



# 2021 MTEF

**MEDIUM TERM EXPENDITURE  
FRAMEWORK**  
TECHNICAL GUIDELINES

**PROVINCES**



**national treasury**

Department:  
National Treasury  
**REPUBLIC OF SOUTH AFRICA**





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# **2021 MTEF Technical Guidelines for Provinces**

GUIDELINES FOR THE PREPARATION OF  
EXPENDITURE ESTIMATES FOR THE 2021  
MEDIUM TERM EXPENDITURE FRAMEWORK  
(MTEF)

August 2020

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## **1 PURPOSE**

- 1.1** The Medium-Term Expenditure Framework (MTEF) Technical Guidelines for Provinces provide public institutions with guidance on how to prepare their medium-term budget estimates for the 2021 Budget. The guidelines are issued in accordance with section 27(3) of the Public Finance Management Act (PFMA), Act No. 1 of 1999. It imitates the prescribed guidelines for national government departments and public institutions to ensure intergovernmental alignment between the national and provincial budgeting processes.
- 1.2** The aim of these technical guidelines ensures that the documentation prepared by provincial departments and other provincial institutions provide all the relevant information on the main strategic proposals and recommendations in respect of the budget as required by the budget decision-making structures, such as Budget Council, MINCOMBUD, Cabinet and Provincial Executive Councils.

## **2 INTRODUCTION**

- 2.1** Since 2008/09, there has been a large and growing gap between government spending and tax revenues, resulting in exponential growth in borrowing to fund the fiscal gap. In response, government has taken steps to reduce non-interest spending growth and raise tax revenue. However, due to lower nominal GDP and revenue growth, these interventions have not stabilised debt. Debt-service costs continue to be the fastest growing area of spending, accounting for 21 cents out of every rand of government revenue raised in 2020/21. Over these years, the stock of government net loan debt rose six-fold from under R500 billion in 2007/08 to nearly R3 trillion at the end of 2019/20.
- 2.2** The COVID-19 pandemic has set in motion major economic turbulence that slowed down the global economy. Domestically, COVID-19 has further exacerbated the precariousness of the public finances, which had already reached an unsustainable position before the pandemic. As indicated in the Supplementary Budget Review the economy is expected to contract by 7.2 per cent this year. All sectors have experienced a sharp downturn and millions of jobs are at risk, while millions of households are going through increasing hardships. Government has had to deploy a range of fiscal and monetary measures to address the adverse effects of the pandemic, limit the economic damage, and support recovery.
- 2.3** Nevertheless, the current spending path implies that fiscal deficits would remain higher than 12 per cent of GDP for the foreseeable future. This is a key reason for South Africa losing its investment-grade credit rating by all ratings agencies. Allowing fiscal buffers to weaken hampers South Africa's policy response to shocks, including the current pandemic, and government has resolved that this should be rectified going forward. Such high deficits place enormous pressure on South Africa's financial

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sector and the real economy. With savings levels quite low, high government deficits will expose the country to higher borrowing risks, push interest rates upward and extract from growth through lower private sector investments. In the event of a debt default or fiscal crisis, the National Treasury has estimated that this would cost the country at least R2 trillion in lost economic activity by the end of the decade.

- 2.4** Gross tax revenue for the 2020/21 fiscal year is revised down from R1.43 trillion to R1.12 trillion, which creates a R304.1 billion shortfall. The 2021 MTEF will achieve R230 billion in savings over the first two years, beginning with R90 billion reduction in overall non-interest spending in 2021/22. The 2023/24 baseline will carry through these measures, with the aim of achieving a primary surplus and stabilising debt in that year.
- 2.5** If these reductions are not achieved, and fiscal consolidation is unsuccessful, government debt will exceed 100 per cent of GDP in the medium-term. This will signal the emergence of debt distress episodes as a vicious cycle of high borrowing rates and low growth leading to ever deeper debt spirals, lower investment and lower economic output. Targeting sustainable public finances is also critical for maintaining policy flexibility and sovereignty, as harsher measures will be required by lenders of last resort.
- 2.6** South Africa's economy is resilient and can be rebuilt and stabilised. For the purposes of the medium-term, measures towards fiscal consolidation and debt stabilisation should be accompanied by a refocusing of spending from consumption to investment in strategic economic infrastructure.
- 2.7** The National Treasury in collaboration with provincial treasuries and national departments will be undertaking spending reviews to contribute to the fiscal consolidation process. In this regard, there should be no "holy cows" and no spending items will be automatically protected from possible downward adjustments.
- 2.8** Through the budget process, public institutions are to plan succinctly, collaborate, negotiate and decide collectively on a comprehensive government-spending plan, including an immediate response to the COVID-19 pandemic. The reduced fiscal limits, requires resource allocation in the most effective and efficient way to meet the policy objectives of South Africa, as set out in the Constitution and the National Development Plan.

