national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Treasury Guidelines

Preparation of Expenditure Estimates for the 2009 Medium Term Expenditure Framework

National Treasury

May 2008

The document is available on the internet at:

www.treasury.gov.za/publications/guidelines/

Contents

1. Introduction

These guidelines provide essential information for preparation of expenditure estimates for the 2009 medium-term expenditure framework (MTEF). They apply to national departments, provincial departments, public entities, state-owned enterprises and constitutional institutions. Closely following the guidelines will help to improve the efficacy of public spending.

The 2009 Budget will flow from government's development priorities as identified in the medium-term strategic framework (MTSF) and the Programme of Action, as well as the "apex priorities" set out during the President's 2008 State of the Nation address. The spending priorities, broadly defined, are:

- Enhancing the productive capacity of the economy, and investing in economic and social infrastructure to accelerate growth.
- Enhancing job creation by supporting labour-intensive industries and expanding employment-creating government programmes.
- Investing in human development and maintaining a progressive social security net.
- Improving the quality of education, health and other social services; intensifying targeted anti-poverty initiatives and identifying new ones where necessary.
- Improving the capacity and effectiveness of the state to deliver services, and enhancing safety and security.

A discussion of public spending priorities funded in the 2008 Budget may be found in Section 7 of the 2008 *Budget Review*, available at http://www.treasury.gov.za/national%20budget/2008/. Public agencies, entities, and constitutional institutions should consider all their funded priorities in preparing expenditure estimates for 2009 MTEF.

In compiling estimates of expenditure they should give expression to the President's call, made during the State of the Nation address, for "business unusual" to improve service delivery. Implementation of the strategic goals and identification of priorities for the government to be elected next year should be framed in this context. This imperative will require departments to critically evaluate their performance against stated targets and ensure that outputs are achieved and measurable.

Strategic plans must be informed by the MTSF, the State of the Nation address and the provincial growth and development strategy (PGDS) of each province. Provinces should, within their resources, aim to address all of these priorities, linking them in a visible way to the PGDS and municipal integrated development plans (IDPs).

What's new in the guidelines

A number of important shifts should be noted in this year's guidelines:

- All budget submissions must be linked to the programme structure of a department.
- Public entities, state-owned enterprises and constitutional institutions are required to submit their expenditure estimates and related performance outputs to inform the determination of appropriation requirements.
- All Medium Term Expenditure Committee (MTEC) submissions and presentations must follow the requirements of the guidelines; budget communications that do not comply may be returned to departments.
- The baseline examination has been extended to include identification of efficiency savings and inflation-related adjustments.
- Performance against outputs stated in the 2008 Estimates of National Expenditure (ENE) must be reported for all programmes except programme 1 (administration).
- Where relevant, departmental submissions must identify estimates of expenditure relating to provincial priorities.
- Requests for amendment of programme structures must be submitted for consideration by 4 July 2008.
- The 2009 expenditure estimates must be submitted by 25 July 2008.

Strategic planning

Strategic planning should be informed by the MTSF and “apex priorities”. The main priority should be to remove constraints and accelerate service delivery. National and provincial departments are expected to review performance or service delivery results from the previous period, which provide essential feedback for planning for the new MTEF.

The National Treasury is reviewing the strategic planning framework in line with proposed amendments contained in the Public Finance Management Bill. Revised guidelines are expected to be issued later this year. In view of the proposed changes it is recommended that strategic plans be updated with relevant amendments as prescribed by Treasury Regulation 5. An updated version may be found at www.treasury.gov.za/legislation/pfma/regulations/. A comprehensive strategic planning revision should only be necessary once the new guidelines have been issued with effect from 2010/11.

Economic growth and public sector spending

The past four years of robust economic growth were accompanied by strong sustained growth in public-sector spending, averaging 9.3 per cent a year. This has provided a higher funding platform, but has not translated into adequate service delivery for the majority of citizens. All measures necessary should be implemented to address poor service delivery.

Over the period ahead, economic growth is expected to slow due to high oil prices, weaknesses in major world economies and other external pressures. Slower growth will affect the fiscus and the average growth rate of public expenditure is expected to moderate.

These factors underline the need for more efficient spending. The National Treasury recently introduced the concept of efficiency savings, which will receive further emphasis in the 2009 Budget process. This measure is intended to avoid future departmental expenditure cuts that could drastically limit spending on essential services. The challenge is to identify efficiency savings in non-core service delivery expenditure without reducing service levels.

Inflation

Unfavourable global economic developments have also contributed to higher-than-projected inflation. The inflation projections for the 2008 MTEF were estimated at 6.2 per cent for 2008/09 and 4.8 per cent for 2009/10. CPIX inflation for 2008/09 is now estimated to be 9.5 per cent, decreasing to 4.5 per cent by 2011/12. CPIX inflation has an impact on input costs including salaries, construction, and payment for goods and services. A partial inflation adjustment will be made on critical budget items. Departments, provinces and public entities should indicate in their expenditure estimates how they intend to absorb the additional inflation-related spending within their budgets.

