses that are associated with 'low levels of development and high levels of poverty'. More women than men work as unpaid household members and women are less likely to be employers (ILO, 2022). In Q2:2024, in Free State, there were 65 000 women employed as skilled workers (20.0 percent), 119 000 women employed as semi-skilled workers (36.7 percent) and 140 000 women employed as low-skilled workers (43.3 percent). The employment of women increased by 2 000, whereas the employment of men increased by 21 000 persons in comparison to 2021:Q2.

Table 1.6: Free State employment by occupation and gender

	Apr-Jun 2021	Apr-Jun 2023	Apr-Jun 2024	Year on year change	3-year change	Year on year change	3-year change
	Thousand					Percent	
Women							
Total Women	**322**	**304**	**324**	**20**	**2**	**6,8**	**0,5**
Manager	15	7	17	10	2	153,3	11,9
Professional	22	22	6	-16	-16	-73,9	-74,2
Technician	25	37	43	5	17	13,7	69,2
Clerk	60	36	46	9	-14	25,6	-23,6
Sales and services	46	63	61	-2	15	-2,6	32,0
Skilled agriculture	0	0	1	1	1	0,0	0,0
Craft and related trade	9	8	8	0	-1	5,0	-12,7
Plant and machine operator	3	5	3	-2	1	-31,6	18,1
Elementary	91	89	89	0	-2	0,2	-1,9
Domestic worker	51	37	51	13	0	36,0	-0,9
Men							
Total Men	**401**	**427**	**421**	**-6**	**21**	**-1,3**	**5,2**
Manager	52	25	26	1	-27	4,2	-51,3
Professional	11	19	21	2	10	9,0	89,4
Technician	18	35	30	-5	12	-14,3	64,2
Clerk	21	23	15	-8	-5	0,0	-25,5
Sales and services	59	66	68	2	9	2,5	15,6
Skilled agriculture	1	2	4	2	3	67,3	543,3
Craft and related trade	52	70	61	-9	9	-13,2	17,7
Plant and machine operator	57	51	48	-3	-8	-5,7	-14,6
Elementary	117	126	141	15	24	11,6	20,4
Domestic worker	13	9	8	-1	-5	-12,5	-40,3

Source: Statistics South Africa, Quarterly Labour Force Survey, 2024

Between 2021:Q2 and 2024:Q2, among women, employment increased in five of the ten occupational categories. The largest increase was observed in technicians (17 000), sale and services (15 000) and managers (2 000). Employment shedding was observed among professionals (16 000), clerks (14 000) and elementary (2 000) over the same period. Men shed large shares of employment as managers over the period 2021 to 2024. The share of men employed as managers declined from 13.1 percent in 2021:Q2 to 6.1 percent in 2024:Q2. However, during this period, employment increased significantly from 401 000 to 421 000. The largest increase was observed in elementary (24 000), technicians (12 000), and professionals (10 000). Besides, managers shed significant number of jobs (27 000), plant and machine operators shed about 8 000 jobs, while clerks and domestic workers shed 5 000 jobs, respectively.

- **Labour market rates**

The unemployment rate, absorption rate and labour force participation rate are some of the primary economic indicators used to measure the health of an economy. Thus, the unemployment rate tends to fluctuate with the business cycle, increasing during recessions and decreasing during expansions. It is among the indicators most watched by policymakers, investors, and the public. Women's labour force participation rate has remained lower than men's participation, and gender skills gaps are high, as women are overrepresented in low-skilled occupation. These statistical trends indicate the continued vulnerability of women in the labour market and the subsequent need for policy to address this phenomenon.

According to the Quarterly Labour Force Survey, the Free State labour force participation rate decreased to 61.6 percent in the second quarter of 2024 from 61.8 percent recorded in the second quarter of 2023, a decrease of 0.2 of a percentage point year-on-year. The labour force participation rate for men also decreased from 65.7 percent to 67.2 percent, while women rate increased from 53.4 percent to 56.2 percent in 2024:Q2. There was a gap of 11.0 percentage points between men and women in the second quarter of 2024. Only 56.2 percent of women of working age in Free State participate in the labour force either as employed or looking for work. The female labour force participation rate has seen an increase over 3 years by 2.5 percentage points from 51.8 percent in 2021:Q2 to 56.2 percent in 2024:Q2. However, women remain less likely to participate in the labour force compared to men.

Table 1.7: Free State labour market rates (percentage)

	Apr-Jun 2021	**Apr-Jun 2023**	**Apr-Jun 2024**	**Year on year change**	**3-year change**
Rates	**Percent**			**Percentage Change**	
Women					
Unemployment rate	38,0	40,6	41,9	1,3	3,9
Employed / population ratio (Absorption)	32,1	31,7	32,6	0,9	0,5
Labour force participation rate	51,8	53,4	56,2	2,8	4,4
Men					
Unemployment rate	35,2	33,5	33,8	0,3	-1,4
Employed / population ratio (Absorption)	43,8	43,7	44,5	0,8	0,7
Labour force participation rate	67,5	65,7	67,2	1,5	-0,3

Source: Statistics South Africa, Quarterly Labour Force Survey, 2024

The official unemployment rate for women and men increased by 1.3 percentage points and 0.3 of a percentage point, respectively, in the second quarter of 2024 compared to the previous year. This is reflective of the fact that people were actively looking and available for work but did not find work. The absorption rate also increased for both genders. Women's absorption rate increased by 0.9 of a percentage point, while men's absorption rate increased by 0.8 of a percentage point. Over the past three years, the women's official unemployment rate and labour force participation rate increased by 3.9 percentage points and 4.4 percentage points, respectively, while men's official unemployment rate and labour force participation rate declined by 1.4 percentage points and 0.3 of a percentage point, respectively. Both women's and men's absorption rates increased by 0.5 of a percentage point and 0.7 of a percentage point, respectively.

- **Youth**

Unemployment remains high in the South African labour market with young people affected the most compared to other age groups. At the national level, the number of unemployed persons increased from 4.7 million in 2021:Q2 to 4.9 million in 2024:Q2. The Free State youth are also vulnerable in the labour market with an unemployment level of 262 000, with 58.3 percent of the total number of unemployed persons in the province. Out of the 262 000 unemployed persons, 82 000 were between the age of 15 to 24 years and 180 were of age cohort of 25 to 34 years. Nevertheless, the level of unemployment is higher among persons without matric. About 48.1 percent of the unemployed in the province have pre-secondary education, while about 51.9 percent have post-secondary education.

The working-age population of FS youth decreased by 8 000 or 0.8 percent in the second quarter of 2024 compared to the second quarter of 2023. This led to the economically active youth to decline from 514 000 (2023:Q2) to 505 000 in 2024:Q2. Thus 9 000 less economically actively population. The number of employed youth decreased by 6 000 to 243 000, while the number of unemployed youth decreased by 3 000 to 262 000 compared to last year. The number of people who were not economically active increased by about 1 000 (0.2 percent), from 480 000 to 481 000 inactive young people.

Table 1.8: Free State Youth Labour Force Characteristics

Youth labour force characteristics	Apr-Jun 2021	Apr-Jun 2023	Apr-Jun 2024	Year on year change	3-year change	Year on year change	3-year change
	Thousand					Percent	
Youth (15-34 years)							
Population 15-34 yrs	**1 008**	**994**	**986**	**-8**	**-22**	**-0,8**	**-2,2**
Labour Force	**480**	**514**	**505**	**-9**	**25**	**-1,8**	**5,2**
Employed	226	249	243	-6	17	-2,4	7,5
Unemployed	254	265	262	-3	8	-1,1	3,1
Not economically active	528	480	481	1	-47	0,2	-8,9
Rates							
Unemployment rate	52,9	51,6	51,9	0,3	-1,0		
Employed/population ratio (Absorption)	22,5	25,0	24,6	-0,4	2,2		
Labour force participation rate	47,6	51,7	51,2	-0,5	3,6		

Source: Statistics South Africa, Quarterly Labour Force Survey, 2024

Looking at the official unemployment rate and absorption rate, the data shows that more youth were actively looking for work and available for work; but did not find work, and few were employed. The official unemployment rate increased by 0.3 of a percentage point, while absorption rate and labour force participation rate declined by 0.4 of a percentage point, and 0.5 of a percentage point, respectively, in the second quarter of 2024 compared to the previous year. Over the past three years, the absorption rate and labour force participation rate increased by 2.2 percentage points and 3.6 percentage points, respectively, while the official unemployment rate declined by 1.0 percentage point.

Box 1: Free State Socio-Economic Benefits – Economic Transformation and Job Creation

- *Financial support of R28 million was provided to 32 SMMEs in logistics, agro-processing, tourism, ICT, wholesale and automotive sectors. Ten of these SMMEs were youth owned and nine were women owned.*
- *Rental incentives to 25 SMMEs in Industrial Parks were also offered. Our Industrial Parks investment drive has led to the employment of 5 571 people in Botshabelo, 516 in Thaba Nchu and 5 070 in Phuthaditjhaba.*
- *Investment in the knowledge economy - cooperation with Broadband Infraco and SITA. Phase 1 of the Broadband Access Fund project has provided broadband connectivity to 122 government facilities in Thabo Mofutsanyana. Under Phase 2, the project will connect 4 921 households and 304 Wi- Wi-Fi hotspots in the Fezile Dabi and Xhariep District Municipalities by March 2024. In addition, Broadband Infraco in partnership with Sentech and Internet Service Providers will deploy 2 134 Community WiFi Hotspots and enable 376 253 household connections over 3 years.*
- *Agriculture - 227 red meat producers, 309 agro-processing initiatives and the creation of 152 green jobs. Also, a total of 4 543 producers were trained, and 249 students graduated from the Glen Agricultural College. FS has employed 120 graduates for two years in the agricultural sector under the Entrepreneurial Development Programme.*
- *Facilitated 19 023 export certificates, 29 419ha of land was rehabilitated and 987ha was cultivated using conservation practices. This will preserve the environment and increase the production of organic*

products. The province is on course to revitalize the deciduous fruit industry. Recently, R10 million was disbursed to the Remmoho project.

- *Agri-Investment Project. This investment will create 400 jobs over three years resulting in the construction of a juice manufacturing plant targeting the export market.*
- *The Expanded Public Works Programme and the Presidential Employment Stimulus is a demonstration of our efforts to ignite economic growth. Since 2019, 282,907 work opportunities were created against a five-year target of 260,000 work opportunities through this Expanded Public Works Programme.*
- *The Presidential Employment Stimulus enabled the province to benefit from the creation of 87 357 job opportunities, supporting 24 733 livelihoods and retaining 1 680 jobs in the period between April to December 2023.*
- *These statistics include the 6 964 Education Assistants and 8 285 General School Assistants in the Department of Education. At the core of this education programme is the placement of unemployed youth in schools.*
- *Healthcare aspirations - delivery of quality healthcare requires adequate professionals. Between April and December 2023, an additional 245 Doctors, 218 Nurses, 65 Allied Professionals, 15 Pharmacists and 848 Non-clinical Staff were employed. A further 61 doctors who have completed their community service will be appointed with effect from the 1st of March.*
- *Early in January this year, 217 medical interns and community service professionals including Dieticians, Radiographers, Audiologists, Physiotherapists and Medical Practitioners assumed duty in various health facilities in the province.*
- *In 2023, 38 Social Work Graduates who were beneficiaries of the government's bursary programme were appointed as promised.*
- *In sport, arts and culture, FS will continue to unite, inspire and celebrate the diversity in its varied forms. Currently, 32 young people are undergoing training in film and television production, NQF Level 5. A total of 610 are being recruited for internships within the film, tourism and hospitality sectors.*
- *FS remain resolute in the efforts to equip young people with appropriate and relevant skills. In the current financial year, 1,518 unemployed youth benefitted from the skills development programmes. As a result of a combined investment of numerous SETAs amounting to approximately R131.5 million, 3,060 unemployed graduates are in Skills Development Programmes. Three hundred of these young people are benefiting from Artisan Recognition of Prior Learning as well as apprenticeship, and learnership programmes. The province further commits to assisting 3,000 young people in the next financial year by placing them in different skills development programmes.*
- *In addition, 1 976 students who completed their studies at higher education institutions but could not graduate as a result of outstanding debt, will benefit from the debt clearance programme.*
- ***Source: Free State SOPA, 2024***

1.8 CONCLUSION

South Africa has taken considerable strides to improve the well-being of its citizens since its transition to democracy in the mid-1990s, but progress has stagnated in the last decade. Structural challenges and weak growth have weakened progress in unemployment and reducing poverty, heightened by the macro-economic challenges. The achievement of progress is severely constrained by rising unemployment, which reached 33.5 percent nationally, and 37.6 percent in the Free State, in the second quarter of 2024. The unemployment rate is the highest among youths aged between 15 and 24, in SA and in the Free State. To date, the jobs recovery, since the pandemic, has been led by the trade and community and social services sectors. Faster economic growth is needed for a significant and sustainable increase in private-sector jobs.

CHAPTER 2

PROVINCIAL FISCAL ANALYSIS

Chapter Summary

- Despite the challenges of high debts and constrained fiscal resources, the 2024 MTEF has demonstrated a marked improvement in fiscal stability compared to previous years. Key measures like employment moratoriums in the public sector, cost containment, scaling down on non-core programmes and focused budget reviews have contributed to this positive trend. Continued commitment to these measures will be crucial to the furtherance of this fiscal stability which will ensure reduced public debt servicing costs and availability of more funds for service delivery.

- The provincial fiscal purse is estimated to grow by 2.4 percent from the previous financial year and to continue this incremental outlook at an average of 2.9 percent over the subsequent three-year expenditure period (MTEF).

- Social Sector spending comprised of expenditure in the departments of Health, Education Social Development makes up an average of 70.3 percent of the total provincial budget indicating the province's commitment to improving the socio-economic profile of the province.

- Compensation of Employees (CoE), which is predominantly salaries and wages, accounts for the biggest share of provincial expenditure at 63.7 percent; followed by Goods and Services at 19.0 percent; Transfers and Subsidies at 12.0 percent; and Capital Assets at 5.3 percent. Although it is evident that the provincial budget is skewed towards CoE, the province remains committed to curbing increases in CoE and ensuring that salaries do not crowd out funding in core service delivery areas.

- The mid-year provincial expenditure currently amounts to R22.118 billion, which is 50.6 percent of the total allocation of R43.740 billion. It is anticipated that by the end of the fiscal year, the province will exceed its budget allocation by R2.462 billion, representing a 5.6 percent over-expenditure. This overspending is a result of budgetary pressures stemming from Cost of Living Adjustments and the general inadequate funding of CoE. The budget shortfalls are particularly prominent in the Departments of Education, Health, Community Safety, Roads & Transport, and Agriculture and Rural Development.

- Own generated revenue for the period under review is R1.232 billion, with R736.583 million (or 59.7 percent) collected by the end of September 2024. This reflects an over-collection of R120.152 million (or 9.7 percent). If the current trend continues, the province is expected to over-collect by R42.624 million (or 3.5 percent) by the end of the financial year.

- Conditional grants allocated to the Free State province stand at R9.548 billion. After the second quarter of the financial year, the province spent R4.838 billion (or 50.7 percent) of the total budget and a break-even can be expected at the end of the financial year.

