national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Medium Term Expenditure Framework Guidelines

Preparation of Expenditure Estimates for the 2013 Medium Term Expenditure Framework

National Treasury

August 2012

A SPECIAL MESSAGE FROM THE MINISTERS' COMMITTEE ON THE BUDGET

A risky global economic environment

The global economic and financial crisis is becoming more serious. The crisis and the accompanying slow and uncertain economic recovery will be with us for **some years**. South Africa's growth is slowing and revenue collections will be negatively affected. The space within our fiscal envelope is narrowing for example; we cannot borrow any more funds for consumption expenditure of government. The economy depends on investment in infrastructure and other forms of capital investment by government to sustain the minimal levels of growth we see presently. Job creation, which is a crucial priority of government, is happening too slowly.

The next Budget has to be different and take account of these factors. We have to reflect on the productivity of the public sector and our inability to implement decisions and policies more effectively. We have to show a stronger commitment to ensuring that the millions of poor people in South Africa receive much better services from all government institutions. We have to make a real difference in their lives.

As heads of departments and their executive authorities formulate plans for the next MTEF **the following must receive careful consideration**:

1. *Deterioration in domestic economic outlook*: Since the publication of the 2012 Budget Review, the economic outlook has shifted in a manner which highlights many of the risks that we were concerned about in February 2012;
2. *European economic prospects:* The situation in Europe remains largely unresolved and economic growth prospects for the European countries have been revised down;
3. *American economic prospects:* The recovery in the United States of America has yet to take hold, and the threat of significant fiscal retrenchment in the future remains unresolved; and
4. *Economic prospects in fast growing countries:* Expectations that China, India and Brazil would be able to provide a fillip to the global economic performance have softened as economic growth in all three countries has performed below expectations.

These developments present a potential challenge to our own growth outlook. It will make it more difficult for South Africa to sell the products that our economy produces and will affect the investment decisions made by the private sector.

Prepare for fiscal constraints over the next few years

In response to difficult global economic circumstances, we have expanded government's contribution to the economy. This has enabled us to meet demands for higher public sector salaries, sustain the social wage which accrues to South Africans through the fiscus, and continue to allocate substantial resources to investment.

Financing this expansion at the same time as declining government income has meant a significant increase in borrowing. Since 2008/09, our stock of debt has more than doubled, and with it, the cost of servicing our debt also accelerated. Higher borrowing and interest costs have meant that fiscal space is being eroded and our economy will have to finance a relatively larger government interest bill for many years. This means less money will be available for other purposes.

During these risky times:

- Low levels of economic growth and the recent acceleration in borrowing means that additional resources acquired through tax revenue and borrowing will not be available;
- We must borrow only for investment - not consumption;
- We must stabilise the growth in debt service costs so that we have more resources to spend on our social and economic programmes;
- The policies announced in the 2012 Budget will therefore continue to serve as the basis for constructing the 2013 medium term expenditure framework;
- We must be much more efficient in how we deliver goods and services to the public and achieve greater value for money; and
- Government's focus must be on substantially improving its capacity to implement its policies and achieving the objectives we have set.

Shifting the composition of spending from consumption to investment

Over the next few years we must give greater effect to the 2012 Budget announcement that we will shift the composition of our spending **in favour of investment.**

The shift from current consumption to investment requires that:

1. We continue to invest in priority areas that support social development, and economic growth and transformation;
2. Finding the resources to sustainably undertake this investment be the primary focus of the coming budget;
3. A pool of saved resources be identified with urgency in order to fund critical interventions;
4. Departments objectively evaluate the performance and efficiency of each of their programmes and activities, with a view to identifying those that can be closed and discontinued in order to provide fiscal space for more productive or urgent priorities to be financed;
5. Further and more urgent efforts be made to find savings;
6. Much more effective management of the public sector wage bill through:
    - Increases in labour productivity, linked to deliberate human resource development through improved education and skills training;
    - Much better controls over human resource administration for example, leave and sick leave;
    - Stringent management of personnel growth, proportional to the demand for programme outputs; and
    - Serious limit on hiring of additional staff and if hiring then only for front line service delivery.

7. Review of government entities and agencies to rationalise these and find synergies and other cost-saving opportunities, for example whether boards are needed and the size of boards.

Regaining public trust

There is an increasing trust deficit between the public and government. This budget must begin to address this challenge that has emerged due to perceptions of public sector wastefulness, inefficiency and abuse of state resources. The taxpayers' money must be used optimally to service the public as a whole. We must not tolerate any conduct that compromises the effective and efficient use of public funds. Consideration is being given to more urgently respond to instances where funds are not being utilised for the correct purpose or if delivery of key services is failing.