2. Budget process: national departments

In addition to observing normal practices related to planning, budget implementation and reporting, the following key dates* in the 2009 Budget process should be noted. Of particular importance is the proposed earlier date for tabling the adjustments budget: **21 October 2008**.

Critical dates in the 2009 Budget process

Departments receive MTEC guidelines and database templates	Early June 2008
Information sessions on expenditure estimate guidelines	Mid-June
Submission of applications for amendments to programme structures	4 July 2008
Departments submit revised drawings after rollovers	9 July 2008
Submission of capital/infrastructure funding requests	14 July 2008
Cabinet Lekgotla to discuss policy priorities and MTSF	22 July 2008
Departments submit expenditure estimates and database	25 July 2008
MTEC starts	18 August 2008
Departments' final date for distribution of Treasury Committee memoranda for unforeseeable and unavoidable expenditure	8 September 2008
Departments submit Adjusted Estimate chapters, database and Adjustments Appropriation Bill	11 September 2008
MTEC ends	26 September 2008
Treasury Committee as scheduled on parliamentary programme	7 October 2008
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)	9 October 2008
ENE guidelines to departments and public entities	15 October 2008
Adjusted Estimate tabled in Parliament	21 October 2008
Appropriation Bill format to departments and ENE database to departments and entities	6 November 2008
Inputs from departments for revised drawings after Adjusted Estimate	7 November 2008
Allocation letter to departments	21 November 2008
Departments submit first draft of ENE chapter, database and Appropriation Bill	3 December 2008
Departments submit revised (2nd draft) ENE chapters, databases and Appropriation Bill	9 January 2009
Departments submit estimated under/overspending for 2008/09 financial year	15 January 2009
Budget Day – Budget tabled in Parliament	18 February 2009

**Dates are subject to change. Some meetings, such as the Ministers' Committee on the Budget and parliamentary hearings, are not yet finalised.*

Departmental expenditure estimates for the 2009 MTEF must reach the National Treasury by **25 July 2008**. A schedule of provincial budget process dates is provided in Section 8.

MTEC discussions

Nearly all expenditure estimate proposals will be discussed in bilateral MTEC discussions between departments and National Treasury budget analysts. Internal processes are in place to relay the contents of these deliberations to MTEC members, the capital budgets committee and a new conditional grants committee – with the latter two making further recommendations to MTEC members. A limited number of extended MTEC meetings will be held to deliberate outstanding issues between departments and the National Treasury. All presentations for bilateral MTEC meetings and extended MTEC discussions must be concise and restricted to the key considerations outlined in these guidelines.

Where relevant, departments must make a separate presentation on provincial priorities, public agencies, entities and constitutional institutions as outlined in these guidelines. In addition, on additional funding proposals refer to Section 6 of the guidelines. All presentations should also highlight key outputs achieved to date and expected over the MTEF.

Extended MTEC meetings are expected to be hosted between 18 August and 26 September 2008. The MTEC schedule will be provided separately.

The MTEC presentation on submission of expenditure estimates should be concise. Time limits will be explicitly communicated in invitations and presentations must cover the following main points by programme:

- A short summary of departmental mandate
- Performance against stated objectives and recent interventions, including financial outcomes
- How efficiency savings and baseline savings have been factored into expenditure estimates
- Accommodation of inflation-related increases in expenditure estimates
- Reprioritisation within the MTEF estimates and proposals for additional funding, where relevant (refer to Section 6 for guidance).

For public entities and constitutional institutions, the same information must be included in the presentation of the department responsible for oversight of the relevant body. For provincial departments the same departmental information, as a minimum set of requirements, must be included in the presentation.

All presentations must adhere to these guidelines. Chairpersons will strictly rule out presentations that do not provide the required information in a succinct format. Presentations must be forwarded to budget analysts at least two days before the relevant meeting to assess compliance.

Information sessions on the content of the 2009 expenditure estimate guidelines will be scheduled for mid-June. Departments should indicate their needs for smaller, practical technical training sessions on the database requirements to the relevant budget analyst.

3. Reporting against past performance

Examination of past performance is a critical step in strategic planning and preparing expenditure estimates for the 2009 MTEF. The National Treasury will continue to assess whether value for money has been obtained in previous budget allocations.

The National Treasury issued the *Framework for Managing Programme Performance Information* in 2007. This guide provides useful information on designing performance indicators and provides explanations of key performance concepts. The guide is available at www.treasury.gov.za/publications/guidelines.

For national departments

Previous guidelines have provided formats for reporting on past performance. This information should be updated and expanded in line with the *Framework for Managing Programme Performance Information*. Budget analysts will continue to monitor the implementation of service delivery targets against the 2008 ENE.

Although the 2008 ENE database was not linked to outputs for each programme and allowed for reporting on selected performance indicators, the output indicators should be selected from this list and be attributed to programmes. Previous ENE publications may be useful in identifying additional outputs for each programme. Programme 1, which is usually reserved for administrative functions, is exempt from this requirement.

In the 2008 ENE, public agencies, entities and constitutional institutions were for the first time required to report key selected outputs. While some were able to comply, many others did not. Departments are advised therefore to monitor their relevant entities and constitutional institutions and report on their progress against targets in the 2008 ENE. In addition to statistical information provided in the ENE, public entities must report against outputs specified in the shareholder compact or service level agreements between the departments and public entities, and approved by the board of directors.