2.1 INTRODUCTION

This chapter outlines in-year fiscal policy adjustments, focusing on addressing emerging budgetary pressures. It provides a detailed analysis of constraints, notable deviations, and associated fiscal risks. Additionally, the chapter reviews the primary budget and expenditure outcomes, mid-year fiscal performance (assessing the pace and quality of spending), and projections for the remainder of the year. To provide context, the chapter begins with a historical trend analysis across all government departments and suggests practical measures to address current fiscal challenges, offering guidance for policymakers.

The subsequent sections in this chapter are structured as follows: The next subsection gives an overview of relevant legislation and the vertical division of revenue. It analyzes revenue sources such as equitable share, own generated revenue, and conditional grants. Following this, a comprehensive quantitative analysis examines expenditure patterns, both in terms of functionality and economic classification. The final subsection offers a comparative assessment of mid-year expenditure and revenue for each program, allowing for a more detailed evaluation of performance.

2.2 CONSTITUTIONAL CONSIDERATIONS

This subsection delves into the legislative framework governing the Division of Revenue Act (DoRA) among the three tiers of government, as well as the regulations that oversee the allocation and use of financial resources. Government is constitutionally organized into three spheres: local, provincial, and national. The Constitution establishes principles for intergovernmental relations and corporate governance concerning fiscal, budgetary, and financial matters across these levels. According to Section 214(1) of the Constitution of the Republic of South Africa, an Act of Parliament must delineate the equitable allocation of revenue generated at the national level among the national, provincial, and local tiers of government. This Act specifies the equitable share of revenue allocated to each province and outlines any additional allocations to provinces, local governments, or municipalities from the national revenue. It also sets forth the conditions governing these allocations.

2.3 DIVISION OF REVENUE

Table 2.1 presents a comparative historical analysis of the distribution of revenue among the three levels of government. According to the Constitution, provincial governments are tasked with responsibilities such as basic education and health services, roads, housing, social development, and agriculture. On the other hand, municipalities are responsible for providing fundamental services like water, sanitation, electricity reticulation, roads, and community services. Between the financial years 2021/22 and 2024/25, the national government consistently received the largest budgetary share, averaging 49.6 percent, followed by provincial governments with an average of 41.3 percent over the period. Local government, in contrast, was allocated an average of 9.0 percent over the four years. Notably, provinces experienced increases in their budget allocation share over the past three years, rising from 8.4 percent in 2021/22 to 9.7 percent in 2024/25. Similarly, the percentage share of provincial allocations increased from 40.8 percent in 2021/22 to 41.7 percent in 2024/25.

Table 2.1: Vertical Division of Revenue

	2021/22	2022/23	2023/24	2024/25
		Outcome		Revised
Division of available funds	R Million	R Million	R Million	R Million
National departments	**822.8**	**855.9**	**823.9**	**848.5**
Provincial governments	**660.8**	**694.1**	**706.4**	**729.5**
Equitable share	544.8	570.9	585.0	600.5
Conditional grants	116.0	123.3	121.3	128.9
Local government	**135.6**	**150.7**	**157.7**	**170.3**
Equitable share	76.2	83.9	92.7	101.1
General fuel levy sharing with metropolitan municipalities	14.6	15.3	15.4	16.1
Conditional grants	44.8	51.4	49.6	52.9
Total	**1 691.2**	**1 700.7**	**1 688.1**	**1 748.7**
Percentage shares (%)				
National departments	50.8	50.3	48.8	48.5
Provinces	40.8	40.8	41.8	41.7
Local government	8.4	8.9	9.3	9.7

Source: National Treasury, 2024

2.4 COMPOSITION OF THE PROVINCIAL FISCAL ENVELOPE

Provincial governments receive allocations from the national government in two forms: Equitable Share and Conditional Grants. The Equitable Share serves as the primary revenue source for provinces, constituting approximately 75 percent of their total receipts. According to Sections 214 and 227 of the Constitution, the Equitable Share is intended for funding basic services and fulfilling the essential functions of a province. Conditional Grants, on the other hand, are transfers subject to specific conditions and make up around 21 percent of provincial receipts. Due to limited revenue-raising capabilities outlined in the Constitution, provinces heavily rely on national transfers. Own generated revenue for provinces plays a supplementary role, contributing only about 3 percent to the provincial fiscus. Table 2.2 provides a breakdown of the provincial fiscal envelope. Overall, the provincial fiscus saw a slight expansion from R40.117 billion in 2021/22 to R44.109 billion in 2024/25.

Table 2.2: Summary Overview of Provincial Revenue Sources

Source of Funding	2021/22 Audited Outcomes R' Million	2022/23 Audited Outcomes R' Million	2023/24 Main budget R' Million	2024/25 Main budget R' Million
Provincial Equitable Share (PES)	**30 342 361**	**31 743 369**	**32 489 221**	**33 118 425**
PES % share	75.8	75.2	75.8	75.1
Conditional Allocation (CG)	**8 647 077**	**9 174 161**	**9 256 167**	**9 716 604**
CG % Share	21.5	21.7	21.3	22.2
Own Revenue (OR)	**1 000 379**	**1 202 140**	**1 227 980**	**1 185 594**
OR % Share	2.5	3.1	2.9	2.7
Total Receipts	**40 117 684**	**42 188 496**	**43 060 418**	**44 109 602**

Source: FSPT Budget Management, 2024

2.4.1 Provincial Equitable Share

The national government applies the Equitable Share Formula (PES) to ensure fairness, impartiality, simplicity, predictability, and stability in determining the Provincial Equitable Share (PES). This formula consists of six key components that reflect the relative demand for services and account for shifting demographics. The components are (i) Education, (ii) Health, (iii) Basic Services, (iv) Poverty, (v) Institutional, and (vi) Economic factors.

To remain responsive to the evolving needs of each province, the data used to calculate the formula is updated annually and, when necessary, reviewed. These annual updates often lead to changes in each province's share of the available funds, reflecting the shifting priorities and demands for service delivery. Regular data updates are crucial to ensuring that allocations can effectively respond to these changes.

At the same time, provinces require stable and predictable revenue streams for sound financial planning. Therefore, the revised shares, based on the most recent data, are phased in over the three-year Medium-Term Expenditure Framework (MTEF) period. For the 2024 MTEF budget, updates to the formula will be based on the 2022 mid-year population estimates, while the economic activity component will incorporate regional GDP data from the 2023 MTEF. These adjustments, summarized in Table 2.3, largely reflect the shifting demand for services due to factors such as annual migration patterns.

Table 2.3: Provincial Equitable Share Data Updates

PES component	Key determinants	Data sources
Education (48%)	School-age population Learner enrolment data	5 - 17 years from 2022 Mid-year population estimate Learner Unit Record Information Tracking System (LURITS) – September 2023
Health (27%)	Uses a risk-adjusted capitation index which is applied to the uninsured population and output data from public hospitals	2022 Mid-Year Population Estimates Medical Aid Insured population data from the 2022 General Household Survey 2022 Risk-adjusted index Patient load data from the District Health Information Services as well as the average number of primary health care clinic visits between 2021/22 and 2022/23 data and the average of each province's share of total patient-day equivalents from public hospitals between 2019/20, 2020/21 and 2021
Poverty (3%)	Share of households in the lowest two quintiles (40 percent)	2022 Mid-Year Population Estimates 2010/11 Income and Expenditure Survey
Economic Activity (1%)	Provincial share of remuneration	GDP-R 2018
Basic (16%)	Provincial share of the population	2022 Mid-Year Population Estimates
Institutional (5%)	Equal proportions of operational costs for the provincial government	Distributed equally at 11.1 percent

Source: National Treasury, 2024

2.4.1.1 Distribution of Equitable Shares by Province

Table 2.4 illustrates the distribution of the Equitable Share (ES) formula among provinces. The formula, comprising six components, does not serve as indicative budgets or guidelines for determining the specific amounts to be spent on functions within each province or collectively by provinces. Instead, the education and health components are broadly weighted to align with historical expenditure patterns, indicating relative needs. Notably, the most influential factor in the formula is population dynamics. For instance, the education component is predominantly influenced by the learner population, the health component by the patient population without medical aids, and the basic share by the total population count. In the current financial year, the highest share weight is allocated to Gauteng (21.4 percent), followed by Kwazulu-Natal (20.1 percent), with the Eastern Cape at 12.8 percent, and the lowest share assigned to the Northern Cape (2.7 percent). The Free State's share has been consistently decreasing, from a 6.0 percent share in 2012 to 5.5 percent in 2024, signaling a reduced relative allocation from the national fiscus to the province.

Table 2.4: Equitable Share by Province

	Education	Health	Basic share	Poverty	Economic activity	Institu-tional	Weighted average
% Share of component in EPS	**48.0**	**27.0**	**16.0**	**3.0**	**1.0**	**5.0**	**100.0**
Eastern Cape	13.2	13.6	11.0	14.4	7.6	11.1	12.8
Free State	5.2	5.6	4.8	5.0	5.0	11.1	5.5
Gauteng	20.7	21.1	26.6	19.3	34.5	11.1	21.4
KwaZulu-Natal	21.2	20.6	19.0	21.7	15.9	11.1	20.1
Limpopo	12.5	11.3	9.8	13.1	7.4	11.1	11.6
Mpumalanga	8.2	8.0	7.8	9.3	7.5	11.1	8.3
Northern Cape	2.2	2.3	2.2	2.2	2.0	11.1	2.7
North West	6.8	7.2	6.9	8.3	6.5	11.1	7.2
Western Cape	9.8	10.4	11.9	6.6	13.6	11.1	10.3
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: National Treasury, 2024

2.4.2 Provincially Raised Revenue

Table 2.5 outlines the revenue collection trends for Free State provincial departments over three years starting from the 2022/23 financial year. Provinces are Constitutionally constrained from generating substantial revenue, resulting in provincial departments contributing a small fraction to the overall provincial budget. Despite this limited impact, own revenue is essential for supplementing national transfers, including conditional grants, equitable share funding, and support for provincial priorities. The main contributors to this revenue are the Departments of Community Safety, Roads and Transport, Health, DESTEA, and Public Works & Infrastructure, while other departments provide minimal contributions due to their limited revenue-generating mandates.

Provincial revenue from own sources is projected to decrease from R1.304 billion in 2023/24 to an estimated R1.166 billion in 2024/25, reflecting an 11.8 percent contraction in revenue generation. At the half-year mark, the province had collected R707.291 thousand which is 54.12 percent of the estimated revenue for 2024/25 mainly due to the Department of Health that has recovered more fees than was initially anticipated from the Lesotho government for health services provided to its citizens as part of a Memorandum of Understanding between the two countries. It is projected that the province will exceed its own revenue generation target by 3.65 percent by the end of the financial year.

Table 2.5: Free State's Own Revenue by Department

Department	Actual Revenue Collected			Main Appropriation
	2022/23	2023/24	2024/25	2024/25
	R'000	R'000	R'000	R'000
Education	42 920	22 084	13 979	22 000
Health	214 161	77 598	163 074	143 863
Social Development	2 278	2 857	795	1 803
Premier	4 623	4 993	1 693	3 844
DESTEA	37 367	25 074	18 804	29 515
Provincial Treasury	74 839	174 816	25 823	30 289
COGTA	327	1 193	150	310
Public Works & Infrastructure	75 307	91 493	20 914	77 408
Community Safety, Roads and Transport	844 829	889 211	457 136	847 192
Agriculture And Rural Development	4 976	11 147	3 417	5 566
Sport, Arts, Culture And Recreation	5 256	3 477	1 187	4 430
Human Settlements	861	640	319	607
Total Receipt	1 307 744	1 304 583	707 291	1 166 827

Source: FSPT IYM Database, 2024

The breakdown of provincial own-generated revenue, categorized by economic and functional classifications, is illustrated in Figures 2.1 and 2.2. In terms of economic classification, two main sources dominate: (i) motor vehicle license fees and (ii) patient fees. Collected by the Department of Community Safety, Roads and Transport, motor vehicle license fees are expected to make up 62 percent of own-generated revenue for the current financial year, making them the largest contributor. Sales of goods and services are anticipated to account for 25 percent of provincial own revenue. The "other" category, which includes horse racing fees, fines and penalties, interest dividends, land rent, transfers received, and sales of capital assets, represents only 7 percent. Given the limited revenue sources available to provinces, departments should actively seek new revenue streams and enhance efficiencies in revenue collection to boost their own revenue generation.

Figure 2.1: Own Revenue by Function Area

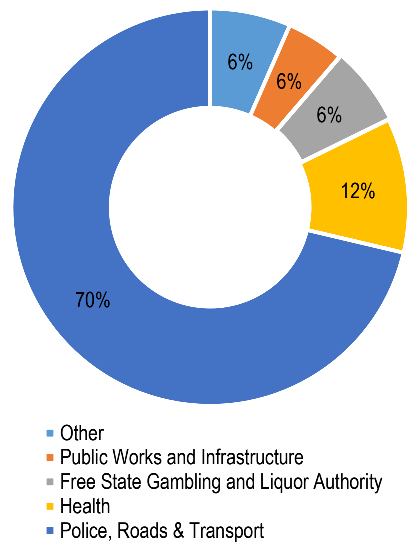
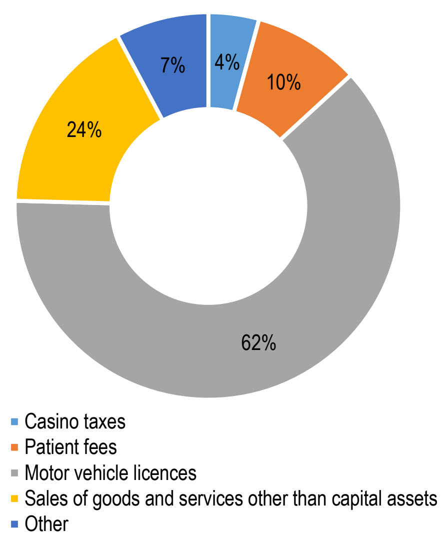


Figure 2.2: Own Revenue by Economic Classification



Source: FSPT IYM Database, 2024

2.4.3 Conditional Grants (Earmarked grants)

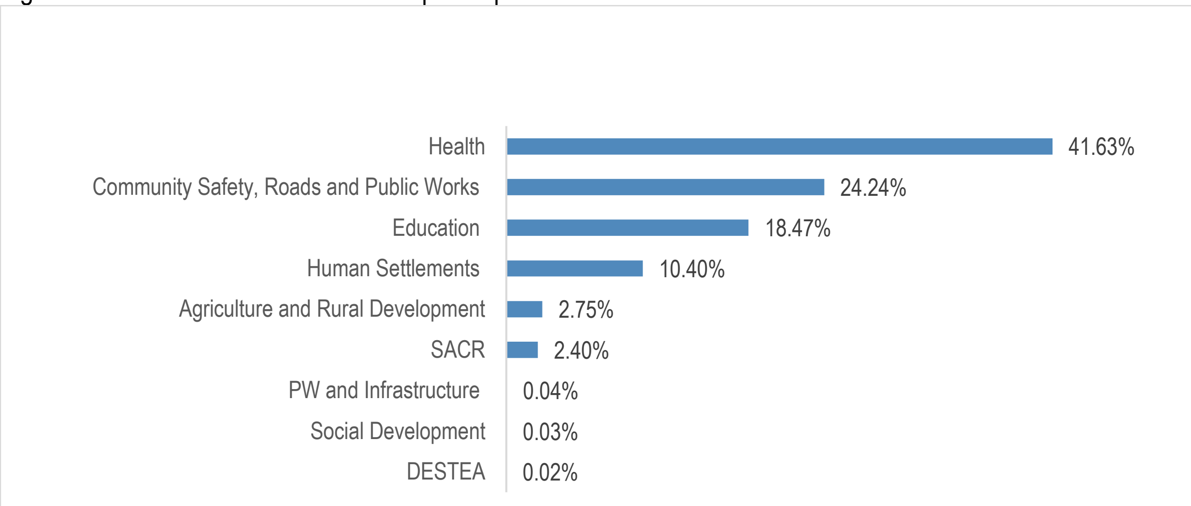
This section focuses on conditional grants, the second largest source of funding, which accounts for about 22.2 percent of provincial receipts. These grants serve to address national priorities while also supplementing provincial budgets. They are subject to specific conditions and restrictions designed to ensure efficient, effective, economical, and transparent management. Failure to comply with these conditions could result in a loss of funding and negative audit outcomes. Provincial conditional grants can be categorized as follows:

- **Schedule 4A** grants are intended to support various programs that are partially funded by the provinces.
- **Schedule 5A** grants are designated for specific responsibilities.
- **Schedule 6A** consists of in-kind allocations that support special programs.
- **Schedule 7A** grants are provided to provinces as a transfer of funds to assist in disaster response efforts.