## **3 SPENDING REVIEWS**

- 3.1** It has been some years since the introduction of the MTEF budgeting process in the 1999/2000 Budget. Since then government has created numerous spending programmes, with limited review of their effectiveness and appropriateness in the current environment. The Minister in the budget speech indicated that spending reviews will be undertaken to ensure effective use of limited resources. Therefore, a series of spending reviews will be conducted in this current budget cycle in line with the active scenario approach.

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- 3.2** The envisaged spending reviews provide a detailed understanding of policy and programme logic, which is combined with available expenditure data from government (BAS, PERSAL, Management Accounts). In a series of systematised steps, expenditure is analysed, unit costs are clarified and cost drivers are recognised. This analysis aims to provide a thorough understanding of baselines and a strong empirical base for clear recommendations to decision-makers.

## **4 PRINCIPLES FOR THE 2021 MTEF**

- 4.1** Strengthening South Africa's competitiveness in a post-pandemic world will require a new social compact, decisive action to stabilize debt and narrow the budget deficit, and determined implementation of reforms that improve the structure of the economy.

- 4.2** The following are the main principles guiding this year's budget submission:

- The deteriorating macro-fiscal outlook means there are NO additional resources available for the 2021 MTEF Budget. This means that any additional allocations to a programme will need to be funded through reductions in another programme, either within the department's budget, or from other departments' budgets.
- Reductions to fund additional allocations should avoid actions that would harm the provision of constitutionally mandated programmes, but should pursue efficiencies and reforms in the operational modalities of those programmes.
- The aim of the 2021 MTEF Budget is fiscal consolidation for the purpose of stabilising public debt. The total non-interest expenditure baseline for 2021/22 and 2022/23 has been revised downward. There will also be no nominal baseline increase in 2023/24.
- The actual amount of the downward reductions in baselines will be informed by the outcome of spending reviews and other analysis.
- Special attention will be placed on the necessary budget information of Public Institutions. These institutions will be required to submit detailed information to both their executive authorities and the Provincial Treasury.
- The 2021 MTEF process aims to change the composition of spending towards spending that stimulates economic growth, particularly in areas of infrastructure investment. In giving effect to this, the provisional wage reductions announced in the 2020 Budget have already been effected on departmental and institutions' baselines. Moreover, Compensation of Employees will not be exempted from the reduction communicated above.
- All departments will be expected to implement stringent compensation containment measures such as early retirement without penalisation, the active management of performance bonuses in line with relevant DPSA circulars, as well as the active management of overtime and progression payments where possible

- New applications for funding of costs related to early retirement will be processed through the regular budget process within the relevant sphere of government, as was done previously. Institutions are, therefore, requested to utilise the prescribed process in terms of section 16(6) of the Public Service Act, 1994.
- 4.3** The 2021 Budget must also change the **composition of spending** towards the exceptional demands inflicted by the pandemic and reprioritise spending that stimulates economic growth and the achievement of greater value for money in realising service delivery priorities.

## **5 BUDGET SUBMISSION DOCUMENTATION REQUIREMENTS**

**A complete budget submission consists of the following requirements:**

- 5.1 Narrative Report:** Each department should submit an explanatory narrative report to its provincial treasury. It is important to keep in mind that this explanatory analysis of the institution's budget is the determinant of the credibility of its budget. The report explains the context for the budget, indicates where expenditure reductions can be implemented and the impact of this on service delivery indicators. It also should provide the department's rationale for expenditure recommendations over the medium term and must be clear as it is aimed at helping decision makers reach conclusions on the basis of evidence and the evaluation of performance. Provincial Treasuries need to consolidate these narratives and submit with the first database to the National Treasury by **7 September 2020**.
- 5.2** The narrative report must be a comprehensive report that includes the following elements, together with their underlying reasoning:
- departments need to explain the alignment of their budgets and identified key policy priorities that guide resource allocation;
  - the general current status of the institutional budget and the trends in the achievement of deliverables (including conditional grants) and in programmes, underlying cost assumptions and prevailing issues; Composition of spending must discuss trends, issues and challenges per economic classification over the seven-year period, i.e. in respect of compensation of employees, capital spending, goods and services, transfers and subsidies and other relevant elements of the budget defined by economic classification.
  - Value-for-money must explain the departments' plans to improve efficiency, realise savings, contain costs and improve value-for-money, with particular reference to supply chain management, procurement and strategic sourcing. Savings realised through the value-for-money plan could be reallocated towards priority areas. Guidance on the initiatives undertaken by the Office of the Chief Procurement Officer (OCPO) to decrease procurement costs can be found on the OCPO website.