All new departmental estimates of expenditure must be accompanied by outputs at the programme level, linked to the ENE database where relevant. Where there are no unique programme outputs, a summary of selected indicators at the programme level may be provided. This replaces the approach of last year’s guidelines, which required outputs at the subprogramme level and outcomes at the programme level. The formulation and monitoring of credible outputs will continue to receive attention. The programme information should include trendable and quantitative performance information as far as possible; however key non-quantifiable indicators may be reported where no quantifiable indicators can be identified.

A projection of expected progress for April to June 2008 against the 2008 ENE targets should be included. Performance to date must also be reported against the targets specified for 2007/08. Departments may report achievement of targets against relevant outputs per programme stated in the 2007 ENE. Previous outputs that are not relevant should be excluded.

The programme and subprogramme sheets in the database must be used for this reporting. In addition to the increased monitoring of performance results by the National Treasury, the Auditor-General is scheduled to implement auditing of performance information from 2009/10.

4. Baseline assessment and reprioritisation

The National Treasury has conducted an initial baseline examination of all departmental programmes and added indicative funds for 2011/12 based on a general inflation adjustment of 6 per cent. To finalise expenditure estimates for the 2009 MTEF, departments are required to conduct a further in-depth baseline assessment in line with service delivery targets.

This detailed baseline exercise will highlight programmes and subprogrammes that have not delivered on expected outputs or cases of insufficient capacity to deliver services. The compilation of expenditure estimates should reprioritise capacity or resources to these areas. Where this is not possible, a decision may be made to cut lower priority programme funding.

The baseline exercise may include decisions to reprioritise funds from lower-priority to higher-priority programmes, such as the “apex priorities”. This determination of expenditure estimates should include an assessment of capacity and identification of skills shortages hampering service delivery. Departments should closely examine their resultant baselines to ensure that programme funding is provided to address the service delivery targets identified.

Proper costing of services is an important component of the baseline examination and ancillary information that is not contained in the database may be provided with estimates of expenditure.

To finalise expenditure estimates, the baseline and reprioritisation exercise must include the following steps:

Identification of non-recurrent expenditure

Many departmental programmes include projects that are once-off or involve spending over a defined period. To prepare credible MTEF budgets, these amounts should be excluded when the baseline is re-examined to avoid funding against which no outputs can be delivered. Non-recurrent expenditure should be identified by subprogramme in the relevant annexures.

2010 FIFA World Cup guarantees

Certain national departments (Home Affairs, National Treasury, Safety and Security, Communications, Transport, Environmental Affairs and Tourism, Trade and Industry, Justice and Constitutional Development, Foreign Affairs, Health, and Sport and Recreation South Africa) provided guarantees to FIFA for the 2010 FIFA World Cup. The cost of meeting these obligations must be reflected in expenditure estimates per programme under non-recurrent expenditure.

Slow spending programmes

Some programmes may not have met historic targets due to slow supply chain management processes, lack of human resources or poor planning. The baseline examination should identify these programmes and interventions should be considered to address slow spending. This may result in the identification of savings, and decisions may be taken to cut non-priority programmes partially or completely, effectively restructuring the timing of service delivery in implementation plans.

Underperforming programmes

The baseline examination, supported by a realistic assessment of performance against actual outcomes, should identify savings that can be realised. Where identified savings cannot be reprioritised, a cut in the baseline will be appropriate.

Efficiency savings

This reform, introduced in 2008, is intended to ensure that funds are directed to service delivery rather than non-essential spending or frills. Efficiency savings can be achieved through reducing operating costs (particularly administration) and non-service delivery activities (e.g. advertising, vehicle hire, travel, security, non-essential telecommunications, entertainment costs, consultant fees where relevant). Efficiency savings should be considered for all programmes. This requirement also applies to public entities, state-owned entities (SOEs) and constitutional institutions. Where a departmental programme consists mainly of transfers to public entities, the department should ask these entities to identify efficiency savings in their budgets.

Inflation-related adjustments

Due to higher-than-expected inflation, certain programmes may not be adequately funded within the baseline. Departments must indicate how they intend to address the additional inflation-related spending in their estimates of expenditure. Partial adjustment will be made to departmental baselines for some key inflation items, including salaries. However, the departmental costing exercise must be used to determine cost increases due to inflation and provision must be made in the reprioritisation of funds. This exercise must include preparation of estimates for projects currently underway, such as construction costs related to the 2010 FIFA World Cup. The projection of CPIX inflation in Section 1 must be used for reference.

5. Further instructions to departments

National Treasury budget analysts will assess compliance of departmental submissions with these guidelines. Examination of baseline programmes will involve evaluating how departmental proposals demonstrate savings, budget reprioritisation and accommodation of inflation-related spending. Examination of past performance and other requirements should not be ignored, nor should the requirements in terms of requests for additional funding, as outlined in Section 6.

Covering letter

Submissions should be accompanied by a letter from the director-general indicating the experience of the department in undertaking the steps outlined in the guideline. The ranking of any additional funding proposals over MTEF should be explicit.

