national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Medium Term Expenditure Guidelines

Preparation of Expenditure Estimates for the 2012 Medium Term Expenditure Framework

National Treasury

July 2011

This document is available on the internet at: www.treasury.gov.za/publications/guidelines

Contents

1. Introduction

The "Medium Term Expenditure Guidelines" provide government departments and public entities with advice on the preparation of expenditure plans for the three-year period ahead, and the process to be followed in seeking Cabinet and Executive Council approval for appropriations for the year ahead and indicative allocations for the outer years of the 2012 Medium Term Expenditure Framework (MTEF) period.

Accounting Officers and Chief Financial Officers (CFOs) are reminded that they are responsible for ensuring cost-efficiency, economy in the use of resources and effectiveness in pursuing government's policy objectives. These Guidelines seek to contribute to these objectives through promoting sound planning, budgeting and programming of public expenditure, informed by clear and coherent objectives and supported by relevant quantitative and qualitative performance indicators and targets.

As for the 2011 budget process, the 2012 process takes government's twelve outcomes and their associated output targets and service delivery agreements as the framework that underpins public expenditure priorities. The emerging policy framework of the New Growth Path and the urgency of accelerating employment creation are central to government's medium term strategic outlook. Departments and spending agencies are expected to reprioritise their baseline allocations and identify savings opportunities as the main body of work in the 2012 budget process. While the budget process provides an opportunity for new spending proposals to be tabled for consideration by the Ministers' Committee on the Budget, the main emphasis in the budget process falls on more efficient and effective use of resources within the already-announced medium term spending envelope.

Key points to note in this year's *Medium Term Expenditure Guidelines* are:

- Departments and public entities are requested to review their programme structures and activity descriptions at the outset of the 2012 budget process. Proposals for programme structure changes from national departments must be submitted by 29 July 2011. Provincial sector departments have already finalised uniform agreed budget programme structures for the 2012 budget process.
- Departments and public entities are to consider their outputs and other performance indicators and targets and reprioritise their three-year programme allocations, broken down by the Appropriation Acts' main economic classification category. This must be done within the indicative baseline allocations for the MTEF period. Details of existing or new infrastructure and IT capital projects proposed must be included, as well as applications for official development assistance (ODA) general budget support. This submission is due by 10 August 2011.
- Thereafter departments and public entities will work within formal functional Medium Term Expenditure Committee (MTEC) structures ("functional group committees") in preparation of finalising programme allocations and estimates of expenditure; these may include proposals for further savings and for additional allocations. In line with the recommendations of the formal functional MTECs, departments and entities are to furnish revised submissions by 31 August 2011.

All the requirements outlined in these Guidelines for preparing medium term expenditure estimates apply to all national and provincial departments and entities, including constitutional institutions but excluding the state-owned enterprises. All estimates of expenditure must be submitted in the required format to the National Treasury.

2. Economic growth and the medium term expenditure framework

Following the global recession which led to a sharp decline in economic activity and government revenue in 2009, the South African economy has shown clear signs of improvement. Moderate growth was recorded in 2010/11, and the recovery is expected to continue in the current financial year, with GDP expected to improve to 4.4 per cent in 2013/14. Savings remain low and the current account of the balance of payments is still in deficit. The fiscal environment is therefore constrained by both the limited revenue resources of the state, and the need to encourage accelerated business investment through lower interest rates and a moderation in the tax burden. Public infrastructure backlogs are a constraint to faster growth, and the fiscal stance therefore has to allow for stronger growth in public sector capital formation and improved maintenance of infrastructure. At the same time, shortcomings of municipal service delivery must be addressed and poverty reduction programmes strengthened. The challenges confronting the fiscus are immense, and every effort must be made to ensure that public resources are effectively managed and spending programmes are efficiently implemented.

The 2011 Budget provides for nominal growth in consolidated government expenditure of 9.1 per cent in 2011/12, 8.4 per cent in 2012/13 and 8.5 per cent in 2013/14. The consolidated government budget deficit is projected to decline from 5.3 per cent in the current year to 3.8 per cent in 2013/14. The public sector borrowing requirement, which also takes into account financing requirements of state-owned enterprises and local government, is expected to be 9.5 per cent in 2011/12, declining to 6.3 per cent in 2013/14. For the medium term period ahead, it will be necessary to continue to narrow the gap between government spending and revenue.