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- information on the programmes and projects to be scaled back, rescheduled to a later period or closed, in order to raise resources for higher-priority programmes;
- the costed implications of spending pressures on existing programmes / policy areas / projects and proposed initiatives to manage them;
- the current status of the public entities receiving transfers from the department, including underlying cost assumptions, prevailing issues and their trends. Consideration should be given to closing down some public entities or transferring their functions back into their designated provincial departments.
- explain baseline increases and decreases of the proposals to reallocate spending between programmes or economic classifications with a view of addressing cost pressures or better aligning resources with identified priorities. The budget implications must be quantified and a rationale must be provided for the source of funding.
- The narrative must explain the departments' plans and intentions in respect of establishment headcount management, recruitment and human resource development with a view to operating within its compensation of employees' expenditure ceiling. Notwithstanding the provisions of the wage agreement for 2020/21, departments are urged to proceed budgeting for compensation of employees using the COE Guidelines published on National treasury's website.
- In determining 2021 MTEF budget proposals, institutions must not reprioritise funding away from on-going infrastructure projects. Reprioritisation of infrastructure projects must be done within the scope of the institution's infrastructure plan, and target projects still in their planning phase. Cognisance must be taken of the life cycle costs, including maintenance and operational requirements, regarding all capital infrastructure. The Capital Planning Guidelines must be consulted in this regard.

**5.3 MTEF databases:** The data submission consists of the departmental and public entities databases that provide data to support the information contained in the institution's budget explanatory narrative submission. ***First draft budget submissions must be received by the National Treasury by 7 September 2020.*** These data submissions inform budget engagements at functional and sub-functional meetings.

**5.4 Estimates of Provincial Revenue and Expenditure (EPRE) chapters:** The information contained in these chapters intend to provide stakeholders with sufficient detail of what departments and public entities intend achieving in the coming MTEF period.

**5.5 Conditional grant business plans:** Conditional grants for the year ahead requires that the business plans be submitted two weeks after the Division of Revenue Bill has been enacted. Business plans seek to promote sufficient planning at the provincial level before the eventual execution that requires funds. Planning should focus on how their envisioned activities for the year, using conditional grant allocations, allows them

to appropriately apportion funds to achieve the government priority that each grant seeks to address.

- 5.6** Although business plans are submitted yearly, they technically form part of a much longer planning horizon, particularly where infrastructure is concerned. As such the business plan for the year shows the activities that will be carried out for a year, and how the activities link with outputs, and in the long run address the priorities under which the grant was created. It is important to ensure that the dates, activities that will take place, the outputs expected from the activities, and when they are expected, are spelt out. This is especially important for activities that are sequential and are required before other activities can be carried out.

Based on an activities and output execution plan, the projected cash flow, matching the dates of the activities will need to be provided. Activities, outputs, and cash flow projections are necessary but not the only inputs into business plans. Business plans should also demonstrate how activities will allow the achievement of some outputs, which eventually should be linked to the outcomes of the grants. Risks to the projected activities, and mitigation strategies against them, should also be spelt out. Business plans templates provided by the national departments responsible for monitoring the grants should be a guiding principle when drafting plans.

- 5.7** **Infrastructure:** Infrastructure projects and programmes must be undertaken following the Infrastructure Delivery Management System supported by the Framework of Infrastructure Delivery and Procurement Management (FIDPM). Infrastructure (User) Asset Management Plan must be prepared and updated annually outlining the asset activities and resources required, to provide a defined level of service, in the most cost-effective way. The plan must include a list of programmes and projects for a minimum period of five years or more. The IAMP/UAMP must inform the development of the Infrastructure Programme Management Plan (IPMP) and Infrastructure Procurement Strategy (IPS) which specifies what the department intends to achieve in the next 3 years of implementation of projects/programmes. This will ensure that all programmes implemented over the MTEF period are aligned with broader strategic objectives of government. The infrastructure investments in the IPMP should inform the project list that must be tabled as part of EPRE (Table 5) which comprise of the project/programmes that are committed and have not been completed (all projects that have not reached hand-over/final completion) from the previous financial year, and additional projects/programmes to be implemented over the MTEF. The Infrastructure Reporting Model (IRM) is configured for the capturing of multi-year projects and the export of project information to the Table B.5 which will ensure consistency of project/programme information. Departments are required to capture project/programme information over the MTEF on the IRM and export Table B5 for EPRE publication.

## 6 THE BUDGET PROCESS AND REFORMS

- 6.1 The MTEF details three-year rolling expenditure and revenue plans for provincial departments and public entities.
- 6.2 The MTEF budget process is designed to match the overall resource envelope, estimated through 'top-down' macro-economic and fiscal policy processes, with the bottom-up estimation of the current and medium-term cost of existing departmental plans and expenditure programmes.
- 6.3 The budget process ensures that resources are allocated to meet South Africa's developmental needs and priorities, and to improve the quality and effectiveness of spending within sustainable fiscal limits.
- 6.4 Draft annual performance plans must be submitted to Offices of the Premier on the 31st October 2020 and National Treasury requires Provincial Treasuries to submit a second budget submission and Estimates of Provincial Revenue and Expenditure on 20th November 2020.