Budget structures

All budget submissions must be completed in terms of approved budget structures. This means that requests for changing budget structures must be submitted to the National Treasury for consideration ahead of the due date for budget submissions to allow enough time to finalise budget submissions – by 4 July 2008 at the latest. The design of programme budget structures is critical in giving effect to the strategic plan, allocating resources and monitoring performance of outputs against each programme. Refer to Appendix 2 for further guidance on amending the budget structure.

Wage negotiations and personnel costs

The 2007 salary agreement (Resolution 1 of 2007) provides for the annual general salary adjustments for state employees for 2007/08 and 2008/09. The annual salary adjustment effective 1 July 2008 will be based on projected CPIX inflation for the period 1 April 2008 to 31 March 2009, plus 1 per cent. This informs the new salary increase projections below.

2008/09	2009/10	2010/11	2011/12
9.5 per cent	5.5 per cent	4.9 per cent	4.5 per cent

A **partial** adjustment will be made for the higher-than-expected personnel costs based on the results of the National Treasury baseline examination.

Budget submissions for 2010 FIFA World Cup

As part of their expenditure estimates, departments responsible for 2010 FIFA World Cup support services should include information on the status of implementation and reallocation of funds within baseline. MTEC will assess any adjustment of priorities to cater for World Cup activities and programme allocations. The baseline examination costing must include an assessment of estimated input cost escalation for capital projects. The indices provided by the Bureau of Economic Research at Stellenbosch University should be used to calculate input cost escalation.

The 2008 *Medium Term Budget Policy Statement* will provide detailed information on programmes funded by government and a progress report on projects. Departments are advised to create 2010 FIFA World Cup spending as separate projects in the standard chart of accounts.

Official development assistance

Official development assistance should be understood to include both cash and in-kind contributions. The operational plans of all donor-funded programmes or projects should be included in national and provincial budget planning and must be linked to specific performance indicators. This will help to ensure sustainability of the interventions beyond official development assistance (ODA) funding. The individual ODA programme reporting process should follow the same budget reporting systems of the department unless the agreements stipulate other requirements. Each department or province is required to provide a schedule of all donor funding by programme, subprogramme and economic classification over the MTEF period, together with a brief description of how the funds will be spent and the associated timelines. If it is difficult to attach a monetary value to in-kind contributions, a brief narrative description of the contribution must be provided. Specific outputs per project must also be identified on programme sheets and summarised separately to inform evaluation.

6. Additional funding proposals

The identification of strategic priorities, assessment of past performance and baseline examination must inform any proposals for additional funding. Departments should give careful consideration to structuring their submissions for funding against particular programmes. Proposals must also be identified at programme and subprogramme level, with key expected outputs over and above what may be in the baseline identified for each programme.

Over the past three budget processes additional fund requests have exceeded the total funding amount appropriated by on average 663.8 per cent for the MTEF. Departments and public entities are advised to refer to historic budget documentation[1] to ensure that they adopt a realistic approach in submissions for additional funding. The quantum of new budget proposals will also be evaluated against the department's total baseline budget to assess the capacity to implement proposals, which will be informed by a consideration of past performance against relevant policy objectives.

The MTEF allocations already provide for average growth of about 10 per cent in 2009/10 and 2010/11, and an average of 6 per cent for 2011/12. The programme baseline allocation for the third year is only indicative and may change following rigorous examination of baselines.

Preparation of additional funding proposals

National Treasury budget analysts will assess compliance of submissions against instructions, which are the basis for making recommendations to MTEC regarding funding of new budget proposals. All criteria mentioned in previous sections will be used as a basis for assessment, as well as those listed below. Submissions that fail to meet the requirements of the guidelines may be returned to a department for resubmission.

The submissions are to be accompanied by a covering letter signed off by the Accounting Officer, which should indicate the ranking of any requests for additional funds.

In the submissions programme and sub-programme information in respect of any possible funding requests should include:

- Evidence for and quantification of the problem, including information on past and current interventions
- Identified outputs over and above those already contained in the baseline (which should be stated) at subprogramme and programme level
- Detailed costing of all policy proposals as ancillary information to the database and rationale for the proposed initiative
- Departmental spending estimates over the MTEF
- Legislative plans, administrative (support structure) and implementation plans
- A monitoring and evaluation plan to examine whether objectives have been met
- Risk analysis
- Links to any other relevant programmes within the department or across departments
- Additional information, including templates that may be requested by budget analysts.

To assist in preparing comprehensive summaries for the MTEC meetings, it is important that detailed and relevant narrative information is provided with budget submissions under each programme. The narrative submission should provide clarity on annexes submitted and explain how new funding requests relate to existing departmental aims and programme objectives. Evidence of feasibility studies and implementation

[1] *See www.treasury.gov.za/documents/national%20budget/*

readiness should be provided where relevant. There should also be an explanation of why the new proposals could not be accommodated in the reprioritisation exercise.

The submission must reflect whether the request for additional funds is a completely new priority or whether the initiative has been piloted before, along with demonstrated results. Where business plans of projects have been changed, the deviations from the original financial approval must be disclosed. Departments should also provide a brief narrative of the consequences if the submission is not funded. Ideally, the written submission should be limited to a **maximum of three pages** per programme.