Figure 2.3 below depicts the provincial departments which are expected to receive conditional grants transfers from national in the 2024/25 financial year. The estimated budget for the 2024/25 financial year is R9.547 billion which has been allocated to eight provincial departments. At 41.6 percent, the Department of Health received the biggest share, followed by the Department of Community Safety, Roads and Transport (24.2 percent), the Department of Education (18.4 percent), and the Department of Human Settlements (10.4 percent). The

Department of Small Business Development, Tourism and Environmental Affairs received the least share of the conditional grant budget (0.02 percent). A detailed analysis on the allocation of grants is given in section 2.5.

Figure 2.3: 2024/25 Conditional Grants per Department

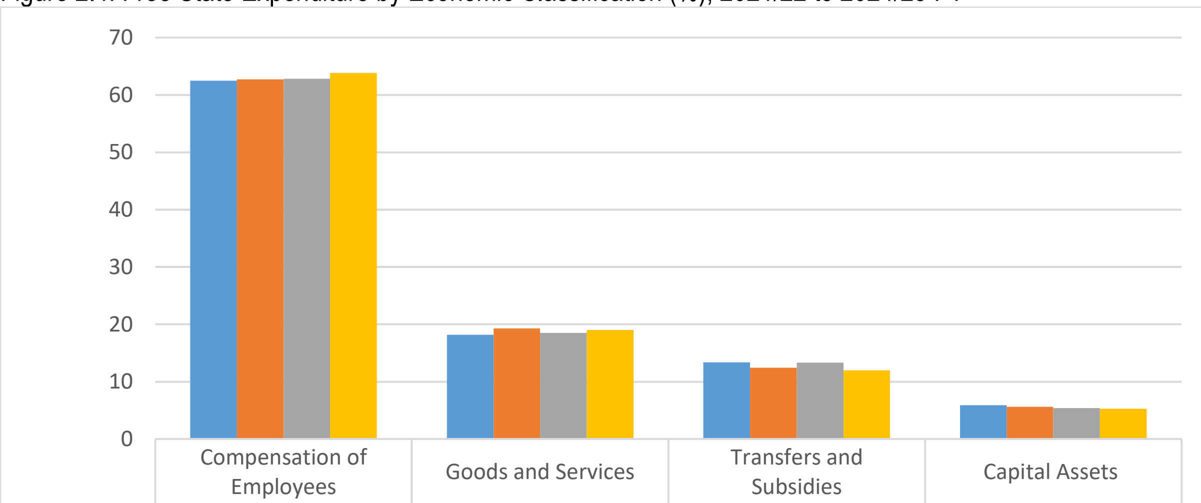


Source: FSPT IYM Database, 2024

2.4 THE HISTORICAL TRENDS OF PROVINCIAL EXPENDITURE

Figure 2.4 illustrates provincial payments categorized by economic classification from 2021/22 to 2024/25. The overall expenditure composition primarily consists of Compensation of Employees (CoE), Goods and Services, Transfers and Subsidies, and Capital Assets. In 2024, CoE represents the largest share of provincial spending at 63.8 percent followed by Goods and Services at 19.0 percent, Transfers and Subsidies at 12.0 percent, and Capital Assets at 5.3 percent in the same period. The trend analysis shows that public wages and salaries remain significant, indicating a need for additional policies to manage their growth beyond implementing a moratorium and halting the filling of positions in the public service.

Figure 2.4: Free State Expenditure by Economic Classification (%), 2021/22 to 2024/25 FY



	Compensation of Employees	Goods and Services	Transfers and Subsidies	Capital Assets
2021/22	62.5	18.2	13.4	5.9
2022/23	62.7	19.3	12.4	5.6
2023/24	62.8	18.5	13.3	5.4
2024/25	63.8	19.0	12.0	5.3

Source: FSPT IYM Database, 2024

2.6 THE 2024/25 MID-YEAR PROVINCIAL REVIEW

2.6.1 Own generated revenue review per department

Table 2.6 summarizes the revenue collected by departments by the end of the second quarter of the 2024/25 financial year. The projected revenue for the period is R1.232 billion, with R736.583 million (or 59.7 percent) collected by the end of September 2024. This reflects an over-collection of R120.152 million (or 9.7 percent). If the current trend continues, the province is expected to over-collect by R42.624 million (or 3.5 percent) by the end of the financial year. Below is a brief overview of the deviations in revenue collection from 1 April 2024 to 30 September 2024.

Table 2.6: Mid-year Own Revenue Collection by Department, 2024/25

Departments	Main Appropriation	Actual Collected – 30 Sept.2024	Target Collection (50%)	% Collected
	R'000	R'000	R'000	%
Education	22 000	13 979	11 000	63,5%
Health	143 863	163 074	71 932	113,4%
Social Development	1 803	795	902	44,1%
Premier	3 844	1 693	1 922	44,0%
DESTEA	29 515	18 804	14 758	63,7%
Provincial Treasury	30 289	25 823	15 145	85,3%
Cooperative Governance & Traditional Affairs	310	150	155	48,4%
Public Works and Infrastructure	77 408	20 914	38 704	27,0%
Community Safety, Roads & Transport	847 192	457 136	423 596	54,0%
Agriculture and Rural Development	5 566	3 417	2 783	61,4%
Sport, Arts, Culture & Recreation	4 430	1 187	2 215	26,8%
Human Settlements	607	319	304	52,6%
Sub-Total	1 166 827	707 291	583 414	60,6%
Free State Gambling, Liquor and Tourism Authority (FSGLTA)	66 034	29 292	33 017	44,4%
Total (Inclusive of FSGLTA)	**1 232 861**	**736 583**	**592 130**	**59,7%**

Source: FSPT IYM Database, 2024

- **Office of the Premier**

Office of the Premier generates most of its revenue through departmental publications and gazettes. Own revenue for the department is estimated to be R3.844 million for the 2024/25 financial year. By the end of September 2024, the department had already collected R1.693 million, which is 6.0 percent below the normal 50 percent at half-year.

- **Department of Economic, Small Business Development, Tourism and Environmental Affairs (DESTEA)**

For 2024/25, targeted revenue collection by DESTEA is R29.515 million. As of the end of September 2024, the department collected R18.804 million (or 63.7 percent) in revenue. The significant over-collection in this regard is due to the high sales of game through the department's annual game auction. Additionally, the department managed to make more money than was expected on departmental debts.

- **Department of Provincial Treasury (PT)**

Most of the revenue generated by the Department of Treasury emanates from interest income earned through cash investments. In the first half of 2024/25, the department collected R25.823 million of its estimated annual revenue of R30.289 million. The excessive over-collection of R10.678 million at mid-year can be attributed to earnings on investments of funds from the Provincial Revenue Fund.

- **Department of Health (DoH)**

Primarily, the Department of Health generates its revenue through patient fees and collected an amount of R163.074 million or 113.4 percent of its estimated revenue of R143.863 million for the financial year. The excessive over-collection in revenue is due to bulk payments made by the Lesotho Government for medical assistance provided to its citizens by the provincial health department.

- **Department of Education (DoE)**

The own revenue target for the Department of Education for the current financial year amounts to R22.000 million. The performance of the department is above the norm as it has collected R13.979 million or 63.5 percent of this target by the end of September 2024. This is largely attributable to greater than anticipated recoveries from claims instituted by third parties which are inclusive of salary overpayments, and other recoveries from Medical Aids and GEPF.

- **Department of Social Development**

The primary source of revenue for this department is the commission received on insurance items. Targeted revenue for the 2024/25 financial year amounts to R1.803 million, of which R0.795 million (or 44.1 percent) was collected at mid-year. The apparent department expects to make more recoveries from third parties over the latter half of the financial year so that it can meet its target.

- **Department of Corporate Governance and Traditional Affairs (COGTA)**

COGTA receives a sizeable amount of its own revenue from the commission on insurance items and the estimated revenue for the period under review is R0.310 million of which R0.150 million or 48.4 percent of the projected revenue was collected at mid-year which is slightly below the 50 percent norm at mid-year.

- **Department of Human Settlements**

For the current financial year, the department is expected to collect R0.607 million in revenue. At the half-year mark, the department collected R0.319 million, which represents 52.6 percent of the budget. The over-collection is a result of interest generated in the housing fund account which has become dormant.

- **Department of Public Works and Infrastructure**

The department`s revenue is generated mostly from the rental of state properties and parking fees. Mid-year revenue collection amounted to R20.914 million or 27.0 percent of its projected revenue collection of R77.408 million. The under-collection by the department was due to delays in the sales of redundant assets. In addition, parking fee collection is below what the department had anticipated for the period therefore bearing a negative effect on revenue.

- **Department of Community Safety, Roads and Transport**

The Department of Community Safety, Roads and Transport is the biggest revenue collector for the province. It generates the bulk of its own revenue from motor vehicle license fees. The department has an estimated own revenue target of R847.192 million for the 2024/25 financial year and by the end of the second quarter of the financial year, the department had managed to collect R457.136 million or 54.0 percent of the targeted revenue which is slightly above the norm of 50 percent. The enhanced performance by the department can be attributed to over-collection for abnormal loads licenses, driver's license applications, learners' licenses applications, renewal of driver licenses as well as temporary special permits.

- **Department of Agriculture and Rural Development**

The targeted revenue collection for the Department of Agriculture and Rural Development in the 2024/25 financial year is R5.566 million. As of the end of September 2024, the department over-performed as it managed to collect R3.417 million or 61.4 percent of the targeted revenue. This performance is mainly attributed to higher demands for abattoir registrations, import/export certificates as well as the sale of wool and fresh farm produce. Much of the department's revenue comes from the sale of agricultural products and import and export certificates.

- **Department of Sport, Arts, Culture and Recreation (SAC&R)**

The Department of Sport, Arts, Culture and Recreation generates most of its revenue from the sale of tickets from museum visits, hosting of festivals and other sports events as well as library services. It is estimated that the department will collect R4.430 million during the 2024/25 financial year. In the period under review, the department has managed to collect R1.187 million or 26.8 percent of this, which is substantially below the half-year norm. Much of the department's revenue will be collected once the department hosts its events and festivals which are to take place in the latter half of the financial year.

- **Free State Gambling, Liquor and Tourism Authority (FSGLTA)**

Free State Gambling, Liquor and Tourism Authority as an entity, generates most of its revenue from gambling activities such as casinos, payout machines, horse racing as well as liquor licenses. The estimated own revenue target for FSGLTA amounts to R66.034 million during the 2024/25 financial year. Of this, R29.292 million or 44.4 percent has been collected as at end September 2024.

2.6.2 Own generated revenue review per economic classification

Table 2.7 below provides an overview of provincially raised revenue according to economic classification. Receipts on interest, dividends and rent on land; financial transactions in the sale of assets and liabilities; casino taxes; and health fees are performing well above the norm of 50 percent whilst other items such as fines, penalties and forfeits and sales of capital assets are performing well below the anticipated norm. The collection on Motor Vehicle Licenses, which is the biggest contributor to revenue is slightly below the norm whilst collection on patient fees is above the norm due to the bulk payment made by the Lesotho Government for health services rendered by the province on its citizens.

Table 2.7: Mid-year Own Revenue Collection by Economic Classification, 2024/25

Economic Classification R'000	Main Appropriation	Actual Collected End Sep 2024	Percentage (%) Collected
Tax Receipts	**835 586**	**402 618**	**48.2**
Casino taxes	48 590	24 789	51.0
Horse racing taxes	5 617	2 285	40.7
Liquor licences	11 191	2 026	18.1
Motor vehicle licences	770 188	373 518	48.5
Non Tax Receipts	**300 681**	**290 300**	**96.5**
Of which Health patient fees:	117 685	143 588	122.0
Transfers received	0	0	0.0
Fines, penalties and forfeits	13 706	3 400	24.8
Interest, dividends and rent on land	31 536	26 783	84.9
Sales of capital assets	34 997	3 767	10.8
Financial transactions in assets and liabilities	16 332	9 715	59.5
Total Receipts	**1 142 676**	**736 583**	**59.7**

Source: FSPT IYM Database, 2024

2.6.3 Conditional Grants Review

The consolidated provincial performance on conditional grants is depicted in Table 2.8. For the current financial year, the total grants allocation for the Free State province stands at R9.548 billion. After the second quarter of the financial year, the province spent R4.838 billion (or 50.7 percent) of the total budget. Compared to the expected benchmark of 50 percent, the overall provincial expenditure on conditional grants is 0.7 percentage points higher. Expenditure deviations on slow spending are explored and thoroughly elucidated in the table below.