### Planning and Budget Reforms

#### *Revised Framework for Strategic and Annual Performance Plans (2019):*

- 6.5 The purpose of the Revised Framework is to build on the foundation of the 2010 Framework for Strategic Plans and Annual Performance Plans, reaffirm the planning logic and institutionalise planning to enable better service delivery. The planning principles to be implemented through the Revised Framework aim to focus the planning approach towards achieving results; standardise the concepts used in short and medium term planning instruments; streamline the planning, monitoring and evaluation processes; and increase learning and innovation through improved use of evidence and the findings from monitoring and evaluation.
- 6.6 The Framework also aims to:
- Institutionalise government's national development planning agenda through institutional plans.
  - Institutionalise planning for women, children and people with disabilities
  - Provide information on the relevant legislation which informs planning in government
  - Institutionalise the Results Based methodology
  - Provide planning tools, which can be used for the different types of plans
  - Outline the alignment between planning, budgeting, reporting, monitoring and evaluation processes
  - Provide the definitions for the various planning, reporting, monitoring and evaluation concepts

- Outline the roles and responsibilities of various stakeholders and institutions who participate in the planning processes
- Encourage evidence based policy making, planning and implementation

### ***Climate Change***

- 6.7** Climate change has and continues to pose significant social, economic and environmental risks and challenges globally, and as a result it has transformed fiscal landscapes around the world. Like many other developing countries, South Africa is especially vulnerable to the impacts of climate change.
- 6.8** Responding to this exigent challenge, South Africa has laid a solid foundation of policies to support the international climate change and transition agendas. The NDP advocates for a transition to a low-carbon, resilient, and just society and the Integrated Resources Plan (IRP 2019) provides guidance on how to de-commission aging coal power stations and the future expansion of the national energy mix in response to the country's growing energy demand.
- 6.9** Fiscal policies and instruments have a major role to play in South Africa's effort to meet its long-term climate change commitments and national development goals. National Treasury established in 2019 an internal working group on climate change to share knowledge and expertise across all levels of the public financial management domain. Various projects were identified and initiated to further its response to climate change, among others:
- Diagnostic of NT's role on climate change: taking stock of what National Treasury is doing with regards to climate change;
  - Climate Budget Tagging: integrating climate change into the fiscal framework and budget processes;
  - Climate smart infrastructure investment;
  - Carbon pricing; and
  - Sustainable and resilient cities.
- 6.10** Further engagements are envisaged at sub-national level to intensify the awareness and futuristic readiness for climate change. While these reforms are formalised for implementation over the MTEF, provinces are encouraged to remain sensitive to the climate change demands and take interim budgetary precautions to alleviate the impact thereof.
- 6.11** The 2020 budget review highlighted the risk of reactionary measures to combat climate change. As extreme weather patterns are becoming more frequent as a result of climate change, climate damages on infrastructure and economic sectors have put basic services and infrastructure under threat which in turn, strain public budgets. While parts of South Africa continue to grapple with a years-long drought, severe floods and storms there is limited data on the investment government is currently making towards climate change. Integrating climate change into the budget process

is required to understand and improve resource allocation efficiency and is a necessary step towards meeting South Africa's long-term climate goals.

***Budget tagging definition: it is a tool that identifies, classifies, weights and marks relevant expenditures in a government's budget system, enabling the estimation, monitoring and tracking of those expenditures by providing data on government's allocations or existing spending. Information gathered via tagging will be used to inform policy discussions.***

**6.12** Many countries have used tagging as a tool to identify spending on areas of interest. Tagging climate-related expenditures is a useful starting point for understanding whether spending is aligned with the needs, given climate risks and vulnerabilities facing the different sectors and parts of the society. This will be done in a phased approach as some sectors are affected more than others. We are requesting your cooperation in making this process a success. ***This process to develop climate budget tagging (CBT) guidance materials, including methodologies and how-to guide, and support capacity building and the implementation through testing and pilot implementation at national, provincial and local level will run over the 2020/21 financial year.*** Provinces should expect further engagements as the process gets started, and for further information can contact the respective budget analyst at National Treasury.

### Provincial budget process

**6.13** The budget process allows government to:

- Prepare the 2021/22 expenditure estimates in the context of enhancing service delivery and ensuring value for money.
- Navigate and realign its strategic intent to meet the demands and challenges culminating from the current COVID-19 pandemic.
- Strengthen and evaluate the alignment between medium and long-term plans.
- Revise its policy priorities, macro-economic framework and resource envelope.
- Evaluate departmental plans in line with the national and provincial priorities.
- Involve various role-players that provide political and technical advice when faced with trade-offs between competing spending priorities.
- Focus on changing the structure of the economy from a resource extraction economy to a more production-led economy that can create employment opportunities.
- Focus on fiscal prudence by way of cost-cutting, ensuring enhanced service delivery, as well as value for money.