Budgeting for interdepartmental initiatives

In the case of interdepartmental programmes, participating departments are required to submit the relevant information in the format required in the estimates of expenditure guide. Departmental covering letters should include reference to such programmes. Programmes should also be signed off by the responsible accounting office(s) and be ratified by the relevant management structures.

Concurrent functions and provincial budget requests

Many departments are concurrently responsible for delivering certain functions. For example, the national departments of health and education are responsible for *development* of policy, and their provincial counterparts are co-responsible for *implementation* of policy. To enable proper planning by provinces, departments responsible for concurrent functions must reach an agreement with their provincial counterparts of expenditure they plan to propose in the province in the 2009 MTEF, and include recommendations from meetings held by national sector departments and nine provincial sector departments ("10 X 10" discussions) in their budget submissions. These departments must have separate submissions – one for the national department and another for provinces. Provincial performance, including outputs over the MTEF, must be included in the submission.

Conditional grant funding

Requests for approval of conditional grant funding for departments responsible for concurrent functions must be signed by the appropriate officer and provide all the information identified in the spreadsheet. Conditional grant funding must be identified in terms of the relevant departmental programme. Supplementary information can be provided for clarification.

Departments are expected to report on local and provincial government compliance with existing conditional grant conditions and are invited to make inputs in connection with changes to grant formulas. The deadline for all conditional grant submissions is 25 July 2008.

Three distinct phases must be adhered to:

- The development of a clear, concise and brief concept submission. Following confirmation of this concept submission, a detailed planning and design initiative for the grant programme is required, indicating the purpose of the grant, its outcomes, outputs, activities and inputs. For each outcome and output, performance indicators and targets are required to measure results. The grant should be costed over the MTEF period.
- Delivery of the grant, including the use of best management practices. A business plan must be submitted to the National Treasury for consideration in terms of the conditional grants sheet in the database. Two separate templates have been provided for provincial and national departments. The national plan is the consolidation of the provincial plans, providing overall grant outcomes and outputs in a financial year.
- Adherence to the Division of Revenue Act requirements relating to grant programme evaluations. A practice note has been issued to guide the evaluation and/or review of the grant programme in a financial year. This note may be found at www. treasury.gov.za/oag/publications/practicenotes2008/09/.

Only the second and third phases apply to existing conditional grant programmes. However, all apply in the case of new grant applications.

Public entities and state-owned entities

Sections 52 and 53 of the PFMA require government business enterprises to submit their budget proposals to executive authorities at least one month before the start of their financial year, and non-business enterprises to submit their budget proposals to executive authorities at least six months before the start of the designate department‘s financial year. These requirements are intended to ensure that departmental proposals are comprehensive and allow certainty and predictability of funds to public entities and SOEs. Relevant departments have to ensure that the budget process is observed by all SOEs and public entities to provide credibility in the determination of appropriation requirements. This will assist in avoiding late funding requests without a fair chance of success or clear proposals on expected outputs.

For public entities, the appropriation requirements may be submitted as “unauthorised budgets” or expenditure estimates over the MTEF. Deviations from expenditure estimates may be submitted once the budget has been approved by the board of directors. Both cash and accrual information must be presented. However, schedule 3A and 3C entities funded from appropriations may provide cash information. Both actual and estimated outcomes, as well as projected budget figures must be provided in the appropriate annexures in the database. All public entities currently included in the ENE database and consolidated budget spending tables of the *Budget Review* are obliged to comply with the budget submission requirements, as well as all others that have proposals for additional funding.

It is important that all these entities’ budget submissions are included in the submissions of the department responsible for oversight – even those entities that are not requesting additional funding. The national and provincial treasuries will consider and determine the appropriation needs of a public entity prior to budget approval by the board of directors. This requirement will contribute to the National Treasury’s monitoring of accountability of SOEs and public entities. All these public entities and SOEs are required to provide information about their borrowing plans over the MTEF period as part of their submissions. Where relevant, estimates of tariff revenue over the MTEF must also be provided. This will enable the National Treasury to consolidate government borrowing estimates. Final budget proposals must be submitted by 25 July 2008.

Constitutional institutions

The requirements for preparing expenditure estimates for public entities and SOEs also apply to constitutional institutions. Their estimates of expenditure must be submitted in the required format directly to the responsible budget analysts in the National Treasury by 25 July 2008 or to the relevant department, where applicable, in time for integration into their 25 July 2008 submission.

7. Infrastructure and capital projects

Good budgeting practice requires an integrated approach to capital and recurrent budgeting to ensure adequate maintenance for capital projects. It is important that the full project life cycle of capital budgets be considered when requesting funding to ensure that funding matches the critical stages, from feasibility studies to implementation. Outputs relating to each of the stages must be identified in capital budget proposals.

All infrastructure and capital funding requests are to be motivated separately from other funding requests, and will be appraised by the MTEC's capital budgets committee.[2] Infrastructure/capital funding requests and associated explanatory and supporting documentation, motivations and feasibility studies are required by **14 July 2008** to allow the CBC sufficient time to review such requests. A project concept note (see Appendix 1) is also required for all projects or programmes to be evaluated and is to be attached to the front cover of supporting documentation.