The expenditure envelope for the 2011/12, 2012/13 and`2013/14 years remains broadly unchanged. Departments and public entities are expected to plan ahead within the indicative forward estimates of the 2011 Budget. For the 2014/15 year, the baseline for recurrent allocations is a 6 per cent overall increase to the 2013/14 amount. Non-recurrent allocations are removed from the baseline in the outer years of the MTEF where projects and activities have come to an end.

The following are the consumer price inflation assumptions for the 2012 MTEF planning process:

2011/12: 4.8 per cent

2012/13: 5.3 per cent

2013/14: 5.5 per cent

2014/15: 5.0 per cent.

3. Budgeting by programme

In approving the expenditure ceilings for each vote in the main Appropriation Bill each year, Parliament endorses a set of allocations by “main division” or “programme” within a vote, and by the breakdown of these into economic categories:

- Compensation of employees;
- Goods and services;
- Transfer payments, such as social grants to households, subsidies to businesses, transfers to public entities or conditional grants to provinces or municipalities;
- Payments for capital assets; and
- Payments for financial assets.

Provincial legislatures similarly approve expenditure ceilings by vote, and approve the allocation of these funds within each vote. The Public Finance Management Act recognises that during the course of the year there may be a need for a “virement” between programmes and economic categories, but sets limits to the discretion of Accounting Officers and of national and provincial Treasuries in this regard.

It is therefore important that the costing of expenditure between and within programmes should be carefully done, as the law allows for only limited movement of funds between programmes once the Appropriation has been enacted. Cost estimates for each programme are also the key information inputs into the budget process. These provide the essential data both for analysis of budget submissions and, once approved, for populating the financial management systems through which transactions are recorded against approved allocations.

The first requirement for departmental budgeting is that approval must be obtained from the relevant treasury in respect of proposed changes to the programme and sub-programme structure of departmental votes. Budget programme structures typically remain unchanged during an electoral cycle unless there are formal changes to a department’s mandate. The *Budget Programme Structure Guidelines* issued in 2010 should be consulted if reviewing budget structures; these are available at [www.treasury.gov.za/publications/guidelines]. The circumstances under which changes may be permitted are described in section 3.5 of the Guidelines. Entities may use the general principles contained in the Guidelines to review their activities and objective structures. The final date for submission of proposals to change national departmental budget structures is 29 July 2011. Provincial programme structure adjustments proposals were due for submission by 30 June 2011. Once budget structures have been amended and approved through the formal process, they must be used to compile MTEF submissions, due by 10 August 2011. All historical information in the MTEF submissions must be aligned to the new budget structure.

For each programme, cost estimates must be provided for:

- Compensation of employees, including filled and funded posts by level, funded vacancies by level, provision for improvements in conditions of service and approved increases or decreases in the establishment;
- Goods and services;
- Capital payments, including projected expenditure schedules for multi-year projects; and

- Transfer payments, including accompanying cost calculations and, in the case of public entities provisional cash-based revenue and expenditure estimates.

These cost estimates must be compiled in an Excel workbook format, separate from the database. No templates have been provided for the calculations required, so as to enable departments and entities to provide the information using the methodology most appropriate to the nature of their policy environment, which takes into account their cost drivers.

In general, the programme breakdown of departments or objectives of entities form the basis of the costing data that must be submitted for review by national or provincial treasuries. Budget submissions must be set out by programme and by entity, and engagements between departments and treasury officials will largely be devoted to understanding and reviewing programme-based and entity-based cost estimates. **Early agreement on the approved budget programme structure of a department is therefore critical**.

The programme and sub-programme costing information may be disaggregated in different ways depending on the nature of the programme. Departments and entities should provide this lower level institutional information in the amount of detail as is appropriate. For example, where programmes of large departments are managed through regional or district organisational structures or decentralised institutions, such as prisons or hospitals - then cost estimates should be separately provided for such structures or institutions.

The unit cost sheet that has been provided in the database is different from this requirement for detailed costing. Once this detailed costing has been completed, the unit cost sheet can be used where appropriate to link relevant programme or sub-programme cost items to a specific programme or sub-programme output.

4. Outcomes, outputs and performance information

Government's strategic and policy priorities are organised into twelve outcome areas. These, in turn, comprise a range of output targets which are reflected in the service delivery agreements signed by Ministers and Members of Executive Council (MECs). Departments and public entities are expected to maintain service delivery records and performance information that can be used for monitoring and evaluation purposes. The Department of Performance Monitoring and Evaluation oversees these processes.