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- Compile a reprioritised budget (with the focus on cost-cutting) that is aligned with the national priorities, as well as provincial priorities. Note that this approach builds on previous years' budget reforms.
- Obtain the required authority (voting process) from the Provincial Legislature to spend the allocated budget.

### Recommended approach to Provincial MTECS

**6.14** In order to enhance the integration of policy alignment, planning, budgeting and implementation, provinces are encouraged to adopt the similar approach to the national MINCOMBUD technical committee. Therefore, provincial MTECs should be used as one of the platforms that encourage joint planning between departments, municipalities and public entities. This will further promote the alignment of provincial budgets with strategic planning documents such as the PGDS, NDP, 2019-24 MTSF, IDPs and Spatial Development Frameworks in support of inclusive growth and transformation.

**6.15** Provincial MTEC committees should make recommendations to provincial MINCOMBUD equivalent, Premiers' Budget Committees, Provincial Executive Councils and other political structures tasked with taking final decisions on the budget proposals. Discussions at provincial MTECs should be led and chaired by Provincial Treasuries, which also assesses the allocative efficiencies of provincial budget taking into account the current fiscal climate affecting the provincial fiscal framework. However, it is highly recommended that the MTEC committees in provinces also be inclusive of the following provincial stakeholders:

- **The Head of Provincial Planning Unit**, who is working in the Offices of the Premier in most cases. This is to ensure that budget proposals presented by provincial departments align to the strategic direction of both the province and the national government. Departments will have to demonstrate the responsiveness of their budget to the policy and delivery context envisaged by government.
- **The Head of Provincial Spatial Planning Unit**. This should aim to ensure that departments' plans and budgets transversally align to and support one another in a space and jointly with other spheres of government target the predetermined spatial locations for maximum impact. Some of the spatial challenges that the country face, include the highly fragmented spatial development, dispersed developments, and socioeconomic fragmentation and polarisation, with the poorest communities often located far from economic and social opportunities. Therefore, the integration and alignment of planning and budgeting should seek to promote local economic development while improving the quality of life.
- **Senior officials from the Department of Cooperative Governance/Local Government** responsible for the assessment of municipal IDPs. This should aim to promote a better coordinated approach to integrated planning between provincial and local government. Both provincial departments and municipalities should be encouraged to respond on the extent to which government priorities have been integrated into their various planning processes as well as policy and budget documents.

## Benchmark Process

**6.16** National Treasury's led benchmark exercise has evolved since the 2002 MTEF. The main objectives of the Benchmark exercises are to assess to what extent provincial MTEF draft budgets give effect to the agreed sector priorities. These deliberations also highlight possible risks in the budgets and propose measures to manage these risks. Sector Benchmark meetings are held for Education and Health in collaboration with the respective national departments to discuss policy dynamics particular to these sectors.

**6.17** The main objectives of the ***Benchmark exercise meetings to be held in December 2020*** are to:

- Assess provincial MTEF draft budget including the extent to which the province's budget gives effect to the agreed social sector priorities,
- Highlight possible risks in the budgets and propose measures to manage these risks;
- Give a critical view of the draft provincial budget as per the November submissions;
- Highlight key issues and challenges from National Treasury's perspective; and reach an agreement on key aspects affecting the provincial budget;
- In addition to budget assessment, focus is on improving efficiencies:
  - Participation in the transversal contracts and the efficiencies gained;
  - Impact of the implementation of personnel headcount and personnel expenditure control measures
  - PFMA compliance – Irregular, fruitless and wasteful expenditure, and unauthorised expenditure
  - Management of accruals and how cash management strategies could be used to address accruals
  - Debt owed by provincial departments and the strategy to address it
- Public entities;
- Investments in provincial economies;
- Infrastructure; and
- Procurement reforms

**6.18** Critical dates for the provincial budget process are provided in the table below. Provincial departments and public entities follow the specific requirements of their own treasuries and provincial budget processes. These guidelines should thus be read together with the Provincial Budget Process Calendar and Guide for Provincial Budget Formats.

## **2021 MTEF Technical Guidelines for Provinces**

ITEM	DATE
Technical Committee on Finance Lekgotla	11-12 September 2020
Provincial MTEF technical guidelines issued	21 August 2020
Provincial treasuries submit first draft 2021 Budgets to National Treasury: database and narratives	7 September 2020
Technical Committee on Finance meetings	Occurs every two weeks
Budget Council and Budget Forum meetings	TBD
Final conditional grant frameworks submitted to National Treasury by national departments	30 November 2020
Tabling of Medium Term Budget Policy Statement	October 2020
Preliminary allocation letters issued to provinces – equitable share allocations	30 October 2020
Provincial treasuries submit 2nd draft 2021 Budgets to National Treasury: database and Estimates of Provincial Revenue and Expenditure	20 November 2020
Provincial benchmark exercise for 2021 Budget	1 - 11 December 2020
Preliminary conditional grants allocation letters issued to provinces	December 2020
Final PES allocation letters issued to provinces (Mid-February, after Cabinet sitting)	February 2021
Budget Council Lekgotla	TBD
Provincial 2021 Budgets tabled at provincial legislatures	End February / Early March 2021