Conclusion

The South African government has established a budget process that is amongst the most advanced and transparent in the world. Progress requires that we translate this budget process into budget practice that leads to more effective and efficient public outcomes. In support of this progression, the 2013 budget will enhance our commitment towards sustainable public finance management and continuously investigating how the allocation of existing public funds can be further improved to optimise the developmental prospects of our country.

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1. THE 2013 BUDGET PROCESS APPROACH

Over the decade leading up to the recession of 2008/09, government advanced a broad array of social and economic programmes as declining debt-service costs, healthy levels of tax revenue and sound policy choices supported significant increases in public spending. Between 2000 and 2009 non-interest expenditure grew on average by 9.2% each year after having taken inflationary increases into account. The economic and fiscal constraints we face require government to be much more efficient and effective in its use of public resources in order to meet its service delivery objectives. Under such demanding economic and fiscal conditions, government is committed to achieving a moderate rate of expenditure growth, stabilisation of the national debt and a shift in the composition of spending towards investment in productive assets.

The focus of the 2013 Medium Term Expenditure Framework (MTEF) budget process is on changing the composition of expenditure in favour of infrastructure and on improving the quality of government spending in general. Existing views of poor service delivery, evidence of wasteful expenditure and corruption in the public sector are increasingly becoming a critical constraint on economic growth and social development. This is having an adverse effect on public trust and confidence. As a result, it is critical to ensure efficient use of public resources and effectiveness in pursuing government's policy objectives through sound planning, budgeting and programming of public expenditure.

Fiscal objectives over the 2013 MTEF

The medium term fiscal stance is framed by the principles of countercyclicality, debt sustainability and intergenerational equity. In the current macro-fiscal environment, government is committed to achieving the following objectives in the 2013 medium term framework:

- *Keep spending within the overall ceiling established by Budget 2012*. This means that **no additional resources will be added in the first two years of the MTEF**; that is for 2013/14 and 2014/15, as set out in the 2012 Budget. The budget baseline provided for each of the fiscal years of the MTEF period is regarded as the expenditure ceiling. The outer year, 2015/16, has been generated by an inflationary adjustment to the 2014/15 budget baseline.

- *Finance spending pressures and new priorities from within the spending baseline.* Finding resources to meet service delivery priorities from within existing allocations will be a major focus of the 2013 budget process. Allocations will be examined with a view to identifying low performing or low priority programmes which can be closed to provide fiscal space for more productive or urgent priorities to be financed.

- *Shift the composition of spending away from current consumption towards investment*. This is a key budget objective of the 2013 MTEF. High levels of investment in economic and social infrastructure promote more rapid GDP growth, support employment and broaden economic activity. The Ministers' Committee on the Budget will focus its attention on changing the composition of spending to redirect budget funding towards infrastructure and economic development.

In meeting the 2013 MTEF fiscal objectives, all institutions are expected to:

- **Reprioritise their baseline allocations**, and in so doing to pursue all opportunities for shifting funds from low efficiency/priority expenditures towards areas of higher efficiency/priority in determining new 2013 MTEF baseline expenditure estimates. As part of reprioritisation, institutions must also identify underperforming programmes that can be closed; as well as where funding taken from such programmes can be redirected towards. Baseline reprioritisation must provide for the current level of services as well as any new projects and activities for which funding was approved in the 2012 MTEF budget. Any other new institutional priorities should also be addressed through 2013 MTEF baseline reprioritisation.

- **Implement baseline reductions** by providing their estimates of spending reduced by 1% in 2013/14, 2% in 2014/15 and 3% in 2015/16. The funds emanating from these reductions will allow government to increase allocations to infrastructure projects, and to finance the impact of higher than expected wage increases. The decision to action any baseline reductions proposed will be taken by the Ministers' Committee on the Budget and will be guided by policy priorities and discussion of spending pressures that may emerge from the Medium Term Expenditure Committee (MTEC). Details of where the percentage reductions have been effected, and of the supporting information required, are provided in the technical MTEF guidelines.

Performance information

Performance information is a critical factor in successful programme budgeting and requires continuous refinement. It is also fundamental to realising government's strategic and policy priorities and it encourages accountability within government institutions. **Performance information within institutions, and the management and use thereof, requires urgent attention to improve on the quality.**

National Treasury and the Department of Performance Monitoring and Evaluation will work with institutions to refine and agree on the list of core indicators that will be used throughout the budget decision making process.