Table 1: Government's twelve outcomes

1. Improved quality of basic education	2. A long and healthy life for all South Africans
3. All people in South Africa are and feel safe	4. Decent employment through inclusive growth
5. A skilled and capable workforce to support an inclusive growth path	6. An efficient, competitive and responsive economic infrastructure network
7. Vibrant, equitable and sustainable rural communities with food security for all	8. Sustainable human settlements and improved quality of household life
9. A responsive, accountable, effective and efficient local government system	10. Environmental assets and natural resources that are well protected and continually enhanced
11. Create a better South Africa and contribute to a better and safer Africa and World	12. An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship

These outcomes involve shared responsibilities of several departments, and require effective cooperation between national, provincial and local government. Cabinet committees and inter-departmental cluster committees are responsible for the coordination and collaboration, and for monitoring implementation. Individual departments and public entities have responsibility for the specific outputs, programmes and projects that contribute to these shared objectives. The MTEF planning process is designed to achieve an allocation of fiscal resources between government programmes and entities consistent with a balanced and cost-effective promotion of these outcome priorities. Departments and entities therefore need to set out their roles and responsibilities relating to government's outcome priorities, as part of their strategic and annual performance plans and budget submissions.

In preparing these plans and submissions, departments and public entities are expected to set out the **outputs and performance indicators and targets relevant to programmes and sub-programmes** (other than administration programmes). This must be considered when reprioritising the budget in the preparation of revised MTEF baseline estimates. Provincial departments must reflect their performance measures as agreed upon per sector and the performance targets set out in their annual performance plans for the upcoming financial years. By means of the formal functional MTECs agreement must be reached between national departments and the National Treasury on the relevant (non-financial) outputs, performance indicators and targets to be included in departmental and entity submissions.

Guidance on strategic and annual planning and on performance information is outlined in the *Framework for Strategic Plans and Annual Performance Plans*, available at [www.treasury.gov.za/publications/guidelines].

5. Medium term expenditure planning: Formal functional MTECs

Government's social and developmental outcomes will only be achieved through effective coordination amongst all three spheres of government. Previous efforts across the spheres such as collaborative programmes and services have frequently struggled to achieve the required degree of cooperation. In partnership with the Departments of Performance Monitoring and Evaluation and of Cooperative Governance, efforts are in progress to improve collaboration between the three spheres of government. The budget process plays a central role in this.

Although government's twelve outcomes do not translate tidily into separate and self-contained expenditure categories, a "functional" grouping of expenditure assists in bringing coherence and rigour to the expenditure planning process.

Building on the functional approach introduced in 2010, the 2012 medium term expenditure planning process will be organised in eight functional groupings or clusters, with both national and provincial departments and entities grouped together where they have concurrent responsibilities. The functional approach facilitates discussions that go beyond the narrow focus of individual administrative units working in isolation, recognising that policy outcomes require cooperation between complementary role-players. Chapter 8 of the *2011 Budget Review* provides a broad overview of government expenditure by function for the 2011 MTEF period and is available at [www.treasury.gov.za/documents].

The functional groups for the 2012 MTEF period are listed in table 2, together with the associated outcomes. This functional approach promotes transparency and better coordination in the budgeting process, and provides an opportunity for improving collaboration between associated departments, programme managers and public entities.

Formal functional MTECs will have responsibility for reviewing the 2012 MTEF budget submissions of all institutions within the functional group in order to make recommendations to the main MTEC on programme allocations, savings, reprioritisation, MTEF spending priorities, provision for personnel establishments, allocations for capital projects and earmarked transfer payments, within a three-year spending envelope approved by the Ministers' Committee on the Budget. These hearings will be convened by the National Treasury, and will provide an opportunity for independent expert advice to be heard and for consultation amongst participating departments and entities as well as representatives of the Departments of Performance Monitoring and Evaluation, Cooperative Governance, Public Service and Administration, and the National Planning Commission.