### ***Classification Circular 30 on classification of COVID-19 expenditure***

- 6.19** The circular provides classification guidance to financial practitioners in allocating COVID-19 pandemic related expenditure using the standard chart of accounts. This circular repeals Classification Circular 29 on Classification of expenditure related to the COVID-19 pandemic using the standard chart of accounts issued on 24 April 2020.
- 6.20** The COVID-19 pandemic was declared a national state of disaster in terms of section 27(1) of the disaster Management Act (DMA), 2000 (Act no.57 of 2002). National Treasury made funding available in terms of the Provincial Disaster Relief Funds and issued an instruction note for disaster management central emergency procurement process for Personal Protective Equipment (PPE) that may be implemented by accounting officers of departments.
- 6.21** In Classification Circular 29 issued on 24 April 2020, Departments were requested to create the fund and project codes to record spending relating to the COVID-19 by creating posting levels under the relevant category. However, when drawing the data from Vulindlela it became evident that when creation of codes in the fund and project segments are decentralised, consistency in allocation and reporting can be compromised. As a result, it is prudent that the codes are created centrally by the SCOA Technical Committee.
- 6.22** Departments are requested to use newly created fund and project segment codes stated in Circular 30 and to journalise the COVID-19 related expenditure to the codes.

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Codes created by departments using CC 29 should be deactivated in order to avoid any confusion.

- 6.23** Spending in the item segment is recorded against the various appropriate categories depending on the department's use for the items or services procured.
- 6.24** The classification of budget and expenditure has become very important, given the public interest in the COVID-19 related procurement and expenditure. It is important that provincial departments capture expenditure correctly to ensure that reports that are extracted from the financial systems represent the true picture of expenditure. The reports are also provided to the Auditor-General.

## **ANNEXURES**

### **ANNEXURE A: RESOURCE ALLOCATION PROCESS STEPS**

<b>MONTH</b>	<b>TASK</b>	<b>ROLE-PLAYERS</b>	<b>FORUM/S</b>	<b>OUTPUTS REQUIRED</b>
August	<p>Compilation of budget submissions by departments and public institutions</p> <p>Formulation of recommendations to technical committees</p>	<p>Departments</p> <p>Public institutions</p> <p>National Treasury</p> <p>Department of Public Service and Administration (DPSA)</p> <p>Department of Planning, Monitoring and Evaluation (DPME)</p> <p>Department of Cooperative Governance (DCoG)</p>	<p>Bilateral and technical group interactions <sup>1</sup></p>	<p>Written and data budget submissions to function groups</p>

<sup>2</sup> Technical group meetings are held, in which relevant departments, public entities and provincial structures participate. Technical groups, and the function groups that they are housed within, are aligned with particular outcomes specified in the MTSF. The technical group considers submissions by institutions and discusses the reallocation of resources within the group as a whole (including constitutional institutions).

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MONTH	TASK	ROLE-PLAYERS	FORUMS	OUTPUTS REQUIRED
August	Consultation between the Executive Authority of Parliament and Minister of Finance before submission of budget by Parliament of South Africa (in line with s17(1) (b) (d) of Financial Management of Parliament and Provincial legislatures Act, 2009	Minister of Finance Speaker of National Assembly Chairperson of National Council of Provinces (NCOP) Secretary of Parliament	MTEC hearings	Recommendations to Minister of Finance
August–September	Formulation of recommendations to technical and political committees	Departments Public institutions Function groups Technical Committee on Finance (TCF) MTEC	Function group interactions <sup>2</sup> 10x10 meeting/s <sup>3</sup> MTEC hearings TCF meeting/s FOSAD	Recommendations to political committees on information to be tabled in MTBPS, need to include: <ul style="list-style-type: none"> <li>• fiscal framework</li> <li>• key national government spending priorities</li> <li>• division of revenue</li> <li>• substantial adjustments to conditional grants</li> </ul>
End September – October	Formulation of recommendations to Cabinet	MINCOMBUD	MINCOMBUD meeting/s Cabinet meeting/s	Approval of recommendations to be tabled in MTBPS
End October	Tabling of 2020 MTBPS	Minister of Finance Parliament		MTBPS publication including: <ul style="list-style-type: none"> <li>• fiscal framework</li> <li>• key national government spending priorities</li> <li>• division of revenue</li> <li>• substantial adjustments to conditional grants</li> </ul>

<sup>2</sup> Function group hearings are DG's hearings on budget policy or other meetings involving senior officials from relevant institutions and experts from the relevant field. In this setting, several technical groups may be brought together to consider submissions by institutions and discuss the allocation of resources across the function as a whole. Function groups may also be called to present at MINCOMBUD technical meeting hearings.