Table 2.8: Mid-Year Expenditure by Grant Type, 30 September 2024

Department/Grant	2024/25										
R thousand	Main Appropriation	Transfers from NT	Received by Dept.	Actual as at end September		Proj to end of Mar 25		Total		Over/Under Expenditure on Main Appropriation	
Agriculture and Rural Development	**262 969**	**163 206**	**22 210**	**28 027**	**10,7%**	**234 942**	**89,3%**	**262 969**	**100,0%**	**0**	**0,0%**
CASP	197 896	118 738	20 055	20 692	10,5%	177 204	89,5%	197 896	100,0%	0	0,0%
Ilima/Letsema projects	53 740	39 768	1 900	5 987	11,1%	47 753	88,9%	53 740	100,0%	0	0,0%
Land Care Programme Grant Poverty Relief & Infrastructure Development	9 333	4 200	50	683	7,3%	8 650	92,7%	9 333	100,0%	0	0,0%
EPWP Integrated Grant for Provinces	2 000	500	205	665	33,3%	1 335	66,8%	2 000	100,0%	0	0,0%
Education	**1 763 579**	**1 125 455**	**1 053 800**	**1 069 261**	**60,6%**	**694 318**	**39,4%**	**1 763 579**	**100,0%**	**0**	**0,0%**
Education Infrastructure Grant	1 007 305	604 384	595 371	610 214	60,6%	397 091	39,4%	1 007 305	100,0%	0	0,0%
HIV and Aids (Life Skills Education)	11 107	4 443	4 443	3 421	30,8%	7 686	69,2%	11 107	100,0%	0	0,0%
Learners with Profound Intellectual Disabilities Grant	32 340	12 936	10 668	13 289	41,1%	19 051	58,9%	32 340	100,0%	0	0,0%
Maths, Science and Technology Grant	49 496	24 748	23 690	22 631	45,7%	26 865	54,3%	49 496	100,0%	0	0,0%
National School Nutrition Programme	578 293	434 826	382 395	378 113	65,4%	200 180	34,6%	578 293	100,0%	0	0,0%
Early Childhood Development Grant	77 036	38 518	34 714	36 461	47,3%	40 575	52,7%	77 036	100,0%	0	0,0%
Social Sector EPWP Grant	4 674	3 271	2 519	2 167	46,4%	2 507	53,6%	4 674	100,0%	0	0,0%
EPWP Integrated Grant for Provinces	3 328	2 329	0	2 965	89,1%	363	10,9%	3 328	100,0%	0	0,0%
Health	**3 975 165**	**2 017 469**	**1 896 010**	**2 012 967**	**50,6%**	**1 962 198**	**49,4%**	**3 975 165**	**100,0%**	**0**	**0,0%**
District Health Programme Grant	1 675 360	837 677	794 763	769 162	45,9%	906 198	54,1%	1 675 360	100,0%	0	0,0%
Health Facility Revitalisation	694 351	375 396	375 396	526 949	75,9%	167 402	24,1%	694 351	100,0%	0	0,0%
Human Resources and Training Grant	284 271	142 137	127 008	125 771	44,2%	158 500	55,8%	284 271	100,0%	0	0,0%
National Health Insurance Grant	29 154	14 574	12 513	11 893	40,8%	17 261	59,2%	29 154	100,0%	0	0,0%
National Tertiary Services	1 283 719	641 868	580 630	573 193	44,7%	710 526	55,3%	1 283 719	100,0%	0	0,0%
Social Sector EPWP Grant	8 310	5 817	5 700	5 999	72,2%	2 311	27,8%	8 310	100,0%	0	0,0%
SACR	**229 286**	**113 067**	**91 108**	**106 473**	**46,4%**	**122 813**	**53,6%**	**229 286**	**100,0%**	**0**	**0,0%**
Community library services grant	183 043	89 545	76 899	85 473	46,7%	97 570	53,3%	183 043	100,0%	0	0,0%
Mass Participation and Sport Development Grant	44 243	22 122	14 209	19 000	42,9%	25 243	57,1%	44 243	100,0%	0	0,0%
EPWP Integrated Grant for Provinces	2 000	1 400	0	2 000	100,0%	0	0,0%	2 000	100,0%	0	0,0%
PW and Infrastructure	**4 204**	**2 942**	**1 749**	**3 488**	**83,0%**	**716**	**17,0%**	**4 204**	**100,0%**	**0**	**0,0%**
EPWP Integrated Grant for Provinces	4 204	2 942	1 749	3 488	83,0%	716	17,0%	4 204	100,0%	0	0,0%
Community Safety, Roads and Transport	**2 314 176**	**1 320 223**	**1 125 160**	**1 159 791**	**50,1%**	**1 154 385**	**49,9%**	**2 314 176**	**100,0%**	**0**	**0,0%**
Provincial Roads Maintenance Grant	1 969 791	1 126 917	966 459	1 001 904	50,9%	967 887	49,1%	1 969 791	100,0%	0	0,0%
Public Transport Operations grant	340 849	190 831	156 666	156 116	45,8%	184 733	54,2%	340 849	100,0%	0	0,0%
EPWP Integrated Grant for Provinces	3 536	2 475	2 035	1 771	50,1%	1 765	49,9%	3 536	100,0%	0	0,0%
DESTEA	**2 256**	**1 579**	**0**	**1 790**	**79,3%**	**466**	**20,7%**	**2 256**	**100,0%**	**0**	**0,0%**
EPWP Integrated Grant for Provinces	2 256	1 579	0	1 790	79,3%	466	20,7%	2 256	100,0%	0	0,0%
Social Development	**3 116**	**2 181**	**1 499**	**1 516**	**48,7%**	**1 600**	**51,3%**	**3 116**	**100,0%**	**0**	**0,0%**
Social Sector EPWP Incentive Grant for Provinces	3 116	2 181	1 499	1 516	48,7%	1 600	51,3%	3 116	100,0%	0	0,0%
Human Settlements	**993 046**	**465 251**	**442 359**	**454 311**	**45,7%**	**538 735**	**54,3%**	**993 046**	**100,0%**	**0**	**0,0%**
Human Settlements Development	800 430	385 860	364 051	370 891	46,3%	429 539	53,7%	800 430	100,0%	0	0,0%
Informal Settlements Upgrading Partnership Grant for Provinces	190 561	77 953	77 873	82 985	43,5%	107 576	56,5%	190 561	100,0%	0	0,0%
EPWP Integrated Grant for Provinces	2 055	1 438	435	435	21,2%	1 620	78,8%	2 055	100,0%	0	0,0%
Total IYM Conditional Grants	**9 547 797**	**5 211 373**	**4 633 895**	**4 837 624**	**50,7%**	**4 710 173**	**49,3%**	**9 547 797**	**100,0%**	**0**	**0,0%**

Source: FSPT IYM Database, 2024

- **Department of Agriculture and Rural Development**

The department's grants budget for the year is R262.969 million, from which only R28.027 million (or 10.6 percent) has been spent. As of 30 September 2024, spending on Ilima/Letsema Projects Grant was recorded at R5.987 million from a budget of R53.740 million (or 11.1 percent) whilst spending on the Comprehensive Agricultural Support Programme Grant is at R20.692 million from a budget of R197.896 million (or 10.5 percent). Spending on the Land Care Grant is at R0.683 million or 7.3 percent of a total budget of R9.333 million. Only 33.3 percent or R0.665 million of the total budget of R2.000 million has been spent to date on the EPWP Integrated Grant. The general slow expenditure by the department is due to delays in the approval of business plans attached to the grants as well as SCM processes.

- **Department of Education**

The Department of Education which has a total of eight conditional grants has been allocated R1.764 billion in the current financial year. Of this, the department has spent R1.069 billion or 60.6 percent which substantially above the 50 percent norm. A total of 60.6 percent or R610.214 million has been spent on the Education Infrastructure Grant which has been allocated R1.007 billion in 2024/25. A total of R32.340 million has been allocated towards the Learners with Profound Disabilities Grant and of this, only R13.289 million or 41.1 percent was spent at the half year mark. Spending on the Early Childhood Development Grant was R36.461 million at mid-year which translates to 47.3 percent of the allocated R77.036 million for the period under review.

- **Department of Health**

The department's total allocated budget for conditional grants in the 2024/25 financial year is R3.975 billion and overall spending after the second quarter amounted to R2.013 billion or 50.6 percent. Of the R1.675 billion that was allocated for the District Health Programme Grant, R769.162 million or 45.9 percent was spent by mid-year. The slight under-expenditure is due to the seasonality of the grant. Spending on the National Health Insurance Grant amounted to R11.893 million or 40.8 percent of the allocated budget of R28.404 million whilst R125.771 million or 44.2 percent of a total of R284.271 million was spent on the Human Resources and Training Grant.

- **Department of Sport, Arts, Culture and Recreation**

The Department of Sports, Arts, Culture and Recreation receives grants for Community Library Services as well as Mass Participation and Sports Development. On the Community Library Services Grant, the department received a total of R183.043 million and spent R85.473 million or 46.7 percent by mid-year. The delays in completion of contracts for e-services as well as labour-saving devices contributed to the underspending. Spending on the Mass Participation and Sports Development Grant was R19.000 million or 42.9 percent of the allocated R44.243 million.

- **Department of Public Works and Infrastructure**

The only grant allocated to the department is the EPWP Integrated Grant for Provinces which received an allocation of R54.204 million for the 2024/25 financial year. Of this, the department spent R3.488 million or 83.0 percent by the end of the second quarter. The fast expenditure has encouraged the department to further allocate R5.869 million to the Cleaning and Greening Project.

- **Department of Community Safety, Roads and Transport**

The department had spent R1.160 billion or 50.1 percent of its budget of R2.314 billion by the end of September 2024. The Provincial Roads Maintenance Grant spent R1.002 billion or 50.9 percent out of the allocated budget of R1.969 billion. Generally, the department is spending in line with the half-year norm of 50 percent on all its allocated conditional grants.

- **Department of Economic and Small Business Development, Tourism and Environmental Affairs**

By the end of September 2024, expenditure for the EPWP Integrated Grant was at R1.790 million or 79.3 percent of the budgeted R2.256 million which is aligned with the spending plans of the grant.

- **Department of Social Development**

The department's total allocated grants budget for the 2024/25 financial year amounts to R3.116 million. At mid-year, R1.516 million or 49.0 percent of the allocated budget was recorded as expenditure under the Social Sector EPWP Incentive Grant for Provinces.

- **Department of Human Settlements**

At the half-year mark of the 2024/25 financial year, the department managed to spend R454.311 million or 45.7 percent of its conditional grant budget of R993.046 million. Spending on the Human Settlements Development Grant was R370.891 million of the total allocated budget of R80.430 million or 46.3 percent. The marginal under-expenditure is due to challenges in the payment of contractors. Underspending was also recorded on the Informal Settlements Upgrading Partnership Grant which has spent R82.985 million (or 43.5 percent) of its allocated budget of R190.561 million.

2.6.4 Overall Mid-year Expenditure Review

This section emphasizes the expenditure for the current financial year, specifically as at the end of September 2024. The analysis covers both expenditure categorized by economic classification and functionality. Expenditure is evaluated with reference to the mid-year expenditure benchmark of 50 percent, and any deviations from this benchmark will be briefly described, along with the reasons for these variances.

2.6.4.1 Overall provincial expenditure review per economic classification

Table 2.9 below illustrates the mid-year expenditure in terms of economic classification. As mentioned earlier, the Free State provincial government has spent R22.118 billion from its budget of R43.740 billion (or 50.6 percent). This signifies that the provincial expenditure is precisely on par with the targeted norm of 50 percent though it is expected to overspend at the end of the financial year by R2.462 billion or 5.6 percent. Contributing significantly to this expected over expenditure is CoE because of the annual salary adjustments.

- **Compensation for Employees (CoE)**

Over the first half of the financial year, expenditure incurred on CoE stood at R14.204 billion which is 50.9 percent of the original budget of R27.888 billion. The province anticipates to over-spend by R0.908 billion or 3.3 percent by the end of the 2024/25 financial year due to the cost-of-living adjustment and persisting budget pressures from previous years. The projected over-spending is mainly attributed to the Departments of Education (R1.057 billion), Premier (R5.355 million), Legislature (R40.621 million) and Community Safety, Roads & Transport (R82.581 million). The Department of Health (R257.304 million) projects to underspend on CoE due to a high vacancy rate.

- **Goods and Services**

At mid-year, spending on Goods and Services amounted to R4.234 billion which translates to 50.9 percent of the total allocated budget of R8.321 billion. By the end of the financial year, it is expected that the province will overspend on Goods and Services by R1.323 billion (or 15.9 percent). The anticipated overspending arises from various departments. In the Department of Health, the projected overspending is primarily due to the budgetary pressures from allocations for non-negotiable expenses such as laboratory services, fleet services, medical supplies, medicine, and operating leases. Additionally, the Department of Public Works & Infrastructure is expected to have a shortfall in lease payments and municipal services.

- **Transfers and Subsidies**

At mid-year, R2.616 billion, or 50.0 percent of the allocated budget of R5.235 billion, has been transferred to various institutions. The province is projected to overspend by R203.041 million, or 3.9 percent, primarily due to the Department of Public Works & Infrastructure facing a R148.417 million (25.3 percent) shortfall in its allocation for Rates & Taxes payments. Additionally, the Free State Legislature anticipates a R36.178 million (107.6 percent) shortfall in constituency allowances, caused by underfunding.

- **Payments for capital assets**

From the beginning of the financial year to the end of September 2024, the province spent R1.065 billion or 46.4 percent of the budget of R2.296 billion. The projected over-expenditure of R28.518 million or 1.2 percent will be mitigated through budget shifts and reprioritization.

Table 2.9: Mid-Year Expenditure Review by Economic Classification

R thousand	2024/25								
	Main Appropriation	Actual as at end September		Proj to end of Mar 25		Total		Deviation Over/Under on Main Appropriation	
CURRENT PAYMENTS	**36 208 884**	**18 437 334**	**50,9%**	**20 002 778**	**55,2%**	**38 440 112**	**106,2%**	**-2 231 228**	**-6,2%**
Compensation of employees	27 887 753	14 203 693	50,9%	14 592 280	52,3%	28 795 973	103,3%	-908 220	-3,3%
Goods and services	8 320 916	4 233 502	50,9%	5 410 354	65,0%	9 643 856	115,9%	-1 322 940	-15,9%
Interest and rent on land	215	139	64,7%	144	67,0%	283	131,6%	-68	-31,6%
TRANSFERS AND SUBSIDIES	**5 235 464**	**2 616 302**	**50,0%**	**2 822 203**	**53,9%**	**5 438 505**	**103,9%**	**-203 041**	**-3,9%**
Provinces and municipalities	600 256	242 320	40,4%	508 479	84,7%	750 799	125,1%	-150 543	-25,1%
Dept agencies and accounts	248 516	144 661	58,2%	138 913	55,9%	283 574	114,1%	-35 058	-14,1%
Higher education institutions	2 000	0	0,0%	0	0,0%	0	0,0%	2 000	100,0%
Public corporations & private enterprises	426 628	202 001	47,3%	226 399	53,1%	428 400	100,4%	-1 772	-0,4%
Non-profit institutions	2 646 244	1 447 670	54,7%	1 225 776	46,3%	2 673 446	101,0%	-27 202	-1,0%
Households	1 311 820	579 650	44,2%	722 636	55,1%	1 302 286	99,3%	9 534	0,7%
PAYMENTS FOR CAPITAL ASSETS	**2 296 411**	**1 064 653**	**46,4%**	**1 260 276**	**54,9%**	**2 324 929**	**101,2%**	**-28 518**	**-1,2%**
Buildings and other fixed structures	1 798 385	933 973	51,9%	910 537	50,6%	1 844 510	102,6%	-46 125	-2,6%
Machinery and equipment	455 688	130 665	28,7%	315 105	69,1%	445 770	97,8%	9 918	2,2%
Heritage assets	0	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Biological assets	0	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Land and sub-soil assets	150	0	0,0%	150	100,0%	150	100,0%	0	0,0%
Software and other intangible assets	42 188	15	0,0%	34 484	81,7%	34 499	81,8%	7 689	18,2%
Payments for financial assets	**0**	**102**	**0,0%**	**0**	**0,0%**	**102**	**0,0%**	**-102**	**0,0%**
TOTAL	**43 740 759**	**22 118 391**	**50,6%**	**24 085 257**	**55,1%**	**46 203 648**	**105,6%**	**-2 462 889**	**-5,6%**

Source: FSPT IYM Database, 2024

2.6.4.2 Overall provincial expenditure review per department

As previously stated in earlier sections, the mid-year provincial expenditure currently amounts to R22.118 billion, which is 50.6 percent of the total allocation of R43.740 billion. Within this total, the Social Services sector, which receives 75.5 percent of the overall budget and includes the Departments of Education, Health, and Social Development, has already utilized R17.043 billion, accounting for 51.8 percent of its allocated R312.918 billion budget for the current period. It is anticipated that by the end of the fiscal year, the province will exceed its budget allocation by R2.462 billion, representing a 5.6 percent over-expenditure. This overspending is because of budgetary pressures stemming from wage increases and an inadequate budget allocation for the Compensation of Employees. These pressures are particularly prominent in the Departments of Education, Health, Community Safety, Roads & Transport, and Agriculture & Rural Development.