The main MTEC and the Ministers' Committee on the Budget will need to be advised on the reasoning behind the recommendations of the formal functional MTECs, and will want to see details of reprioritisation within the functional budget baseline. These recommendations will be made through a consolidated report based on individual institutions' submissions and deliberations in the formal functional MTECs. In preparing these recommendations, the formal functional MTECs will need to:

- Bring together key stakeholders contributing to a particular function to discuss policy priorities and spending pressures;
- Review departmental programme plans and public entity plans, associated outputs, performance indicators and performance targets, and their links with government's agreed priority outcomes;
- Work collaboratively, with a view to seeking consensus on 2012 MTEF recommendations, based on submissions from individual institutions;
- Assess revenue projections associated with specific programmes and entities, where relevant;
- Identify and review proposals for savings and baseline reprioritisation, taking into consideration slow spending and spending on non-priority items, among others;
- Where necessary, negotiate and make the required agreements and trade-offs between participating departments and entities to achieve effective cooperation in pursuing relevant outcomes and efficient service delivery;
- Ensure that implementation plans are in place and have been correctly costed and sequenced;
- Identify risks to service delivery and the attainment of outcomes, and appropriate mitigation measures; and
- Address cross-cutting issues within and across functions.

Table 2: 2012 Budget process: Functional groups and main related Outcomes

	National votes	Provincial votes
General Public Services (Outcomes 4, 11, 12)		
Executive and legislative organs	Presidency including National Planning Commission Parliament Traditional Affairs	Office of the Premier Provincial Legislature Royal Household
Financial and fiscal affairs	National Treasury - Programmes: 1-5, 7 and 9 Public Enterprises	Finance
External affairs and foreign aid	International Relations and Cooperation National Treasury - Programme 6: International financial relations	
General services 1	Public Works - Programmes 1, 2 and 5 Performance Monitoring and Evaluation Public Service and Administration	Public Works
General services 2	Home Affairs Government Communication and Information System Statistics South Africa	
Science and Technology (Outcomes 4, 5)		
Basic research and applied research and development	Science and Technology Science Councils	
Defence, Public Order and Safety (Outcomes 3, 11)		
Defence and state security	Defence and Military Veterans National Treasury - Programme 10: Financial Intelligence and State Security	
Police services	Independent Complaints Directorate Police	Safety and Security
Law courts	Justice and Constitutional Development	
Prisons	Correctional Services	
Economic Services and Environmental Protection (Outcomes 4, 7, 10)		
General economic and commercial affairs Mining, manufacturing and construction Other industries	Economic Development Mineral Resources Tourism Trade and Industry Public Works - Programme 4: Property and Construction Industry - Construction Industry Development Board - Independent Development Trust	Economic Development Economic Development and Planning Tourism
Agriculture, forestry and fisheries Rural development and land reform	Agriculture, Forestry and Fisheries Rural Development and Land Reform	Agriculture Agriculture and Land Administration Rural Development
Environmental protection	Environmental Affairs	Conservation and Environment Environmental Affairs and Development Planning

Table 2: 2012 Budget process: Functional groups and main related Outcomes (continued)

	National votes	Provincial votes
Economic Infrastructure (Outcomes 4, 6)		
Fuel and energy	Energy	
Transport	Transport	Roads and Transport Public Transport
Communication	Communications	
Local Government, Housing and Community Amenities (Outcomes 7, 8, 9)		
Housing development	Human Settlements	Human Settlements Housing
Local government and community development (including transfers to municipalities)	Cooperative Governance National Treasury - Programme 8: Technical Support and Development Finance)	Local Government
Water supply	Water Affairs	
Education, Labour and Related functions (Outcomes 1, 4, 5, 12)		
Arts, sport, recreation and culture	Arts and Culture Sport and Recreation South Africa Trade and Industry - National Lotteries Board - National Lotteries Board Distribution Trust Fund Cooperative Governance and Traditional Affairs - The Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities	Sport, Recreation, Arts and Culture
Pre-school, primary and secondary education	Basic Education	Education
Post-secondary and tertiary education Adult education Labour affairs	Higher Education and Training Labour Basic Education - uMalusi Council of Quality Assurance in General and Further Education and Training	Education (Further Education and Training and Adult Education Programmes)
Employment programmes	Public Works - Programme 3: Expanded Public Works Programme All Expanded Public Works Programmes in other national departments	Education Health Social Development Public Works Transport (Expanded Public Works Programme)
Health and Social Protection (Outcomes 2, 8, 12)		
Health	Health Defence - Military Health Support Programme	Health
Social assistance	Social Development - Programmes 2 and 3 - South African Social Security Agency (SASSA)	

Table 2: 2012 Budget process: Functional groups and main related Outcomes (continued)