<sup>3</sup> In function areas with a large degree of concurrent powers, a 10x10 meeting, comprised of the heads of the nine provincial departments and one national lead department in the function together with their finance counterparts, may be convened as a substitute or complement for the work of the function group.

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MONTH	TASK	ROLE-PLAYERS	FORUM/S	OUTPUTS REQUIRED
End October – November	Draft allocation letters  Finalisation of details of National government allocations to be included in the 2021 Budget	Function groups  MTEC  MINCOMBUD  Cabinet	MTEC hearings  FOSAD  MINCOMBUD meeting/s  Cabinet meetings	Final national government allocation letters
December – February	Finalisation of recommendations to be tabled in the 2021 Budget documentation	MTEC  MINCOMBUD  Cabinet  National departments and public institutions	MTEC hearings  FOSAD  MINCOMBUD meeting/s  Cabinet meetings	Budget review publication  Appropriation bill  Division of revenue bill  Estimates of national expenditure publications  People's guide to the budget  Tax proposals
February	Tabling of budget	Minister of Finance  Parliament		Budget tabled
March – July	Adoption of budget expenditure legislation	National Assembly  National Council of Provinces	Hearings  Debates  Adoption of bills	Budget adopted

## ANNEXURE B: BUDGET PROCESS TECHNICAL AND POLITICAL STRUCTURES

### Technical structures at national level

**6.1** At a national level, the senior technical structures of the MTEF budget process are the Minister's Committee on the Budget Technical Committee (MINCOMBUD technical committee, previously known as Medium Term Expenditure (MTEC)) and the Technical Committee on Finance (TCF):

- The MINCOMBUD technical committee/MTEC is a committee of senior officials from NT, DPME, COGTA and DPSA that makes recommendations to MINCOMBUD regarding budget allocations in the medium term expenditure framework, taking into account government priorities, funding available, alternative funding sources and the division of revenue amongst the three spheres of government.
- TCF is a committee of the heads of all provincial treasuries and is chaired by the DDG of the Intergovernmental Relations division of the National Treasury. The TCF considers intergovernmental finances and the division of revenue and makes

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recommendations to the Budget Council, Budget Forum and MINCOMBUD technical committee.

**6.2** The process of generating final recommendations to MINCOMBUD technical committee includes the following elements:

- National Treasury appoints a coordinator for each technical group, who will be responsible for engaging with budget institutions and preparing reports to the MINCOMBUD technical committee for each technical group.
- Budget *bi-laterals* are convened between National Treasury and senior finance and programme officials in each institution.
- *Technical group* meetings are held, in which relevant departments, public entities and provincial structures participate. Technical groups are aligned with particular priorities specified in the 2019-24 MTSF. The technical group considers submissions by institutions and discusses the reallocation of resources within the group as a whole. Financial analysis discussions are also held with selected entities.
- In function areas with a large degree of concurrent powers (such as basic education, health and human settlements and municipal infrastructure), a function 10x10, composed of heads of department of the nine provincial and one national lead department in the function together with their finance counterparts, will be convened as a substitute or complement for the work of the technical group. Where resource allocation decisions are recommended that alter the division of revenue across the three spheres of government, a function 10x10 will be required.
- MINCOMBUD technical committee may also convene *function group hearings*, *DG's budget forums* on budget policy or other meetings involving senior officials from relevant institutions and experts from the relevant field. In this setting, several technical groups may be brought together to consider submissions by institutions and discuss the allocation of resources across the function as a whole. In 2017 this may include the piloting of a "spatial Technical MINCOMBUD" in which national and provincial departments, State owned Entities and a municipality all convene to discuss projects and programmes taking place within the geographic space of a metro (or group of metros).

**6.3** Technical group coordinators will prepare a final report on the outcome of the process. These reports will be presented to MINCOMBUD technical committee, which will make final recommendations to MINCOMBUD and then to Cabinet.

### **Political Structures**

#### ***The Ministers' Committee on the Budget***

**6.4** MINCOMBUD has been constituted as a Committee of Cabinet, chaired by the Minister of Finance. Its members were appointed by the President on recommendation from the Minister of Finance. MINCOMBUD may invite other members of Cabinet or senior officials to attend and/or present on issues of relevance to its mandate. In addition to political office bearers, MINCOMBUD meetings are attended by the Directors-General of National Treasury, the Presidency, and the Departments of Planning, Monitoring and Evaluation and Cooperative Governance.

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Senior officials of National Treasury attend as determined by the Director General: National Treasury. The Director-General: National Treasury ensures that the National Treasury provides administrative services for the proper functioning of MINCOMBUD.