Table 2.10: Mid-Year Expenditure Review by Department

R thousand	2024/25								
	Main Appropriation	Actual as at end September		Proj to end of Mar 25		Total		Deviation Over/Under on Main Appropriation	
Social services spending									
Education	17 895 390	9 524 020	53,2%	9 428 726	52,7%	18 952 746	105,9%	-1 057 356	-5,9%
Health	13 717 509	6 900 615	50,3%	6 816 894	49,7%	13 717 509	100,0%	0	0,0%
Social Development	1 305 194	619 334	47,5%	685 860	52,5%	1 305 194	100,0%	0	0,0%
Sub-total	**32 918 093**	**17 043 969**	**51,8%**	**16 931 480**	**51,4%**	**33 975 449**	**103,2%**	**-1 057 356**	**-3,2%**
Non-social services spending									
Premier	632 629	309 964	49,0%	266 665	42,2%	576 629	91,1%	56 000	8,9%
Free State Legislature	284 911	162 275	57,0%	236 750	83,1%	399 025	140,1%	-114 114	-40,1%
DESTEA	666 654	333 904	50,1%	332 750	49,9%	666 654	100,0%	0	0,0%
Provincial Treasury	367 937	147 626	40,1%	220 311	59,9%	367 937	100,0%	0	0,0%
CoGTA	416 985	179 248	43,0%	238 231	57,1%	417 479	100,1%	-494	0,0%
Public Works and Infrastructure	2 107 386	956 511	45,4%	2 399 403	113,9%	3 355 914	159,2%	-1 248 528	-59,2%
Community Safety, Roads & Transport	3 606 448	1 832 690	50,8%	1 872 155	51,9%	3 704 845	102,7%	-98 397	-2,7%
Agriculture & Rural Development	829 092	283 603	34,2%	545 489	65,8%	829 092	100,0%	0	0,0%
Sport, Arts, Culture & Recreation	641 789	288 471	44,9%	353 318	55,1%	641 789	100,0%	0	0,0%
Human Settlements	1 268 835	580 130	45,7%	688 705	54,3%	1 268 835	100,0%	0	0,0%
Sub-total	**10 822 666**	**5 074 422**	**46,9%**	**7 153 777**	**66,1%**	**12 228 199**	**113,0%**	**-1 405 533**	**-13,0%**
TOTAL	**43 740 759**	**22 118 391**	**50,6%**	**24 085 257**	**55,1%**	**46 203 648**	**105,6%**	**-2 462 889**	**-5,6%**

Source: FSPT IYM Database, 2024

2.6.5 Analysis of Departmental Mid-Year Performance: Budget versus Expenditure

To broaden our comprehension of the priorities set by the provincial government, this section which delves into the growth factors and the distribution of budget resources among departmental programs has been included. The section disaggregates the provincial budget allocation and expenditure and probes the mid-year performance to ascertain the efficiency and pace of spending per department. It also emphasizes significant financial challenges affecting departmental allocations.

- **Department of Education**

Free State Department of Education's work is directly aligned to Outcome 1: "Improved Quality of Basic Education" of the National Government's Priorities. The department receives the largest allocation, which emphasizes that education is a top priority in the province. The total budget for 2023/24 is R18.385 billion, which decreases to R17.558 billion in 2024/25, reflecting a -2.7% change. The largest share of the budget (72.8 percent) was allocated to public ordinary schools, from which teachers' salaries are paid. The Examination and Education-Related Services contracted the most at a rate of 19.9 percent from the 2023/24 financial year. The department recorded actual expenditure of R9.291 billion or 59.7 percent against the budget of R17.895 billion at the end of September 2024 and is projected to over-spend with R1.057 billion at the end of the financial year due to budget pressures on CoE. In terms of economic classification, Compensation of Employees (CoE) remains a significant cost driver, predominantly in ordinary public schools where many educators are located. Currently, CoE accounts for 75.6 percent of the department's total budget, up from 74.8 percent in the previous year.

Table 2.11: Mid-year performance review of the Department of Education

	2023/24 Adjusted Budget	2024/25 Main Budget	2024/25 Mid-Year Expenditure (% of Main 2024/25 Budget)	% Change (2023/24 and 2024/25)	2024/25 % Share
Functional Classification					
Administration	1 288 808	1 398 333	48,6%	8,5%	7,8%
Public Ordinary School Education	13 476 300	13 023 627	54,3%	-3,4%	72,8%
Independent School Subsidies	116 262	124 852	48,0%	7,4%	0,7%
Public Special School Education	682 359	726 756	50,2%	6,5%	4,1%
Early Childhood Development	625 350	695 180	45,8%	11,2%	3,9%
Infrastructure Development	1 085 118	1 035 801	60,5%	-4,5%	5,8%
Examination and Education Related Services	1 111 610	890 841	44,7%	-19,9%	5,0%
Economic Classification					
Current payments	14 905 276	14 712 828	50,4%	-1,3%	82,2%
Compensation of employees	13 912 213	13 529 358	51,5%	-2,8%	75,6%
Goods and Services	993 043	1 183 414	37,8%	19,2%	6,6%
Transfers and subsidies	2 667 450	2 413 017	66,0%	-9,5%	13,5%
Transfers to NPOs	2 560 572	2 309 197	65,9%	-9,8%	12,9%
Payments for financial and capital assets	813 081	769 545	36,9%	-5,4%	4,3%
Total	18 385 807	17 558 043	53,2%	-2,7%	100,0%

Source: FSPT IYM Database, 2024

- **Department of Health**

To achieve a long and healthy life for all the citizens in the province (*Outcome 2* of the national government`s priorities), the Free State government allocated the second biggest budget share of its budget to the Department of Health. The department's budget increased from R13.016 billion in 2023/24 to R13.717 billion in 2024/25 (or by 5.4 percent) due to increased funding for National Health Insurance (NHI). In real terms, Emergency Medical Services suffered a decrease of 0.2 percent as funds were shifted due to a decline in such services owing following COVID19. On expenditure as per the economic classification, CoE (salaries and wages) are the largest expenditure item, accounting for 69.4 percent of the department's budget, followed by Goods and Services at 23.3 percent. Spending stood at R6.858 billion of the budget of R13.717 billion (or 50.3 percent) by the end of September 2023. It is expected that the department will be break-even on expenditure for the year.

Table 2.12: Mid-year performance review of the Department of Health

	2023/24 Adjusted Budget	2024/25 Main Budget	2024/25 Mid-Year Expenditure (% of Main 2024/25 Budget)	% Change (2023/24 and 2024/25)	2024/25 % Share
Functional Classification					
Administration	316 573	348 084	47,1%	10,0%	2,5%
District Health Services	5 820 011	6 034 807	50,2%	3,7%	44,0%
Emergency Medical Services	977 237	974 852	54,7%	-0,2%	7,1%
Provincial Hospital Services	1 711 951	1 892 153	47,0%	10,5%	13,8%
Central Hospital Services	2 9877 27	3 178 752	47,6%	6,4%	23,2%
Health Sciences and Training	278 633	342 604	40,7%	23,0%	2,5%
Health Care Support Services	164 963	174 747	59,9%	5,9%	1,3%
Health Facilities Management	759 213	771 510	68,7%	1,6%	5,6%
Economic Classification					
Current payments	12 135 791	12 717 150	49,6%	4,8%	92,7%
Compensation of employees	8 955 297	9 516 387	48,6%	6,3%	69,4%
Goods and services	3 175 184	3 200 604	52,6%	0,8%	23,3%
Transfers and subsidies	114 642	140 059	59,7%	22,2%	1,0%
Payments for financial and capital assets	765 875	860 300	58,8%	12,3%	6,3%
Total	13 016 308	13 717 509	50,3%	5,4%	100,0%

Source: FSPT IYM Database, 2024

- **Department of Social Development**

The Department of Social Development is responsible for developmental as well as social welfare services to vulnerable people in the province. The programme on Children and Families remains the biggest service delivery-related programme, accounting for 25.6 percent of the department's total budget, followed by Social Welfare Services (20.2 percent). This department received an 8.0 percent budget increment as compared to the previous financial year i.e. the budget for the department increased from R1.208 billion in 2023/24 to R1.305 billion in 2024/25. The increment affects mainly goods and services, which exude an increase of 33.7 percent from R94.417 million in 2023/24 to R126.263 million in 2024/25. Goods and Services is expected to record an R74 million budget shortfall over the 2024 MTEF due to insufficient funds for operational costs and other major cost drivers such as computers and government-owned cars for social worker trips, audit fees and infrastructure. At mid-year, the department spent R619.334 million which translates to 47.5 percent of its allocated budget for the financial year.

Table 2.13: Mid-year performance review of Department of Social Development

	2023/24 Adjusted Budget	2024/25 Main Budget	2024/25 Mid-Year Expenditure (% of Main 2024/25 Budget)	% Change (2023/24 and 2024/25)	2024/25 % Share
Functional Classification					
Administration	336 128	329 435	51,8%	-2,0%	25,2%
Social Welfare Services	227 318	263 920	44,3%	16,1%	20,2%
Children and Families	285 537	333 808	43,4%	16,9%	25,6%
Restorative Services	211 607	225 066	49,6%	6,4%	17,2%
Development and Research	147 736	152 965	49,1%	3,5%	11,7%
Economic Classification					
Current payments	872 487	988 276	48,4%	13,3%	75,7%
Compensation of employees	778 070	862 013	48,1%	10,8%	66,0%
Goods and Services	94 417	126 263	50,3%	33,7%	9,7%
Transfers and subsidies	325 214	309 029	43,8%	-5,0%	23,7%
Payments for financial and capital assets	9 387	7 889	75,7%	-16,0%	0,6%
Total	1 208 326	1 305 194	47,5%	8,0%	100,0%

Source: FSPT IYM Database, 2024

- **Department of Human Settlements**

The mandate of the department is underpinned by Outcome 8 - Sustainable human settlements and improved quality of household life as ingrained in both the Breaking New Ground and the National Development Plan (NDP). The department's allocation is mainly driven by conditional grants from which human settlement demands and title deeds restoration and other related deliverables should be met. For the 2024/25 financial year, the department is allocated R1.268 billion and 87.6 percent (or R1.111 million) of this allocation is under the Housing Development programme. Mid-yearly, expenditure stands at 45.7 percent of the budget which is appreciably well below the expected norm of 50 percent. The under-expenditure is due to slow spending on conditional grants because of the late approval of business plans.

Table 2.14: Mid-year performance review of Department of Human Settlements

	2023/24 Adjusted Budget	2024/25 Main Budget	2024/25 Mid-Year Expenditure (% of Main 2024/25 Budget)	% Change (2023/24 and 2024/25)	2024/25 % Share
Functional Classification					
Administration	150 566	131 087	57,9%	-12,9%	10,3%
Housing Needs, Research & Planning	18 399	24 371	36,6%	32,5%	1,9%
Housing Development	937 842	1 111 122	44,5%	18,5%	87,6%
Housing Assets Management Property Management	1 392	2 255	30,6%	62,0%	0,2%
Economic Classification					
Current payments	251 489	259 163	49,5%	3,1%	20,4%
Compensation of employees	204 643	216 301	46,3%	5,7%	17,0%
Goods and Services	46 844	42 862	65,5%	-8,5%	3,4%
Transfers and subsidies	855 231	1 007 811	44,7%	17,8%	79,4%
Payments for financial and capital assets	1 479	1 861	48,5%	25,8%	0,1%
Total	1 108 199	1 268 835	45,7%	14,5%	100,0%

Source: FSPT IYM Database, 2024

- **Department of Public Works and Infrastructure**

The Department of Public Works and Infrastructure is responsible for the coordination, provision and promotion of infrastructure, and assets management in the province. Public Works and Infrastructure's budget is aligned to 14 national outcomes and the provincial government priorities. The Public Works Infrastructure unit accounts for 89.0 percent of the total budget making it the biggest programme in the department and this is followed by Administration at 8.3 percent and Expanded Public Works Programme at 2.7 percent. At mid-year, the department had spent R956.511 million of its R2.107 billion budget for the 2024/25 financial year. This translates to an expenditure of 45.4 percent which is considerably below the expected 50 percent norm at mid-year. However, the department still expects to overspend as it facing budget pressures for the payment and settlement of Municipal Services, Rates and Taxes as well as Operating Leases at Bophelo House and Lifestyle Mall.

Table 2.15: Mid-year performance review of Department of Public Works of Infrastructure

	2023/24 Adjusted Budget	2024/25 Main Budget	2024/25 Mid-Year Expenditure (% of Main 2024/25 Budget)	% Change (2023/24 and 2024/25)	2024/25 % Share
Functional Classification					
Administration	150 915	175 004	45,3%	16,0%	8,3%
Public Works Infrastructure	1 833 883	1 875 521	45,3%	2,3%	89,0%
Expanded Public Works Programme	62 395	56 861	49,8%	-8,9%	2,7%
Economic Classification					
Current payments	1 468 293	1 409 651	50,1%	-4,0%	66,9%
Compensation of employees	463 338	513 894	47,1%	10,9%	24,4%
Goods and Services	1 004 955	895 757	51,9%	-10,9%	42,5%
Transfers and subsidies	487 354	585 642	40,6%	20,2%	27,8%
Transfers to Municipalities	478 574	580 600	40,7%	21,3%	27,6%
Payments for financial and capital assets	91 291	112 093	10,9%	22,8%	5,3%
Total	2 047193	2 107 386	45,4%	2,9%	100,0%

Source: FSPT IYM Database, 2024

- **Department of Cooperative Governance and Traditional Affairs**

The department is responsible for inter-sectoral cooperation and provision of support to municipalities and traditional leaders. It is made up of five programmes whose budget share are as follows: Administration (40.6 percent), Local Governance (26.6 percent), Development and Planning (16.3 percent), Traditional Institutional Management (13.2 percent) and House of Traditional Leaders (3.3 percent). Primarily, all transfers made by the department are to municipalities for Municipal Support Programmes which include legal costs, disaster management, audit fees and financial bailouts to local municipalities. Mid-year expenditure amounted to R179.248 million (or 43.0 percent) from an allocation of R416.985 million which is 7.0 percent below the expected norm of 50 percent. The high vacancy rate in the department has led to a slow expenditure rate, both on COE and Goods and Services.

Table 2.16: Mid-year performance review of CoGTA

	2023/24 Adjusted Budget	2024/25 Main Budget	2024/25 Mid-Year Expenditure (% of Main 2024/25 Budget)	% Change (2023/24 and 2024/25)	2024/25 % Share
Functional Classification					
Administration	151 542	169 375	49,5%	11,8%	40,6%
Local Governance	78 512	110 935	33,3%	41,3%	26,6%
Development And Planning	66 026	67 922	33,3%	2,9%	16,3%
Traditional Institutional Management	53 713	54 955	52,9%	2,3%	13,2%
House Of Traditional Leaders	16 785	13 798	49,0%	-17,8%	3,3%
Economic Classification					
Current payments	327 699	391 864	43,0%	19,6%	94,0%
Compensation of employees	265 943	306 660	43,7%	15,3%	73,5%
Goods and Services	61 746	85 204	40,4%	38,0%	20,4%
Transfers and subsidies	34 228	14 348	59,8%	-58,1%	3,4%
Payments for financial and capital assets	4 503	10 773	20,4%	139,2%	2,6%
Total	366 578	416 985	43,0%	13,8%	100,0%

Source: FSPT IYM Database, 2024

- **Department of Treasury**

The Provincial Treasury contributes to Outcome 5: Skilled and capable workforce to support an inclusive growth path, Outcome 9: A responsive, accountable, effective and efficient local government system and Outcome 12: Ensure efficiency, effectiveness, and a developmental orientated provincial government. The primary existence of the department is to provide support and oversight to all departments, public entities and municipalities. Provincial Treasury was allocated a budget of R367.937 million in the current financial year and spent R147.626 million or 40.0 percent at the end of September 2024. The markedly slow expenditure emanates largely from Compensation of Employees (which has only spent 39.7 percent of its budget) and Goods & Services (with a mid-year expenditure rate of 30.4 percent) due to a high vacancy rate as well as the slow spending on the Municipal Support Programme (MSP) and Operating Clean Audit.