	National votes	Provincial votes
Health and Social Protection (Outcomes 2, 8, 12)		
Social development and welfare services	Social Development - Programmes 1, 4 and 5 Women, Children and People with Disabilities Presidency - National Youth Development Agency	Social Development
Social security	Social Development - Programme 3 excluding SASSA Health - Compensation Commissioner for Occupational Diseases in Mines and Works Transport - Road Accident Fund Labour - Compensation Fund and Reserve Fund - Unemployment Insurance Fund	

6. Budget process timelines

The 2012 Budget process critical dates, applicable to national and provincial departments and public entities, are set out in table 3. Provincial departments and entities should note that they are expected to follow the specific requirements of their own treasuries and provincial budget processes. Timelines for key budget decisions in the provincial budget process are outlined in table 4. Provincial treasuries will solicit revised baseline estimates from provincial departments and entities by mid-August, in order for consolidated provincial estimates to be prepared. These Guidelines should thus be read together with the *Provincial Budget Process Schedule* and *Guide for Provincial Budget Formats*, available at [www.treasury.gov.za/publications/guidelines].

With respect to concurrent functions, national departments must reach an agreement with their provincial counterparts about expenditure they plan to propose in the province in the 2012 MTEF, and include recommendations from meetings held by the national and provincial sector departments and the formal functional MTECs. These national departments must have separate submissions, for the national department itself and for its provincial counterparts.

Table 3: Critical dates[1] for the 2012 budget process

Departments receive Medium Term Expenditure Framework (MTEF) guidelines and MTEF database templates	Mid-July 2011
Information sessions on MTEF guidelines	July 2011
Departments submit revised drawings after rollovers	29 July 2011
Departments submit proposals for budget programme structure revision to National Treasury	29 July 2011
Budget submission 1: Departments submit reprioritised expenditure estimates, database and supplementary information	10 August 2011
Budget submission 2: Departments submit expenditure estimates, database and supplementary information following Formal functional MTEC engagements recommendations made	31 August 2011
Medium Term Expenditure Committee (MTEC) starts	16 August 2011
Departments' final date for submission of Treasury Committee memoranda (2011/12 unforeseeable and unavoidable expenditure)	22 August 2011
Departments submit Adjusted Estimate chapters, database and Adjustments Appropriation Bill	15 September 2011
MTEC ends	End of September 2011
Treasury Committee	20 September 2011
Departments submit final adjustments estimate inputs (database and chapter including expenditure until end of September and additional funds allocated, as well as Adjustments Appropriation Bill)	10 October 2011
Adjustments Appropriation and Adjusted Estimates tabled in Parliament	25 October 2011
Estimates of National Expenditure (ENE) guidelines to departments and entities	4 November 2011
Inputs from departments for revised drawings after Adjusted Estimates	4 November 2011
ENE database to departments and entities	11 November 2011
Allocation letters to departments	25 November 2011
Departments submit first draft of ENE chapter, database and Appropriation Bill	7 December 2011
Departments submit revised (2nd draft) ENE chapters, databases and Appropriation Bill (including revised spending estimates for 2011/12)	10 January 2012
Budget Day – Budget tabled in Parliament	February 2012

Table 4: Provincial budget timelines[1]

Executive Committee (EXCO) considers spending priorities	May – September 2011
Provincial technical committees consider key spending pressures Policy discussions with line departments	May 2011
Revise macroeconomic framework and Annual Performance Plans (APPs)	July – September 2011
EXCO considers in-year pressures and policy priorities for upcoming MTEF	September 2011
Adjusted Estimates tabled in legislature	October/November 2011
Provinces prepare/ finalise budget and planning documentation	December 2011
Provincial budgets tabled	February 2012

[1] Dates are subject to change. Some dates for key meetings, such as the Ministers' Committee on the Budget and parliamentary hearings are not yet finalised.

7. What must be included in budget submissions

In compiling budget submissions for the 2012 MTEF institutions are required to ensure that the resources in their baseline allocations are effectively reprioritised towards government's twelve outcomes and other key government priorities.