**6.5** The functions of MINCOMBUD are to:

- Consider and advise Cabinet on budget allocations to be included in the national budget, MTEF and the division of revenue framework.
- Consider matters related to the determination of expenditure allocations, including the economic assumptions underpinning the budget, fiscal policy objectives and tax proposals.
- Recommend, in terms of section 30(2)(b) of the PFMA, items of unforeseeable and unavoidable expenditure to be included by the Minister of Finance in the national adjustments budget. When performing this function, the President and the Deputy President chair MINCOMBUD, and constitute the “(MINCOMBUD)/Treasury Committee”.

### ***Budget Council and Budget Forum***

**6.6** The Intergovernmental Fiscal Relations Act (97 of 1997) establishes a Budget Council consisting of the Minister of Finance and the MEC for Finance of each province. The Chairperson of the Financial and Fiscal Commission may also attend the Budget Council. The Minister of Finance is the chairperson of the Budget Council.

**6.7** The Act defines the Budget Council as a body in which the national government and the provincial governments consult on any fiscal, budgetary or financial matter affecting the provincial sphere of government.

**6.8** The Intergovernmental Fiscal Relations Act (97 of 1997) establishes a Local Government Budget Forum comprising of the Minister of Finance (who is the chairperson), the MEC for Finance of each province and five representatives of the South African Local Government Association (SALGA) at national level as well as one representative of SALGA from each province. The Act defines the Budget Forum as a body in which the national government, the provincial governments and organised local government consult on any fiscal, budgetary or financial matter affecting the local sphere of government.

### ***Joint MINMECs***

**6.9** From time to time, the Minister of Finance in consultation with the Cabinet member responsible for another portfolio may convene a Joint MINMEC to consider sector budget issues and make recommendations to MINCOMBUD. A Joint MINMEC is comprised of the Minister of Finance, Members of the Executive Council of Finance from nine provinces and their counterparts at national and provincial level from the relevant department.

## ANNEXURE C: FUNCTION GROUPS

FUNCTION GROUP	TECHNICAL GROUP (FUNCTION SUB-GROUP)	KEY DEPARTMENTS AND OTHER INSTITUTIONS <sup>1</sup>
1. Learning and culture	Basic education	Basic Education and Provincial Education departments
	Post-school education and training	Higher Education and Training, Sector Education and Training Authorities, National Skills Fund, National Student Financial Aid Scheme, Quality Council for Trades and Occupations, Council for Higher Education, South African Qualifications Authority
	Arts, culture, sport and recreation	Sports, Arts and Culture, Provincial Arts, Culture and Sport and Recreation
2. Health	Health	Health, Provincial Health departments, National Health Laboratory Service, Military Health Services
3. Social development	Social protection	Social Development, South African Social Security Agency, National Development Agency, National Youth Development Agency, Provincial Social Development departments, Women, Youth and Persons with Disabilities, Commission for Gender Equality
	Social security funds	Road Accident Fund, Unemployment Insurance Fund, Compensation Fund
4. Community development	Community development	Cooperative Governance (including local government equitable share, municipal conditional grant and infrastructure urban development grant), Human Settlements, Water and Sanitation (only water services), Public Transport, Energy, Provincial Human Settlements, Provincial Public Transport, National Treasury (only local government conditional grants)
5. Economic development	Industrialisation and exports	Trade, Industry and Competition, Mineral Resources, Tourism, Small Business Development, Public Works and Infrastructure, Provincial Economic Development
	Agriculture and rural development	Agriculture, Land Reform and Rural Development
	Job creation and labour affairs	Labour and Employment, Public Works and infrastructure Programme 4, Expanded Public Works Programmes, Cooperative Governance (only Community Works Programme)
	Economic regulation and infrastructure	Energy, Transport (excluding public transport and Passenger Rail Agency of South Africa), Environmental Affairs, Communications and Digital Technologies, Water and Sanitation (excluding water services), Provincial transport (only Roads)
	Innovation, science and technology	Science and Innovation
6. Peace and security	Defence and state security	Defence, Military Veterans, Financial Intelligence Centre, State Security Agency, Armscor and the Castle Control Board
	Police services	Police, Independent Police Investigative Directorate, Civilian Secretariat for the Police Service
	Law courts and prisons	Justice and Constitutional Development, Correctional Services, Office of the Chief Justice, Legal Aid South Africa, Public Protector of South Africa, South African Human Rights Commission
	Home affairs	Home Affairs
7. General public services	Executive and legislative organs	The Presidency, Government Communication and Information System, Parliament, Provincial Legislatures, Planning, Monitoring and Evaluation
	Public administration and fiscal affairs	Public Service and Administration, National Treasury, Public Enterprises, Statistics South Africa, Traditional Affairs, Public Works and Infrastructure (only Programme 1, 2, and 5)
	External affairs	International Relations and Cooperation, National Treasury (only Programme 6)



# 2021 MTEF

**MEDIUM TERM EXPENDITURE  
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**PROVINCES**

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