Table 2.17: Mid-year performance review of Department of Treasury

	2023/24 Adjusted Budget	2024/25 Main Budget	2024/25 Mid-Year Expenditure (% of Main 2024/25 Budget)	% Change (2023/24 and 2024/25)	2024/25 % Share
Functional Classification					
Administration	109 313	128 262	45,3%	17,3%	34,9%
Sustainable Resource Management	51 326	62 238	43,5%	21,3%	16,9%
Asset and Liabilities Management	73 523	69 095	48,0%	-6,0%	18,8%
Financial Governance	28 567	32 920	36,5%	15,2%	8,9%
Municipal Finance Management	63 617	75 422	22,8%	18,6%	20,5%
Economic Classification					
Current payments	314 138	363 283	39,7%	15,6%	98,7%
Compensation of employees	235 433	278 783	42,5%	18,4%	75,8%
Goods and Services	78 705	84 500	30,4%	7,4%	23,0%
Transfers and subsidies	8 768	41	4073,2%	-99,5%	0,0%
Payments for financial and capital assets	3 058	4 613	35,6%	50,9%	1,3%
Total	326 346	367 937	40,1%	12,7%	100,0%

Source: FSPT IYM Database, 2024

- **Department of Small Businesses, Tourism and Economic Development**

The Department of Economic & Small Business Development, Tourism and Environmental Affairs is responsible for creating a conducive and enabling environment for the creation of jobs and reduction of poverty and inequality. The largest service delivery programmes in the department are Economic and Small Business Development as well as Environmental Affairs, which received a share of 36.3 percent and 33.0 percent, respectively, in the period under review. At mid-year, the department spent R330.552 million (or 49.6 percent) of its total allocated budget of R666.654 million for the financial year. The department is expected to breakeven at the end of the financial year.

Table 2.18: Mid-year performance review of Department of Small Businesses, Tourism and Economic Development

	2023/24 Adjusted Budget	2024/25 Main Budget	2024/25 Mid-Year Expenditure (% of Main 2024/25 Budget)	% Change (2023/24 and 2024/25)	2024/25 % Share
Functional Classification					
Administration	206 523	190 788	53,9%	-7,6%	28,6%
Environmental Affairs	188 501	219 829	40,9%	16,6%	33,0%
Economic and Small Business Development	228 609	242 016	55,7%	5,9%	36,3%
Tourism	14 016	14 021	46,2%	0,0%	2,1%
Economic Classification					
Current payments	456 921	472 337	48,6%	3,4%	70,9%
Compensation of employees	317 046	344 440	46,6%	8,6%	51,7%
Goods and Services	139 875	127 897	53,8%	-8,6%	19,2%
Transfers and subsidies	175 024	180 308	56,8%	3,0%	27,0%
Payments for financial and capital assets	5 563	14 009	14,0%	151,8%	2,1%
Total	637 649	666 654	50,1%	4,5%	100,0%

Source: FSPT IYM Database, 2024

- **Office of the Premier**

The mandate of the Office of the Premier (OTP) relates to outcome 12 of the MSTF and its objective is to promote efficiency, effectiveness and a developmental-orientated provincial government – It is a strategic conduit for the creation of integrated governance and policy coordination for effective and efficient service delivery. The office is made up of four programmes, namely: Administration, Institutional Development, Policy and Governance as well as Monitoring and Evaluation. The Institutional Development and Monitoring and Evaluation programmes are the recipients of the biggest shares i.e., both were allocated 45.6 percent and 25.2 percent of the 2024/25 departmental budget, respectively. On economic classification, Compensation of Employees which accounts for 58.2 percent of total expenditure and Transfers and Subsidies (particularly transfers to households) which account for 24.8 percent are the biggest cost drivers in the department. In the 2024/25 financial year, the department has been allocated R632.629 million and has managed to spend this amount approximately in line with the expected expenditure norms.

Table2.19: Mid-year performance review of Office of the Premier

	2023/24 Adjusted Budget	2024/25 Main Budget	2024/25 Mid-Year Expenditure	% Change (2023/24 and 2024/25)	2024/25

			(% of Main 2024/25 Budget)		% Share
		Functional Classification			
Administration	95 341	108 244	50,0%	13,5%	17,1%
Institutional Development	187 055	288 303	38,5%	54,1%	45,6%
Policy & Governance	103 119	76 813	78,5%	-25,5%	12,1%
Monitoring and Evaluation	158 190	159 269	53,1%	0,7%	25,2%
		Economic Classification			
Current payments	483 421	472 819	48,5%	3,5%	74,7%
Compensation of employees	354 911	367 945	43,7%	16,1%	58,2%
Goods and services	128 510	104 874	65,6%	-25,0%	16,6%
Transfers and subsidies	53 237	156 716	27,6%	194,4%	24,8%
Transfers to households	53 237	154 716	27,9%	190,6%	24,5%
Payments for financial and capital assets	6 960	3 094	51,1%	-55,5%	0,5%
Total	543 705	632 629	49,0%	16,4%	100,0%

Source: FSPT IYM Database, 2024

- **Department of Sports, Art, Culture and Recreation**

The budget for the Department of Sports, Art, Culture and Recreation increased from R628.435 million in 2023/24 to R641.789 million in 2024/25 (or by 2.5 percent). Library and Archives Services and Cultural Services recorded the biggest budget growth over the period. Under economic classification, the budget for Transfers and Subsidies budget was reduced by -28.5 percent. By the end of September 2024, the department recorded actual expenditure amounting to R288.471 million or 44.9 percent of the total budget allocation which is 4.1 percentage points below the 50 percent benchmark. The slow spending is due to delays in spending on earmarked funding particularly Infrastructure Enhancement Allocation (IEA) where contractors still need to be appointed to start with the projects.

Table 2.20: Mid-year performance review of Department of Sports, Art, Culture and Recreation

	2023/24 Adjusted Budget	2024/25 Main Budget	2024/25 Mid-Year Expenditure (% of Main 2024/25 Budget)	% Change (2023/24 and 2024/25)	2024/25 % Share
		Functional Classification			
Administration	124 836	116 372	53,8%	-6,8%	18,1%
Cultural Affairs	134 133	134 956	39,1%	0,6%	21,0%
Library And Archives Services	234 817	259 053	43,3%	10,3%	40,4%
Sport And Recreation	134 649	131 408	46,4%	-2,4%	20,5%
		Economic Classification			
Current payments	572 115	561 231	47,2%	-1,9%	87,4%
Compensation of employees	371 744	393 296	48,9%	5,8%	61,3%
Goods and services	200 166	167 935	43,3%	-16,1%	26,2%
Transfers and subsidies	44 560	31 858	47,4%	-28,5%	5,0%
Payments for financial and capital assets	40 802	48 700	17,0%	19,4%	7,6%
Total	628 435	641 789	44,9%	2,1%	100,0%

Source: FSPT IYM Database, 2024

- **Department of Agriculture and Rural Development**

The department's allocation increased from R756.287 million in 2023/24 to R829.092 million in 2024/25 (or by 9.6 percent) as shown in Table 2.21. The department is comprised of eight programmes of which Farmer Support and Development accounts for the biggest budget share (42.1 percent), followed by Administration (23.8 percent), Research and Technology Development Services (9.7 percent), Veterinary Services (9.2 percent), Sustainable

Resource Management (8.0 percent), Structured Agricultural Education and Training (3.9 percent), Agricultural Economics Services (1.9 percent) and Rural Development (1.4 percent). Mid-year expenditure amounted to R283.603 million or 34 percent from a budget allocation of R897.135 million. The department projects to overspend by R68.043 million at the end of the financial year if rollover requests are not approved. However, there has been consistently slow spending on conditional grants due to seasonality and the late approval of conditional grant business plans, expenditure will accelerate in the two quarters of the financial year.

Table 2.21: Mid-year performance review of Department of Agriculture and Rural Development

	2023/24 Adjusted Budget	2024/25 Main Budget	2024/25 Mid-Year Expenditure (% of Main 2024/25 Budget)	% Change (2023/24 and 2024/25)	2024/25 % Share
Functional Classification					
Administration	200 457	196 962	51,0%	-1,7%	23,8%
Sustainable Resource Management	59 443	66 712	31,3%	12,2%	8,0%
Farmer Support and Development	326 605	348 657	23,3%	6,8%	42,1%
Veterinary Services	71 625	76 633	44,1%	7,0%	9,2%
Research And Technology Development Services	42 769	80 255	25,3%	87,6%	9,7%
Agricultural Economics Services	13 379	15 516	43,7%	16,0%	1,9%
Structured Agricultural Education And Training	29 814	32 619	41,0%	9,4%	3,9%
Rural Development	12 195	11 738	56,2%	-3,7%	1,4%
Economic Classification					
Current payments	575 469	787 394	35,0%	36,8%	95,0%
Compensation of employees	437 809	470 656	47,9%	7,5%	56,8%
Goods and services	137 657	316 738	16,0%	130,1%	38,2%
Transfers and subsidies	160 087	2 110	84,1%	-98,7%	0,3%
Payments for financial and capital assets	20 730	39 588	15,0%	91,0%	4,8%
Total	756 287	829 092	34,2%	9,6%	100,0%

Source: FSPT IYM Database, 2024

- **Department of Community Safety, Roads and Transport**

The department's budget marginally increased from R3.481 billion in 2023/24 to R3.606 billion in 2024/25 (or by 3.6 percent) as demonstrated in Table 2.22. In terms of the structure, the department is made up of five programmes of which Transport Infrastructure receives the biggest share (65.2 percent), followed by Transport Regulations (14.2 percent), Transport Operations (10.8 percent), Administration (9.0 percent) and Provincial Secretariat for Police Services (0.8 percent). On economic classification, Goods and Services (53.5 percent), Compensation of Employees (24.7 percent) as well as Transfers and Subsidies (10.0 percent) are among the biggest recipient of the departmental budget. Regarding mid-year performance, the department spent R1.832 billion (or 50.8 percent) against the budget of R3.606 billion in the first six months of the year and expects to overspend by over-spend by R98.397 million or 2.7 percent at the end of the financial year due to cost of living adjustment under CoE as well as Goods and Services.

Table 2.22: Mid-year performance review of Department of Community Safety, Roads and Transport

	2023/24 Adjusted Budget	2024/25 Main Budget	2024/25 Mid-Year Expenditure	% Change (2023/24 and 2024/25)	2024/25

			(% of Main 2023/24 Budget)		% Share
Functional Classification					
Administration	337 953	325 768	60,5%	-3,6%	9,0%
Provincial Secretariat for Police Services	26 436	27 816	48,5%	5,2%	0,8%
Transport Operations	368 445	388 010	46,6%	5,3%	10,8%
Transport Regulations	519 420	512 261	55,8%	-1,4%	14,2%
Transport Infrastructure	2 228 897	2 352 593	49,1%	5,5%	65,2%
Economic Classification					
Current payments	2 697 066	2 822 747	55,8%	4,7%	78,3%
Compensation of employees	935 392	891 879	54,6%	-4,7%	24,7%
Goods and Services	1 759 375	1 930 868	56,4%	9,7%	53,5%
Transfers and subsidies	345 952	360 916	51,4%	4,3%	10,0%
Payments for financial and capital assets	438 133	422 785	17,0%	-3,5%	11,7%
Total	3 481 151	3 606 448	50,8%	3,6%	100,0%

Source: FSPT IYM Database, 2024

2.7 CONCLUSION

South Africa is well on a path to achieving fiscal sustainability after struggling for 15 years with high government debt and an unmanageable wage bill which both crowded out funding of other core services. However, fiscal risks remain significantly elevated though somewhat subdued compared to a year ago. Fiscal risks include concerns about weak economic performance, limited revenue sources, and excessive public service wage costs. This necessitates the provincial government to reallocate and restructure public finances to address structural and budgetary pressures while ensuring that service delivery remains intact. The Free State government will persist in its objective to enhance revenue collection through its Revenue Enhancement Strategy (RES) to bolster the provincial fiscal envelope and achieve a more redistributive fiscal policy.

CHAPTER 3

PROVINCIAL FISCAL FRAMEWORK

Chapter Summary

- The 2025 MTEF budget is formulated under difficult economic conditions. GDP growth is projected to increase from an estimated 0.6 per cent in 2023 to an average of 1.6 per cent between 2024 and 2026.
- The total conditional grants requested for rollovers for the 2023/24 financial year amounted to R168.83 million, out of the remaining budget of R186.43 million.
- The total equitable share requested for rollover to the 2023/24 financial year amounted to R29.93 million.
- Free State (FS) province is anticipated to increase its adjusted budget, with an average growth of 4.3 percent over the MTEF period.
- The provincial allocations over the medium term are as follows: R44.89 billion in 2025/26, R46.51 billion in 2026/27 and R48.09 billion in 2027/28.
- During this period, the provincial equitable share is expected to increase by 4.3 percent, with conditional grants growing by -1.7 percent, and own revenue declining by 0.2 percent.

3.1 INTRODUCTION

This chapter focuses on the performance review of the provincial fiscal framework and presents the 2024/25 adjustment and the 2025 Medium-Term Expenditure Framework (MTEF). The budget for the 2025 MTEF is formulated within a constrained fiscal environment characterized by slow economic growth. As such, the Free State government will carefully manage the fiscal space of the province by implementing the following provincial fiscal strategies:

- Identify inefficiencies in the system and re-channel funding to high-impact programmes/ priorities.
- Improving efficiencies—this includes, among other things, reviewing organograms, identifying duplication within the system, and identifying fiscal leakages.
- Reintroduction of early retirement (55 years) without penalty (Window created for 2025/26 and 2026/27).
- Promote staff rationalization across departments when filling vacant positions.
- Scaling down/postponement of the implementation of some programmes/projects.
- Focus on revenue enhancement initiatives/mobilization of additional resources.
- Institutionalize evaluation of programmes to identify their relevance—this must also include spending reviews and reviewing earmarked funding.
- Engage key stakeholders within their respective departments, especially heads of programmes with budget reforms.
- Continue working on measures to cushion the budget cuts shock, especially in social sector departments.

3.2 THE 2024/25 ADJUSTMENT BUDGET

3.2.1 Provincial Expenditure Overview

The legislative requirements for the annual budget stipulate that Section 31 of the Public Finance Management Act (PFMA Act No. 1 of 1999 as amended), allows the MEC for Finance to table an adjustment budget in the Provincial Legislation that caters for the following:

i. The appropriation of funds that become available to the Province;
ii. Unforeseeable and unavoidable expenditure recommended by the Provincial Executive Council of the Province within the framework determined by the Minister of Finance;
iii. Any expenditure for emergencies as prescribed by section of the PFMA;

iv. Money to be appropriated for expenditure already announced by the MEC for Finance during the tabling of the annual budget;
v. The shifting of funds between and within votes or to follow the transfer of functions in terms of section 42 of the PFMA;
vi. The utilization of savings under a main division within a vote for the defrayment of excess expenditure under another main division within the same vote in terms of section 43 of the PFMA; and
vii. The rollover of unspent funds from the preceding financial year.