Capital and infrastructure projects must be captured in the project segment of the standard chart of accounts and the relevant programme for which the capital funding is to be considered must be identified.

In general, the CBC will seek to determine whether funding is consistent with the prescribed guidelines and the departmental strategic plan; quantify the likely financial, economic, social and environmental impacts; define risks and their mitigation; and assess the appropriateness of proposed funding arrangements. Infrastructure/capital projects and programmes are to be classified in three categories:

- **Mega** projects or programmes: estimated to cost more than R300 million per year for a minimum of three years, or a total project cost of R900 million or more. All projects that extend beyond the MTEF period fall into this category. These projects require a detailed feasibility study and receive a rigorous CBC review.
- **Large** projects or programmes: estimated to cost between R50 million and R300 million per year within a given MTEF. These also require detailed information, preparation and a feasibility study, which are subject to thorough scrutiny by the CBC.
- **Small** projects or programmes: estimated to cost less than R50 million per annum.

Funding proposals for existing and new projects/programmes

Extension of existing projects or programmes

Funding for existing projects or programmes is based either on the need to complete or to extend a project or programme. Where many common small projects (under R50 million) exist, these may be grouped together and categorised as an infrastructure programme requiring extension. Ongoing infrastructure transfers to public agencies, entities and other spheres that require further support may also be motivated under this category.

New projects and programmes

New small projects (under R50 million) that are not part of an existing programme may be grouped together and proposed as a new infrastructure programme. All such new initiatives require an appraisal, which may vary in complexity depending on the project or programme.

Appraisal process and guidelines for infrastructure and capital projects

Departments and entities are responsible for the initial appraisal of projects and programmes. The CBC will review appraisals submitted and make recommendations within an environment of competing requests and scarce resources. The onus is on departments to provide suitable detail and ensure that feasibility studies and other supporting documents are comprehensive, realistic and complete.

[2] The capital budgets committee (CBC), an interdepartmental task team, evaluates funding requests for individual infrastructure/capital projects and programmes of departments and SOEs. It makes recommendations to MTEC.

Below are some of the requirements that departments need to fulfil in their proposals for mega and large projects. In general, a submission should be presented as a discussion, with supporting graphs and tables where statistical information requires illustration. Each mega or large project requires a separate submission, which should include:

- A *needs analysis* demonstrating why a project is required, and whether it is aligned to the strategic objectives of an institution. Include statistical trends, key indicators and an assessment of the urgency of the need, and identify the proportion of the need the request is intended to fulfil, A copy of the strategic plan and infrastructure delivery plan must be submitted.
- An *options analysis* discussing alternative ways of meeting the need.
- *A cost-benefit analysis*.
- *Life-cycle costs and affordability considerations* over the long-term.
- An *implementation readiness statement* should cover the stage of the project, proposed timelines for construction and the intended implementation agents. Also indicate if there are other stakeholders and the risks and possible constraints in project delivery.
- The *funding and approvals section* should discuss the type of funding, including user revenue, and funding sources considered. Outline the contributions from each funding source.

In addition, all approvals and permissions obtained for the project must be listed, including environmental impact assessments.

A more detailed guide on infrastructure and capital project submissions will be made available at www.treasury.gov.za/publications/guidelines/.

8. Provincial budgeting process

In addition to the information provided in the previous sections, provinces are expected to meet the requirements of their own provincial budget processes. This section highlights some of these additional requirements, which may vary across provinces. It should be read together with the Provincial Budget Process Schedule and Provincial Budget Formats Guide.

The budget process starts early in the year when Provincial Executive Councils review policy priorities against the overall budget framework. The national and provincial budget processes are interrelated and to a large extent run along parallel lines. National priorities, outlined in Section 1, set the context for provincial and local government priorities, which find expression in provincial budgets. Section 1 provides guidance on strategic planning and Section 3 highlights issues on performance reporting. Section 6 provides requirements for submission of provincial outputs relating to proposed new departmental spending programmes. The timeline for key budget decisions in the policy review stage is outlined below.

Provincial budget timelines

May 2008	EXCO considers spending priorities
June - July 2008	Provincial technical committees consider key spending pressures Policy discussions with line departments
July - September 2008	Revise macroeconomic framework
September 2008	EXCO considers in-year pressures and policy priorities for upcoming MTEF
October/November 2008	Adjusted estimates tabled in legislature
December 2008 - January 2009	Provinces prepare budget documentation
February 2009	Provincial budgets tabled

In preparing submissions, provincial executives need to prioritise the development of meaningful performance indicators, including sector or cluster indicators. Provincial departments must update their annual performance plan for the upcoming financial year. The final actual outputs of 2008/09 must serve as the estimated baseline targets for 2009/10.

Infrastructure

Section 7 sets out the broad parameters for infrastructure projects, which should be linked to strategic and annual performance plans. Submission of provincial infrastructure project proposals should include infrastructure programme implementation plans by the client department and the implementation agent, and an organisational support plan in the prescribed Construction Industry Development Board toolkit format, including expanded public works programme requirements.