Departmental submissions must be set out by programme and sub-programme. Costed expenditure estimates, in the form of the database and the Excel workbook, must be accompanied by an explanatory narrative. The narrative should include the following, where relevant:

- Statutory authority for spending programmes, and relevant policies, regulations and programme documentation;
- Contribution to identified outcomes and other key government priorities;
- Programme outputs, performance indicators and targets;
- Discussion of performance against output targets indicated in the 2011 Budget, as well as projected outputs for new policy priorities;
- Implications for job creation;
- Details in respect of proposed savings measures and reprioritisation to achieve more cost-effective service delivery or planned new activities;
- Alternative or complementary sources of funding such as revenue generated by institutions' activities, donor finance, and new public private partnerships (institutions are to include a separate sheet in the Excel workbook);
- Where relevant, details of interdepartmental, provincial or municipal implementation plans, co-funding or complementary activities, including progress on the implementation of conditional grants and scheduled information required in respect of existing or new conditional grants;
- Other relevant information; and
- A declaration of all requests made for funding from the Jobs Funds. Allocating the Jobs Fund is a separate process which is administered by the Development Bank of Southern Africa (DBSA). All the request documentation must not be included in the budget submissions, only summary information must be provided.

Reporting against past performance

Performance information contained in submissions will be analysed to assess, among other things, whether value for money has been realised over time in respect of previous budget allocations. Reporting on performance should be based on performance indicators that (i) reflect policy priorities that were funded in the 2011 budget, (ii) relate to the twelve national outcomes, (iii) relate to outputs that will be achieved over the MTEF period, and/or (iv) are included in provincial budgets for concurrent function departments.

In consultation with the relevant Treasury analyst, a department can report on additional performance indicators and targets that were not reported on last year, and should provide reasons if not reporting against previously published performance indicators and targets. Information must be provided for the past three financial years, the current financial year and the next three years, and **all details are to be reported per programme or sub-programme**. Public entities may report against outputs specified in the shareholder compact or service level agreements between the departments and public entities, and those that have been approved by the board of directors. Performance information for provincial departments must be reported for the same period prescribed for national departments, based on targets set in the 2011 provincial departments' annual performance plans.

When reporting for the current financial year, the progress for April to June 2011 against the 2011/12 targets must be included. Departments are to monitor their relevant entities and report on their progress against targets set for 2011/12.

Baseline assessment and reprioritisation

Baselines will be determined using the departmental indicative baseline as a starting point. The assessment of baselines should be done at programme and sub-programme level. The process and methodology used by departments in the assessment should be detailed in the explanatory narrative submitted. The following factors should be considered when baselines are assessed:

- Funds should be reprioritised from underperforming or less significant programmes and projects to high level priorities;
- Amounts budgeted for conditional grants should not be reprioritised to other spending items except when providing evidence of underperformance;
- Funding for key service delivery personnel should not be reprioritised to other spending items;
- Funds that have been earmarked in the past and funds for infrastructure projects that have been planned should not be reprioritised to other spending items except when providing evidence of underperformance;
- Spending commitments associated with the twelve outcome priorities, or specific policy commitments by Ministers or Cabinet that have not been funded, must be prioritised within the department's own reprioritisation of funds over the 2012 MTEF period; and
- Specific savings measures and non-core spending items should be identified and costed.

It is the responsibility of CFOs to provide a **summary of the programme and sub-programme baseline analysis** undertaken by the department or entity. Joint review exercises that include treasury officials, where practical, should form part of this assessment process.

Database

Budget submissions must be accompanied by a completed database in the required format. This includes:

- Estimates of recurrent expenditure by programme and sub-programme, reprioritised in order to attain targeted outputs;
- Estimates of project expenditure and other non-recurrent activities by programme and sub-programme;
- Detail of reprioritisation of baseline funds;

- Performance information in related to expenditure estimates, by programme or sub-programme;
- Public entity allocation projections, linked to relevant departmental programmes and outputs, wherever possible;
- A unit cost template is provided in the database and can be used where it is appropriate;
- Details of employment creation and related expenditure estimates based on the categories[2] provided in the database (where applicable);
- Details on infrastructure spending; and
- Official development assistance funding.

Public entities

The 2012 MTEF functional budget approach requires departments to be conversant with the detailed information for all public entities associated with the department. This includes financial estimates and performance information, organised where appropriate in line with the entity's specific objectives and activities. Entity budgets will be discussed in the relevant Formal functional MTEC process.

A database template will be sent to each entity for completion. The format of the template is generic in that it has been designed to hide variables that are specific to certain types of entities. Broadly four types of entities have been identified: Sector Education and Training Authorities, social security funds, financial entities, and all other entities. To enable the National Treasury to consolidate the entities into the consolidated government account, transactions between entities and the rest of government must be identified. For this purpose, the related party sales sheet must be completed.