Against this backdrop, for the 2024/25 financial year, the provincial fiscal envelope (or total budget) amounts to R43.87 billion, which comprises of; and is constituted as follows:

- The Provincial Equitable Share (PES) of about R33.09 billion (takes up 75.6 percent of the total budget)
- Conditional Grants of about R9.54 billion (constituting 21.7 percent of the total budget), and
- Provincial Own Revenue of R1.23 billion (which takes up about 2.7 percent of the total budget).

The province allocated R43.740 billion to provincial departments and public entities in the current financial, thus only R130.706 million remained unallocated.

3.2.2 Provincial Rollover Requests

Treasury Regulation's paragraph 6.4.1 stipulates that funds appropriated but not spent in a particular financial year may be rolled over to the subsequent year. In line with the requirements of section 6.4 of Treasury Regulations read together with Section 21. (1) - (5) of the 2023 Division of Revenue Act (Act No. 5 of 2023), the Free State Provincial Government requested approval of unspent conditional grants and equitable share allocations to be rolled over to the 2024/25 financial year.

This prescript also outlines the qualification criteria for conditional grants rollover requests which, amongst others, include:

- Unspent funds on payments for capital assets may only be rolled over to finalize projects or asset acquisitions still in progress.
- Savings on transfers and subsidies may not be rolled over for purposes other than originally voted for.
- Savings on the compensation of employees (CoE) may not be rolled over.
- A maximum of five per cent of a department's payments for goods and services may be rolled over.
- Funds for a specific purpose may not be rolled over for more than one financial year, unless approved in advance by the relevant treasury.

However, the recommended rollovers must be limited to the amount of cash surrendered by the departments to the Provincial Revenue Fund. Likewise, any department that overspending in their allocated budget are not eligible for a rollover. Based on the above, focusing on provincial rollovers, the total request for rollovers from 2023/24 financial year amounts to R168.838 million for conditional grants and R29.935 million for the equitable share. In terms of conditional grants, upon verification of commitments, the National Treasury granted a preliminary approval of R168.807 million. Out of the total request for equitable share, only R27.618 million was recommended for approval by the Executive Council.

a) Conditional Grants Rollovers per Provincial Department

The total conditional grants requested for rollovers for 2023/24 financial year amounted to R168.838 million, out of the remaining budget of R186.433 million. And the Provincial Treasury requested an amount of R168.838 million from the National Treasury for consideration after evaluating commitments submitted by departments. The National Treasury approved R168.807 million after budget review. Given the PFMA prescripts, the province needs to surrender about R19.339 million National Treasury, as shown in Table 3.1.

Table 3.1: Conditional Grants Requests and Approval

Department R '000	Rollover Requests	Underspending	Approved rollovers	Amount to be surrendered
Social services spending	3 115	11 102	3 115	7 987
Health	-	-1 713	-	-
Education	3 115	10 634	3 115	7 519
Social Development	-	468	-	468
Non-social services spending	165 723	177 044	165 723	11 352
DESTEA	-	-	-	-
Police, Roads and Transport	104 052	104 087	104 021	66
Agriculture and Rural Development	49 569	53 879	49 569	4 310
Sport, Arts, Culture and Recreation	-	-	-	-
Public Works and Infrastructure	-	-	-	-
Human Settlements	12 102	19 078	12 102	6 976
Total	**168 838**	**186 433**	**168 807**	**19 339**

Source: Free State Treasury 2024

3.2.3 Rationale for Departmental Requests for Rollovers

- **Department of Education (FS DoE)**

The FS Department of Education requested a total rollover of R10.634 million from various conditional grants, and its underspending is attributed to:

- ✓ **National School Nutrition Programme grant**: The department requests an amount of R0.991 million to be rolled over of which R0.928 million is verified as committed by Provincial Treasury.
- ✓ **Learners with Profound Intellectual Disabilities Grant**: An amount of R1.983 million is requested to be rolled over to the 2024/25 financial year. The requested amount was verified as committed by the Provincial Treasury. The related invoices could not be paid on time due to late submission by service providers.
- ✓ **HIV & AIDS (Life Skills Education) grant**: An amount of R0.119 million is requested to be rolled over to 2024/25. The request relates to Boys Dialogue sessions that took place during March 2024 and invoices could not be paid on time due late submissions by service providers.
- ✓ **Early Childhood Development grant** (Maintenance portion): An amount of R0.022 million is requested and relates to unpaid invoices for repairs and maintenance done at Modisa-a-Molemo Creche. The invoices were received late and thus could not be processed for payment before closing of the system.

Agriculture and Rural Development (FS DARD)

- ✓ DARD requested a total of R49.569 million of which an amount of R30.885 million and R17.651 million relates to the Comprehensive Agricultural Support Programme Grant and Ilima/ Letsema projects respectively to be rolled over to 2024/25. A further, amount of R1.033 million is requested to be rollover from Land Care grant. The funds are committed to the identified beneficiaries which were delayed by changes relating to implementation of the payment method. Included in this regard was the challenge of late submission of invoices by service providers.

- **Department of Community Safety, Road and Transport (FS CSRT)**

FS CSRT requested R206.480 million for Road Maintenance Grant and Welisiswe Project:

- ✓ An amount of R104.052 million which relates to the Provincial Roads Maintenance Grant is requested to be rolled over to 2024/25. All the necessary supporting documents provided by the department were verified by Provincial Treasury and found to be correct. The delays in paying the invoices were due to delayed in issuing of permits and medical certificates, inclement weather and communication related to the implementation of works that came late.
- ✓ Furthermore, the department requests that an amount of R102.428 million relating to Welisizwe Project be rolled over to 2024/25. The funds remain unspent and were transferred to National Department of Public Works and Infrastructure as the implementing agent of the project. The provincial department and the National Department of Public Works have signed a Memorandum of Understanding in this regard.

- **Department of Human Settlements (FS DHS)**

FS DHS requested R12.102 million for Human Settlement Development grants. This request is due to the below reasons:

- ✓ **On Human Settlement Development Grant** the department requests an amount of R7.602 million to be rolled over to 2024/25 which relates to payments that must still be affected towards Housing Development Agency (Vista Park 3 Project: R5.889 million) as the implementing agent of the project and Ralema Consulting Engineers (R1.720 million) which was contracted to do conditional assessment at Dark and Silver City-Top Site and Caleb Motshabi in Mangaung Metro. The supplier was appointed on 25th January 2024 and the order was created, however, by the end of the financial year, the assessment was no finalised hence the payment was not made.
- ✓ **On Informal Settlements Upgrading Partnership Grant** the amount requested total R4.500 million and relates to payment of the service provider which was not paid due to the revision of the business plan.

b) Equitable Share Rollovers

Table 3.2 presents the total equitable share requested for rollover to 2023/24 financial year, which amounted to R29.935 million. Following a careful evaluation of commitments submitted by provincial departments, the Free State Provincial Treasury only approves the rollover of R27.618 million for consideration by National Treasury.

Table 3.2: Equitable Share Rollover Requests and Recommendations

R'000	Amount requested for rollover	Amount recommended
Department	**R**	
Office of the Premier	0	0
DESTEA	8 895	6 579
Provincial Treasury	426	426

Health	0	0
Education	0	0
Social Development	0	0
COGTA	6 262	6 262
Public Works and Infrastructure	4 043	4 043
Police, Roads and Transport	0	0
Agriculture and Rural Development	8 933	8 932
Sports, Arts, Culture and Recreation	0	0
Human Settlements	1 376	1 376
Grand Total	**29 935**	**27 618**

Source: Free State Provincial Treasury 2024

- **Department of Treasury (FSPT)**

FSPT requested a total of R426 000, with supporting documentation (orders) submitted.

- **Department of Health (FS DoH)**

No rollover is requested.

- **Department of Education (FS DoE)**

No rollover is requested.

- **Department of Social Development (FS SocDev)**

No rollover is requested.

- **Department of Cooperative Governance and Traditional Affairs (FS CoGTA)**

FS CoGTA requested a rollover of about R6.262 million, which was recommended for approval because the department complied with pre-requisite requirements.

- **Department of Public Works and Infrastructure (FS DPWI)**

The department requested a rollover of R4.043 million, which was approved (or recommended), as it complied with stipulated regulations. There were delays in the completion of the project budget as the supplier experienced difficulties with material.

- **Department of Agriculture and Rural Development (FS DARD)**

FS DARD requested a rollover of R8.933 million (which includes R5.818 million for equitable share funding and R3.114 million for IEA). And all the requests were recommended as they complied with pre-requisite requirements.

- **Department of Sports, Arts, Culture and Recreation (FS SACR)**

No rollover is requested.

- **Department of Human Settlements (FS HS)**

FS HS requested a rollover of R1.376 million for equitable share and all the requests were recommended.

3.3 PROVINCIAL REVENUE OVERVIEW

a) Provincial Revenue Fund

Table 3.3 outlines the cash transfers to departments as of the end of September 2024, totaling R23.543 billion. Of this amount, R18.909 billion is allocated to the equitable share, and R4.634 billion is earmarked for conditional grants. This represents 53.8 percent of the total provincial budget of R43.741 billion, which is 3.8 percent higher than the straight-line projection of 50 percent.

Notably, the Office of the Premier, the Legislature, and the Departments of Health, Education, Community Safety, and Roads and Transport have exceeded the 50 percent threshold set by the norm. The primary cost drivers for these departments are related to the compensation of employees (CoE). As such, it is crucial to implement stringent measures to control CoE expenditure throughout the financial year. Additionally, the Free State Provincial Treasury must closely monitor CoE growth across provincial departments to mitigate the risk of overspending by the end of the fiscal year.

Table 3.3: Cash Transferred to Provincial Departments by Provincial Revenue Fund, 30 September 2024

FS Departments R000s	Budget for National Transfers	Equitable Share	Conditional Grants	Total Transferred	Equitable Share Transferred	Conditional Grants Transferred	Percentage Transfers
Premier	632 629	632 629	-	370 900	370 900	-	*58,6%*
Legislature	284 911	284 911	-	188 502	188 502	-	*66,2%*
DESTEA	666 654	664 398	2 256	331 000	331 000	-	*49,7%*
Treasury	367 937	367 937	-	147 750	147 750	-	*40,2%*
Health	13 717 509	9 742 344	3 975 165	7 340 260	5 444 250	1 896 010	*53,5%*
Education	17 895 390	16 131 811	1 763 579	10 331 900	9 278 100	1 053 800	*57,7%*
Social Development	1 305 194	1 302 078	3 116	619 099	617 600	1 499	*47,4%*
COGTA	416 985	416 985	-	179 700	179 700	-	*43,1%*
Public Works & Infrastructure	2 107 386	2 103 182	4 204	968 501	966 752	1 749	*46,0%*
Community Safety, Roads & Transport	3 606 448	1 292 272	2 314 176	1 829 791	704 631	1 125 160	*50,7%*
Agriculture	829 092	566 123	262 969	360 260	338 050	22 210	*43,5%*
S.A.C.R.	641 789	412 503	229 286	287 458	196 350	91 108	*44,8%*
Human Settlements	1 268 835	275 789	993 046	587 489	145 130	442 359	*46,3%*
Total	**43 740 759**	**34 192 962**	**9 547 797**	**23 542 610**	**18 908 715**	**4 633 895**	***53,8%***

Source: Free State Provincial Treasury, 2024

On the other hand, transferred conditional grants cash stands at 48.53 percent as at the end of September 2024, which is 1.47 percent less than the benchmark norm of 50 percent.

b) **Provincial Own Revenue**

The 2024 provincial own revenue adjustment budget and 2025 MTEF are presented in Table 3.4 for provincial departments. Provincial own revenue collection has been growing over the years despite limited allocations in expenditure budget.

Table 3.4: Own Revenue Budget Adjustments and 2025 MTEF

DEPARTMENT	2024/25		MTEF		
	MAIN APPROPRIATION	ADJUSTED APPROPRIATION	2025/26	2026/27	2027/28
Premier	3 844	3 962	4 136	4 322	4 516
DESTEA	29 515	28 761	30 814	32 200	33 650
Treasury	30 289	37 252	31 578	32 994	34 474
Health	143 863	187 753	150 681	157 461	164 546
Education	22 000	23 600	23 325	23 335	23 346
Social Development	1 803	1 424	1 359	1 470	1 494
COGTA	310	310	314	319	319
Public Works & Infrastructure	77 408	56 043	44 033	46 048	48 153
Community Safety, Roads & Transport	847 192	847 192	855 664	864 220	872 862
Agriculture & Rural Development	5 566	6 605	5 721	6 167	6 740
Sport, Arts, Culture & Recreation	4 430	2 730	3 034	3 170	3 313
Human Settlements	607	607	595	640	611
FSGLTA	66 034	66 034	69 005	72 110	75 355
TOTAL RECEIPTS	**1 232 861**	**1 262 273**	**1 220 259**	**1 244 456**	**1 269 379**

Source: Free State Provincial Treasury, 2024

- **Office of the Premier**

In line with its mandate, the Office of the Premier generates the bulk of own revenue through sales of Departmental Publications and Government Gazette whilst there is minimal contribution of other items. The projected own revenue target for this department increased from R3.844 million to revised estimates of R3.962 million during own revenue adjustment budget processes. An upward increase of R0.118 million or 3.1 percent was based on the following key points for this department:

  - Anticipated collection of revenue during October 2024 under Departmental Publications and Gazette.
  - The department is recovering from debt, especially from the salary overpayments.
  - There will be more Departmental Publications and Gazette before the end of the current financial year.

- **DESTEA**

Auction dominates for DESTEA as most of the recoveries are made through the selling of biological assets. It was agreed during revenue bilateral to decrease the annual revenue target from R29.515 million by R0.754 million or 2.6 percent for 2024/25 financial year. This move resulted in new revenue target of R28.761 million as a result of the following:

  - There were more sales of biological assets than anticipated during the year hence adjusted upwards.
  - Sales of goods and services other than capital assets were reduced as a result of performance of infrastructural challenges at resorts (four are under maintenance and refurbishment – Sterkfontein, Soetdoring, Willem Pretorious and Erfenis.
  - Less recoveries were realized under departmental debt which impacted performance.

- **Department of Treasury**

Interest generated from financial institutions in the form of investment is the main revenue driver for the Department of Treasury. The annual revenue target has increased from R30.289 million to R37.252 million which is an upward adjustment of R6.963 million or 23 percent during the 2024/25 financial year. This was necessitated due to more interest received through short-term investments and the debit bank balance of the Provincial Revenue Fund. Over the MTEF, estimates were based on the anticipated collection of interests of which bulk is collected in the first quarter of each year due to spending patterns and availability of cash for the province. Lastly, the department will sell assets of lesser value over the MTEF period, which will also add as part of revenue.