Provincial infrastructure budgets should include capital planning, capital budget formulation and capital budget execution. Infrastructure departments must capture their infrastructure budgets (capital and maintenance costs) using the items provided in the standardised project segment of the standard chart of accounts. Provincial treasuries are requested to ensure that departments comply with the new structures. The infrastructure project segments are:

- New infrastructure (capital expenditure)
- Refurbishment and rehabilitation
- Upgrading and additions (capital expenditure)
- Maintenance and repairs of existing facilities (current expenditure).

National Treasury visits

National Treasury officials visit provinces in July/August of each year to discuss financial and non-financial performance, based on in-year monitoring and performance databases for the first quarter. In 2008/09 these two-day visits will take place between 13 and 28 August 2008. A timeline of the budget process from June to August 2008 is provided below.

Key provincial budget process dates, June – August 2008

Date	Event
1 June 2008	National Treasury to issue draft budget format guideline for the 2009 Budget to provincial treasuries
10 July 2008	Housing 10 X 10 meeting
15 July 2008	Health 10 X 10 meeting
16 July 2008	Education 10 X 10 meeting
17 July 2008	Social development 10 X 10 meeting
13 - 28 August 2008	National Treasury visits to provinces – specific dates to be finalised
29 August 2008	Provincial departments submit 2009 infrastructure plans to provincial treasury in terms of Section 40(1) of the Division of Revenue Act
31 August 2008	First draft annual performance plans need to be submitted to provincial treasury and National Treasury

August 2008 is a critical month in the provincial budget process. The extended Ministers' Committee on the Budget (MinComBud, together with the nine finance MECs) meets in the first week to agree on the final recommendations that will be tabled in Cabinet for the 2009 Budget.

During July 2008, provincial departments and treasuries will submit draft budgets, strategic plans and infrastructure plans to the National Treasury to inform the *Medium Term Budget Policy Statement* and the Budget Council Lekgotla. Provincial departments are expected to prepare their new MTEF budget submissions by July 2008.

Provinces will conduct their own Budget Makgotla or Izimbizo between September and December 2008. Provincial MTEC hearings are also expected to take place during this period to consolidate the draft budgets based on provincial and national priorities. Three allocation letters will be issued to provinces. The first allocation letter will be issued on 3 November 2008 (equitable share); the second on 21 November 2008 (conditional grants); and the final update in February 2009, after the Budget Council meeting.

Second-draft budgets and annual performance plans should be submitted to the National Treasury on 1 December 2008. The data in these budgets will be used for the 2009 *Budget Review* and forms the basis for the provincial benchmark exercise discussions, which are scheduled for the second week in January 2009. The budgets submitted at this stage are based on the second allocation letter issued to provinces. The results of the benchmark exercises will be tabled at the Budget Council meeting in February 2009 and will be adjusted later, in line with the final allocation letter issued to provinces shortly thereafter.

The Minister of Finance is expected to table the national budget on **18 February 2009.** Provinces will table their budgets within the subsequent two weeks. The final strategic and performance plans will also be submitted and assessed for quality and alignment with budget allocations, before being tabled in the provincial legislatures.

Appendices

Appendix 1: Cover page for infrastructure or capital programme submission

Concept note

1	Project name and location:
2	Type of project:
3	Brief description of the project:
4	Project stage:
5	Estimated construction duration (months):
6	Estimated project cost:
7	Outline needs analysis:
8	Outline different options considered:
9	Outline economic and social benefits:
10	Outline funding sources that have been considered:

Identifying costs

Departments must take into account the extent to which projects incur costs over a period of years. Costs should reflect the value of resources displaced (i.e., opportunity cost to society) as a result of the project. Departments must identify and calculate all costs associated with the planned investment. These should include but should not be limited to:

- Capital or construction costs (e.g., land, buildings, equipment, labour, consultancy fees, contractors and any other pre-production expenses)
- Annual operating costs (e.g., purchases of additional equipment, personnel costs, loan repayments and associated interest, and any other operational costs) and maintenance.

In addition, all **non-quantifiable** costs should be listed and described as a matter of public reference.

Appendix 2: Amending national department programme budget structures

The budget structure consists of four basic components:

- Objective structure – main division/programme, subprogramme
- Responsibility structure – establishment
- Economic classification structure – standard chart of accounts
- Fund structure – the National Revenue Fund.

This appendix deals only with the first component – the objective structure.

Objective structure

General

- The objective structure can only be developed after the **aim** of the vote for the department has been established. Expenditure not in accordance with the purpose of a vote will be regarded as unauthorised expenditure. The aim of the departmental vote must include the needs to be satisfied, the problems to be addressed, the benefits or results to be achieved and the expected outcome.
- A strategic plan must be developed in terms of Treasury Regulation 5 to achieve the goals (objectives) set within the aim of the vote.
- The main divisions/programmes (also called the objective structure) of a department are identified through its strategic plans and budget documents. The importance of clearly defined, identifiable strategic objectives unique to a department is critical in designing programme structures.
- The name and description of each main division must be unique so that it can be immediately linked to a specific department. The objective structure must be developed to with the intention of being fixed for at least five years. It serves no purpose for departments to amend their objective structures on an annual basis while they formulate longer-term strategic plans and three-year expenditure plans.
- Changes to an objective structure must be limited to decisions that lead to the delivery of a new service, the expansion or redundancy of an existing service, the shifting of functions and merging of votes. The objective structure must be seen as a permanent structure and should not be changed each time the management of a department changes. Departments must note that adjustments to objective structures will require the reimplementation of affected parts of the structure in the Basic Accounting System.
- A clearly defined and concise objective structure will improve:
  - Accountability, financial management, monitoring and control
  - Management practice
  - Planning and budgeting
  - The production of statistical information.