Budget submissions must be accompanied by a completed database in the required format. This includes:

- Summary of the statement of financial performance, statement of cash flow and statement of financial position;
- Costing of outputs;
- Job creation and employment statistics;
- Spending on infrastructure for all entities engaged in the infrastructure projects (including construction and maintenance); and
- Related party sales.

Information required in the database template must be signed off by the Accounting Officer of the entity and submitted to the National Treasury. A more detailed technical guide will be distributed with the database templates. Entities are encouraged to use the technical guide.

[2] A separate sheet will be provided in the MTEF database template for this information and associated costs.

8. Programme and public entity budget requirements

For appropriation purposes, programme budgets comprise the following main elements:

- Compensation of employees;
- Goods and services;
- Transfer payments;
- Payments for capital assets; and
- Payments for financial assets.

Details in respect of these categories need to be completed in the database template. The database also makes provision for showing the results of the reprioritisation of funds by programme, sub-programme and economic classification, in line with institutional outcomes and outputs.

In addition as the information required for costing these categories of spending varies considerably, budget submissions must be supplemented by a separate Excel workbook with costing calculation details. In order to enable consolidated expenditure estimates to be prepared, budget projections for public entities must also be organised into these categories.

Compensation of employees

The baseline allocations for departments and public entities include amounts specifically set aside for the "funded personnel establishment". In cooperation with the Department of Public Service and Administration, national and provincial treasuries aim to improve the quality and reliability of planning and budgeting for personnel costs. Compensation of employees at the consolidated government level amounts to about R340 billion in 2011/12, and comprises over one-third of total expenditure.

In order to improve alignment between collective bargaining and the budget process, it is envisaged that the annual inflation-related adjustment to public service remuneration would, with effect from 2012, be implemented in April, across all national and provincial departments. Certainty about the annual adjustment will facilitate better planning and costing of career progression arrangements, and revisions to the size and structure of personnel establishments. Ahead of the finalisation of appropriations to be tabled in Parliament and the provincial legislatures, it will also contribute to the exercise of Parliament's authority over public expenditure on compensation of employees.

Departments and entities are reminded that they are required to budget for the full costs of personnel, including increases in staff establishment, temporary or supplementary personnel, overtime allowances and other benefits, as well as the annual inflation-related adjustment. **All aspects of compensation of employees funding must be provided for within the budget baseline.** For the MTEF period ahead, budgets for salaries and wages should be prepared on the basis of the following annual increases, which are calculated as the CPI projection plus 0.5 per cent:

April 2012: 5.8 per cent

April 2013: 6 per cent

April 2014: 5.5 per cent.

Goods and services

"Goods and services" refers to current expenditure other than compensation of employees and interest. Itemised costing of goods and services should include the main purchases required for specific programmes and activities. This is also an area of spending in which opportunities for savings and more cost-effective service delivery may be possible.

Departments or entities with responsibility for infrastructure should pay particular attention to the costing of maintenance and rehabilitation of infrastructure in costing goods and services expenditure. It should be noted that when costing infrastructure and IT capital projects, these costs should be included together with the budgeted costs for the capital asset itself.

In budgeting for goods and services, provision must be made for all inflation-related cost increases. The following CPI assumptions can be used for price increases for general goods and services for the MTEF period ahead:

2012/13: 5.3 per cent

2013/14: 5.5 per cent

2014/15: 5.0 per cent.

Transfer payments

Transfer payments include social grants and other payments to households, subsidies to non-governmental organisations, subsidies to businesses, operating grants or capital contributions to public entities or education institutions, payments to international organisations and transfers to other spheres of government. In costing or projecting these expenditures, account must be taken of their specific purpose and design and statutory or contractual requirements. Budget submissions should include details of all transfer payments, underlying cost drivers or allocation rules and relevant conditions, assessment criteria and risks.

Budget projections for all categories of transfer payments must include provision for annual inflation-related adjustments. In the absence of more directly relevant indicators, the CPI projections for the period ahead may be used for this purpose.

Payments for capital assets

Departments and public entities are expected to include details of capital projects in progress, under design or planned for the period ahead in their budget submissions. This should include detail of major IT system projects, whether in progress or in planning[3]. Departments or entities with substantial infrastructure responsibilities should also provide a longer term perspective, including plans for addressing identified backlogs and future infrastructure needs.