- **Department of Health**

Under the Department of Health, patient fees are classified as the main drivers in terms of revenue collection. The set revenue target was remarkably achieved by the department hence it was necessary to adjust estimates upwards from R143.863 million to R187.753 million representing an increase of R43.890 million or 30.5 percent because of the following reasons:

- The was a huge payment of R124 million received from Lesotho Government for referral patients at Universitas and Pelonomi hospitals.
- It should be noted that the majority of the hospitals are not generating revenue as expected due to payments trends received from patients.
- There is still significant outstanding debt to be recovered from the Road Accident Fund and the Department of Justice although these entities are delaying payments to provinces.

- **Department of Education**

Department of Education has resulted in an increase of the annual revenue target by R1.600 million or 7.3 percent during 2024/25 financial year. The move is from an initial revenue target of R22.000 million to newly set target of R23.600 million and the reasons are as follows:

- The current own revenue performance is above the norm mainly because of the refunds from previous years' expenditure and demands for exam certificates as well as sales of scraps.
- The department is still recovering revenue below the norm on debt management hence it wasn't adjusted
- Other items were retained as performance is in line with the norm.

MTEF proposals:

- The main driver for collection under the Department of Education is the commission on insurance and projections are based on the demands and number of officials and affiliates to insurance companies.

- **Department of Social Development**

An amount of R0.379 million or 21 percent was recorded as a decrease in the annual target for the Department of Social Development from R1.803 million to R1.424 million during the 2024/25 financial year. This downward adjustment is due to the following:

- The improved controls implemented by the department in terms of processes resulted in fewer recoveries during the current financial year under the previous year's expenditure items.
- No new appointments were made by the department which indirectly affected the commission on insurance.
- More recoveries were realized on sales of goods and services – aligned to the signed MoU as Management Fees for HWSETA.

- **Department of Corporative Governance and Traditional Affairs (COGTA)**

Department of Corporative Governance and Traditional Affairs is collecting less revenue as compared to all other departments. The estimates of own revenue were retained during the 2024/25 financial year as a result of current performance which is below the norm as well as debt recovery which is not satisfactory thus far. As for MTEF, projections were based on the number of affiliated personnel through Persal deductions on commission on insurance items.

- **Department of Public Works and Infrastructure**

As the custodian of government properties, the Department of Public Works and Infrastructure is generating revenue mainly from rental dwellings. The set own revenue target was adjusted downwards from R77.408 million to R56.043 million. The decrease amounted to R21.365 million or 27.6 percent during the 2024/25 financial year and this move was motivated by the following points:

  - The department received more revenue than anticipated from the signed agreement with CUT last financial year. As a result of that, the target on sales of capital assets was reduced to recover the remaining amount of contract in this current year.
  - Anticipated recovery on parking as an item was reduced due to its inconsistency collection as well as cancellation of parking by officials. Moreover, the verification process that is ongoing from the department side to create credible database.
  - Another regression was realized on the recovery of departmental debt which has to be reduced as less was recorded as recovery than anticipated rate.

- **Department of Community Safety, Roads and Transport**

The Department of Community Safety, Roads and Transport as the main contributor in terms of own revenue collection for the province realizes the bulk of revenue through motor vehicle licenses. The annual revenue target was retained as R847.192 million for the remainder of the 2024/25 fiscal year reason being:

  - The motor vehicle licenses' current performance is slightly below the norm thus far.
  - Court and impound fines have been performing below the target over the past years and this resulted in the target being reduced in order to correct the base.
  - There are risks associated with the closure of some of the Registration Authorities (RAs) due to non-compliance, conditions, theft and fraud.
  - The department also needs resources at some of the RAs to ensure the satisfactory of clients and delivery of service.

- **Department of Agriculture and Rural Development**

The Department of Agriculture and Rural Development mostly generates own revenue through agricultural services being sales of farm fresh products, providing permits as well as veterinary services. During joint meeting, it was agreed that the estimated own revenue target for the department be adjusted upwards from R5.566 million to revised target of R6.605 million due to:

  - Much improved performance because of demands on agricultural import/export permits or certificates.
  - Veterinary services together with abattoir registrations are also in demand thus far hence adjustments were made on target. An improved performance thus far which is above the norm by the end of second quarter of 2023/24 financial year.
  - There will be claims submitted to the National Skills Fund and Agriseta by Glen College for academic fees for the students in relation to registration and tuition fees for the 2025 academic year.
  - Auction is still anticipated although the number of biological assets has been reduced due to theft.

- **Department of Sport, Arts, Culture and Recreation**

The Department of Sport, Arts, Culture and Recreation is generating revenue from entrance fees on various events occurring at cultural centers, arts and museums. The set own revenue target was reduced from R4.430 million to the revised target of R2.730 million which is a huge reduction of 38.4 percent. The reduction of the target was necessitated by the non-occurrence of MACUFE as well as the lesser interest of tourists at cultural centers.

- **Department of Human Settlements**

The Department of Human Settlements is one of the smallest departments in terms of own revenue collection which is mainly derived from commission on insurance items. The set own revenue target was retained during the adjustment bilateral as there are no planned events that will enhance collection except normal items which are minimal. As for MTEF, estimates were reduced on projections of sales of capital assets with less value. Some officials have cancelled their policy deductions from their salary and the resignation/dismissal and retirement of officials have negatively impacted the revenue collection for commission on insurance.

- **FSGLTA**

The own revenue estimates for an entity are based on the gambling industry mainly through casino gambling. The set target for an entity was retained at R66.034 million for the 2024/25 financial year due to current performance and trends which are slightly below the norm thus far. As for MTEF, estimates were based on the CPI considering the economy as well as interest of people in the gambling industry.

3.4 ANALYSIS OF THE COMPONENTS OF THE NATIONAL FISCAL ENVELOPE

a) Division of Revenue

According to the Intergovernmental Fiscal Review (IGFR) framework, provinces are primarily responsible for delivering basic education and health services, managing roads, housing, social development, and agriculture. Municipalities, on the other hand, are tasked with providing essential services such as water, sanitation, electricity reticulation, roads, and community services.

In this context, both provincial and municipal governments continue to face significant fiscal challenges due to rising costs associated with basic and social services, compounded by low economic growth and high borrowing costs over the medium term.

As illustrated in Table 3.5, the government plans to allocate 47.8 percent of available non-interest spending to national departments, 42.4 percent to provinces, and 9.8 percent to local governments over the MTEF period. National transfers are projected to increase by 2.5 percent, while transfers to provinces and local governments are expected to rise by 4.4 percent and 3.6 percent, respectively.

Table 3.5: Division of revenue framework

R billion	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Average Growth
	Outcome			Revised	Medium-term estimates			
National government	**822,8**	**855,9**	**826,3**	**866,0**	**863,5**	**896,7**	**931,3**	***2,5%***
Provincial government	**660,8**	**694,2**	**706,4**	**730,7**	**762,8**	**794,0**	**830,9**	***4,4%***
Equitable share	544,8	570,9	585,1	600,5	627,4	655,7	685,1	*4,5%*
Conditional grants	116,0	123,3	121,3	130,2	135,4	138,3	145,8	*3,9%*
Local government	**135,6**	**150,6**	**157,7**	**170,4**	**177,2**	**183,8**	**189,5**	***3,6%***
Equitable share	76,2	83,9	92,3	101,2	106,1	110,7	115,7	*4,6%*
General fuel levy	14,6	15,3	15,4	16,1	16,8	17,6	18,4	*4,6%*
Conditional grants	44,8	51,4	50,0	53,1	54,3	55,5	55,4	*1,4%*
Non-interest allocations	**1619,2**	**1700,7**	**1690,4**	**1764,1**	**1849,7**	**1934,5**	**2015,2**	***4,5%***

Debt-service costs	268,1	308,5	356,1	388,9	419,1	445,7	475,7	*6,9%*
Contingency reserve	0,0	0,0	0,0	0,0	7,6	14,5	20,8	*0,0%*
Main budget expenditure	**1887,3**	**2009,2**	**2046,5**	**2153,0**	**2276,4**	**2394,7**	**2511,7**	***5,3%***
	Percentage share							
National government	*50,8%*	*50,3%*	*48,9%*	*49,0%*	*47,9%*	*47,8%*	*47,7%*	
Provincial government	*40,8%*	*40,8%*	*41,8%*	*41,3%*	*42,3%*	*42,4%*	*42,6%*	
Local government	*8,4%*	*8,9%*	*9,3%*	*9,6%*	*9,6%*	*9,8%*	*9,7%*	

Source: National Treasury, 2024

Provincial allocations include an additional R948 million for infrastructure reconstruction in the Western Cape due to flood damage, with funds allocated to the *provincial roads' maintenance grant*, the *health facility revitalisation grant*, the *comprehensive agricultural support programme grant* and the *education infrastructure grant*. Additionally, R35.7 million is rolled over for the *school infrastructure backlogs grant* in the Eastern Cape, and R251 million is added in the *education infrastructure grant* for the Western Cape Rapid School Build Programme through the Budget Facility for Infrastructure. Local government allocations include R684 million for the *municipal disaster recovery grant* to repair flood-damaged infrastructure across several provinces, with specific amounts allocated to Eastern Cape, Free State, KwaZulu-Natal, Limpopo and Mpumalanga municipalities. An amount of R300 million is reallocated from the *public transport network grant* to the Taxi Relief Fund for the continuation of a once-off gratuity to taxi owners with valid operating permits. Additionally, the allocation from the *regional bulk infrastructure grant* to Drakenstein Local Municipality is reduced by R225 million to align with revised plans for a sanitation upgrade project (National Treasury, 2024).

b) Equitable Share

The main revenue source for provinces is made up of six components, namely education, health, basic, institutional, poverty and economic activity. To ensure equitable fund allocations to each province, the formula is updated annually to reflect demographic changes and demand for services based on need.

Table 3.6: Provincial equitable share

R million	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Eastern Cape	78 093	81 702	85 037	88 842
Free State	**33 091**	**34 518**	**36 038**	**37 597**
Gauteng	127 992	132 810	137 910	143 095
KwaZulu-Natal	121 145	126 915	133 330	139 966
Limpopo	69 625	73 375	77 219	81 203
Mpumalanga	49 499	52 007	54 679	57 445
Northern Cape	16 143	16 958	17 792	18 655
North-West	42 816	44 363	45 860	47 367
Western Cape	62 071	64 794	67 840	70 979
Total	**600 475**	**627 442**	**655 705**	**685 149**

Source: National Treasury, 2023

Over the three-year spending period ahead, fiscal allocation to the Free State Province is projected to grow on average, by 4.3 percent annually from R34 billion in 2025/26 to R37 billion in 2027/28.

c) Conditional Grants

The government has finalised its review of the conditional grant system and developed a range of reforms based on the results. These reforms will be implemented over the next three years. They aim to rationalise conditional grants, incorporate them into the provincial equitable share and enhance their effectiveness. Reforms over the

2025 MTEF period will include merging the comprehensive agricultural support programme grant with the Ilima/Letsema grant, and the education infrastructure grant with the school infrastructure backlogs grant. The community library services grant will be incorporated into the provincial equitable share, and indirect grants like the municipal systems improvement grant and the neighbourhood development partnership grant (indirect) will be integrated into the budget baselines for the Department of Cooperative Governance and the National Treasury respectively to ensure that allocations are earmarked for their original purposes (National Treasury,2024).

3.5 PROVINCIAL FISCAL ENVELOPE

The provincial fiscal envelope consists mainly of national transfers (equitable share and conditional grants) and own revenue generated provincially. Equitable share remains the biggest source of revenue to the total budget, followed by conditional grants and provincially generated revenue.

Table 3.7: 2025 MTEF Provincial Fiscal Framework

Source of funding R'000	2024/25 Receipts	2025/26 Medium-Term Expenditure Framework	2026/27	2027/28	Ave. Growth
Equitable share (ES)	30 421 939	31 678 323	33 155 303	34 694 223	*4,5%*
IEA	593 530	610 974	600 974	600 974	*0,4%*
Other earmarked ES	2 102 956	2 228 615	2 281 269	2 301 888	*3,1%*
Total ES	**33 118 425**	**34 517 912**	**36 037 546**	**37 597 085**	***4,3%***
Own Revenue	1 185 594	1 117 261	1 138 847	1 160 583	*-0,6%*
REA	30 917	54 985	57 235	60 000	*28,9%*
Other Earmarked Revenue	45 762	48 013	48 374	48 796	*2,2%*
Total Revenue	1 262 273	1 220 259	1 244 456	1 269 379	*0,2%*
Donations/ Retained revenue	12 300	-	-	-	
TOTAL PROVINCIAL	**34 392 998**	**35 738 171**	**37 282 002**	**38 866 464**	*4,2%*
CONDITIONAL GRANTS	**9 716 604**	**9 158 565**	**9 229 669**	**9 229 669**	*-1,7%*
PRELIMINARY BUDGET ALLOCATIONS: 2025 MTEF	**44 109 602**	**44 896 736**	**46 511 671**	**48 096 133**	*2,9%*

Source: Free State Treasury, 2024

a) Equitable Share

The equitable share is the province's main source of revenue and provides funding for social services including education, health and social development, and non-social services like the economy, roads, agriculture, sport, infrastructure, etc. As can be seen in Table 3.7, the equitable share transfer from the national government to the province makes about 75 percent of the provincial total budget. Over the MTEF period, the Free State province has been allocated an equitable share of about R35.73 billion for 2025/26, R37.28 billion for 2026/27 and R38.86 billion for 2027/28, from the National Treasury.

b) Own Revenue

In the Free State budget, own revenue takes up about 3 percent of the total provincial budget, while national transfers contribute about 97 percent. Although the proportion of the own revenue in the total provincial budget may be small, nonetheless, its plays an important role in supplementing equitable share and conditional grants allocated to the province, as well as, for funding provincial priorities. Over the MTEF period, provincially raised own revenue is projected to grow marginally from R1.22 billion in 2025/26 to R1.24 billion in 2026/27 and R1.26 billion in 2027/28.

c) Conditional Grants

Finally, conditional grants are allocated to departments to ensure the improvement of service provision to the citizens of the Free State. These earmarked grants are intended to achieve specific provincial-driven objectives, and their disbursement is conditional on the fulfilment of certain criteria or regulations. Provinces must fulfil certain conditions to receive them. Conditional grants are the second biggest source of income and contribute 22 percent of the total provincial budget. Conditional grants are projected to decline from R9.71 billion in 2024/25 to R9.15 billion in 2025/26, followed by an increase to about R9.22 billion in 2026/27 and 2027/28, respectively.

3.6 CONCLUSION

Budgeting invariably involves difficult decisions, particularly in the context of constrained resources. In the short term, the government faces choices between raising taxes, cutting spending, or continuing to spend without increasing the tax burden. Higher taxes reduce the disposable income of households and businesses, limiting their capacity to meet current needs or build savings. Spending cuts, if not carefully targeted, can undermine the quality and quantity of essential public services. Meanwhile, spending that exceeds revenue growth leads to an increase in debt, resulting in higher interest costs that can crowd out service delivery and raise the cost of doing business.

Given these trade-offs, the government's fiscal strategy seeks to balance expenditure and taxation while implementing measures that foster economic growth. This approach aims to strengthen the fiscal position and, in the long term, generate additional resources for social and economic programs. However, policy reforms are essential to continue rebuilding public finances and avoid the recurrence of an unsustainable debt burden. The period following the 2008 global financial crisis was marked by sluggish economic growth, costly bailouts of state-owned enterprises, and escalating public debt and deficits. In response, the government increased public spending to mitigate the effects of declining growth and employment. However, this approach failed to spur a recovery in economic growth, and the spending ceiling was inadequate to prevent an unsustainable rise in the annual deficit.

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