Objective structure features

- Main divisions (programmes)

The main divisions (programmes) can be categorised according to a support or line function.

- Support function

  Programme 1 is usually "administration". This category refers to those centralised activities that support the department as a whole. This must always be indicated as the first main division and will include subprogrammes such as:

  - The Minister's salary and car allowance only
  - Management vested in programme 1: (Director General, Deputy Directors General, as well as other administrative expenditure of the Minister and Deputy Minister)
  - Corporate services (financial administration, human resources, IT and so on).

- Line function
  - Programmes classified under this function contribute directly to the aim of the department, and are normally considered the key functions of the department.
  - The name and description of each main division or programme must be unique so that it can be immediately linked to a specific department.
  - The main divisions must be developed with the intention of being fixed for at least five years.
  - Expenditure may be incurred under the provision of a particular programme only when the aim and programme description include the specific service on which the amount is expended.
  - Expenses not covered by the aim and programme descriptions of the vote will be regarded as unauthorised in terms of Section 34 of the PFMA, and programme descriptions must be examined continually to avoid such sanctions.
  - The design of programme budget structures must be linked to a department's strategic plan and output indicators relevant to the programme.
  - Each programme and subprogramme should have a distinct name. For example, two programmes in one department may not each contain a subprogramme called "management". There should be a unique identifier to distinguish between, for example, "HR management" and "licences management".

- *Circumstances under which a change to an objective structure may be considered*

  This is relevant where a provision arises from the application of a legal requirement. Point 5 lists the circumstances which may result. Reference to the latest act and, where appropriate, the section must be inserted in the programme description. A priority classification must be given for the expansion of a programme:

  - Due to a policy decision
  - Due to the transfer of functions between votes or the shifting of funds within a vote: refer to Section 30 (e) of the PFMA
    - Between votes: refer to Sections 42 and 33 of the PFMA as well as Section 6.5 of the Treasury Regulations
    - Within votes: Refer to Section 30 (e) of the PFMA.
- Where an existing programme becomes redundant:
  - Due to a policy decision
  - Due to the transfer of functions between votes or the shifting of funds within a vote: refer to Section 30 (e) of the PFMA
  - Between votes: refer to Sections 42 and 33 of the PFMA as well as Section 6.5 of the Treasury Regulations
  - Within votes: refer to Section 30 (e) of the PFMA.
- Merging or segregation of different votes due to a policy decision
- Changing the name of a programme due to a policy decision, or where an existing programme name is not unique and needs to be refined.

Approval of changes to the objective structure

- The **form and contents** of a vote may not be amended without the **prior** approval of National Treasury, in particular the budget analysts in the public finance division. The department needs to submit a request to the National Treasury for the approval of a new structure or changes to the objective structure. These submissions must be finalised before the due date for budget submissions. The deadline for applications is **4 July 2008**.
- This requirement avoids the burdensome recording of numerous journal corrections on the financial system if an objective structure is changed during a financial year. These changes cause great difficulty in the correct reporting of expenditure and the compilation of annual financial statements.

New structure or changes to an objective structure for a new financial year

- The department needs to discuss and finalise any changes to its objective structure prior to submission of new MTEF budgets, as the MTEC deliberations will be based on the new objective structure. Changes to objective structures **will not** be considered after the due date and will only be considered during the following year's budget process
- The expenditure trends in the ENE database should be comparable with the outer years. The department must keep in mind that changes to its objective structure will have an impact on the financial data of past, current and future financial years. Departments are responsible for revising these figures retrospectively per newly approved programme and subprogramme.

Changes to an objective structure for a current financial year

- Requests for changes to the objective structure for a current financial year are not recommended and will not be favourably considered by the National Treasury. The following changes will only be considered in exceptional circumstances:
  - A function shift between votes that necessitates the creation of a new subprogramme, element or activity
  - Additional funding received for unforeseeable and unavoidable expenditure for which no subprogramme or element or activity existed
  - Funds received for emergency situations approved in terms of Section 16 of the PFMA for which no subprogramme, element or activity existed.
- To accommodate these changes in the Adjusted Estimate process the department should obtain the necessary National Treasury approval before the start of this process. A copy of the approved structure change must be submitted together with the department's Adjusted Estimate input by the latest **11 September 2008**.
- Given that changes to the objective structure have to be reported by the National Treasury to Parliament's Standing Committee on Public Accounts, departments must compile explanatory memoranda containing details of changes with reference numbers and dates of all approvals given by the National Treasury.