Guidelines on capital projects appraisal are available on the National Treasury website. In keeping with standard project management practice, budgeting for capital projects should include appropriate allowances for inflation-related cost escalations and provision for contingencies. Maintenance and rehabilitation costs are estimated as part of goods and services expenditure.

[3] It should be borne in mind that currently there is a moratorium on the purchase of IT software.

9. Infrastructure and capital projects/programmes

Improved planning and cost-effective implementation of infrastructure projects are key requirements for strengthening capacity of the economy and ensuring that services are available to all South Africans.

National and provincial departments and public entities are reminded of the requirement to prepare User Asset Management Plans, in keeping with the provisions of the Government Immovable Asset Management Act. Provincial departments, and national departments administering conditional grants, should also note the requirements of the Division of Revenue Act of 2011 in this regard. A valuable contribution to improved infrastructure planning and management is also made by the Construction Industry Development Board (CIDB) toolkit, which is of particular relevance to departments with extensive building and construction works programmes. The toolkit is available on the CIDB website at [www.cidb.org.za].

National Treasury has issued the *2012 Capital Planning Guidelines*, available at [www.treasury.gov.za/publications/guidelines] aimed at more rigorous evaluation of project lifecycle costs, benefits and risks, at improving the prospects that projects are implemented on time and within budget, and at ensuring that capital spending yields the intended outcomes and service delivery improvements. These Guidelines signal the beginning of continuous appraisal and evaluation of capital projects. Large and mega projects will now be evaluated on an ongoing basis throughout the year against rigorous evaluation criteria. The annual budget process timelines will provide the opportunity for projects which have been appraised to be submitted for funding consideration. **Large and mega projects that have not been appraised, will not qualify for funding consideration.** Institutions are encouraged to carry out planning for their infrastructure projects on an ongoing basis so that they are properly aligned with their asset management plans.

Infrastructure and IT capital project plans and expenditure estimates of national departments and public entities, including detailed supporting documentation, must be included in budget submissions to the National Treasury by 10 August 2011. For large and mega projects the *Capital Planning Guidelines* must be referred to in order to ensure that the specific requirements are met.

In several national and provincial departments, capital spending and maintenance of infrastructure has fallen short of both plans and budget allocations in recent years. For the purposes of the 2012 Budget, national and provincial treasuries will seek clear assurances that spending capacity and the required management capacity are in place, before allocations for infrastructure projects are made. Where necessary, funds will be shifted from underperforming programmes or entities, or will be postponed until future years.

10. Official development assistance (ODA)

Official development assistance includes both cash and in-kind contributions. Reporting on official development assistance needs substantial improvement in light of the lack of sufficient funding information received in prior financial years from departments and entities. Each department, province or entity is required to provide a comprehensive schedule of all donor funding by programme or objective/activity and economic classification over the seven year period, a brief description of what the funds will achieve (outputs) and the associated timelines (template provided in the database). The information for in-kind contributions must be accurate;

the information should be available within the national or provincial department or entity however, any additional information required should be obtained from the relevant donors. Specific outputs that are concise and comprehendible per donation must be stipulated on the donor funding sheets in the database.

South Africa's development cooperation agreements with international partners include substantial allocations for sectoral or general budget support. In order to ensure that these resources are allocated appropriately, taking into account policy priorities and pressing development challenges, the 2012 budget process will include a consultative workshop on international development cooperation and a competitive process for the allocation of the general budget support funds. The latter are funds that donors pay directly into the national revenue fund, from where allocations are made to institutions.

Recommendations on the use of general budget support funds of approximately R2 billion over the 2012/13 to 2016/17 period will be made based on proposals submitted by departments together with the budget submissions of departments and entities, on 10 August 2011. These will be assessed by the ODA Budget Committee and recommendations will be made to the main MTEC.

Proposals for general budget support funding will be assessed in light of the general guidance in these Guidelines and considering the criteria set out below:

- Their direct contribution to the achievement of outcome 4 or outcome 12;
- Alternatively proposals that contribute to outcomes 5, 10 and 9; and
- Projects and programmes must also demonstrate how they support new and more effective ways of implementing government policies and priorities - demonstrating innovation, new approaches, risk mitigation, leveraging of current resources, skills transfer and addressing capacity gaps.