Compensation of employees

Historically higher than expected wage increases are evident in the 35% of the 2012/13 total budget that compensation of employees account for. This ratio has continued to increase in the recent past; the current offer in respect of wage bill increases has led to significant changes to the underlying assumptions of the 2012 Budget and it poses a major risk to the sustainability of the wage bill growth over the medium term. Institutions must report on the implications of the higher than expected wage costs for their budget baselines and also show how their efforts to accommodate such costs are reflected within their compensation and vote budget baselines.

Infrastructure

Government's proposal to engender growth and development critically includes an enhanced focus on investment in infrastructure. The specific projects included in government's long term infrastructure plan are outlined as the Presidential Infrastructure Coordinating Commission (PICC) Strategic Integrated Projects (SIPs). MTECs will work with institutions in respect of PICC projects for which funding from the fiscus is required over the 2013 MTEF. Focus will be on determining the schedule of projects that will comprise the PICC long term infrastructure plan, spanning across various government institutions and across all spheres of government. Institutions should:

- Reprioritise institutional baselines to accommodate these projects. Consideration will be given to projects that have progressed beyond feasibility assessments and are ready for implementation.
- Provide a 10-year time horizon for planning and costing these government infrastructure projects, as opposed to the 3 years of the MTEF, including the planning and costing of projects commencing further in the future, maintenance of infrastructure and carry-through implications (to be included in the database).
- Identify infrastructure projects that have been underspending over a number of years and provide the reasons for underspending, as well as a description of measures taken to address the underspending.

2. TECHINICAL GUIDELINES

2.1 Introduction

The Medium Term Expenditure Framework (MTEF) guidelines provide institutions[1] with the requirements for their preparation of expenditure plans for the three-year period ahead. The guidelines provide for a process that must be followed in seeking Cabinet approval for appropriations for the year ahead and indicative allocations for the outer years of the 2013 MTEF period.

Key points of MTEF process compliance:

- All the requirements outlined in these guidelines for preparing medium term expenditure estimates apply to all national and provincial departments and public entities (schedule 3A and 3C), including constitutional institutions. All estimates of expenditure must be submitted to the National Treasury in the prescribed format.
- For institutions which have reviewed their budget programme structures and activity descriptions, proposed revisions to programme structures should be discussed with the National Treasury before submissions requesting approval for this are made. National departments must finalise and submit proposals for budget programme structure changes by **31 July** each year. Provincial sector departments must finalise uniform agreed budget programme structures by **30 June** each year.
- All institutions must consider their key performance indicators and targets when reprioritising and reducing their three-year programme allocations. The information should be provided according to programme and subprogramme, as well as main economic classification category as per the Appropriation Act.
- Institutions will continue to work within functional Medium Term Expenditure Committee (MTEC) structures in preparation of final programme allocations and estimates of expenditure.
- Prepopulated databases have been distributed to all national departments, constitutional institutions and public entities. The databases should be fully completed in line with the requirements outlined in paragraph 5.4 of these guidelines.
- The narrative budget submissions together with databases are to be submitted to the National Treasury on **17 August 2012**. The budget submission must be authorised by an endorsement letter signed by the Accounting Officer/Accounting Authority, which highlights important information included in the submission and confirms that the database has been fully completed. Importantly, this letter must also indicate that the relevant Minister has agreed to information contained in the budget submission.
- Capital Planning guidelines are available at www.treasury.gov.za/publications/guidelines and are aimed at setting out the requirements for rigorous evaluation of infrastructure projects, improving project

[1] Institutions include departments, constitutional institutions and **all** schedule 3A and 3C public entities.

management, and ensuring that capital spending yields the intended outcomes and service delivery improvements.

2.2 Budgeting by programme

Cost estimates for each programme are the primary information inputs into the budget decision making process, particularly for purposes of policy options analysis. Institutions must bear in mind the differential effect of inflation on the various inputs required for service delivery.

Projections for headline CPI inflation for the 2013 MTEF are:

2012/13: 5.9 per cent

2013/14: 5.3 per cent

2014/15: 4.9 per cent

2015/16: 4.6 per cent

For purposes of budget submissions, the following should be adhered to:

- Approval must be obtained from the relevant treasury in respect of proposed changes to the programme and sub-programme structure of departmental votes.
- Only approved budget structures must be used to compile MTEF submissions, which are due by **17 August 2012**. All historical information in the MTEF submissions must be aligned to the new budget structure.
- **Public entities and constitutional institutions' spending and performance will be analysed in terms of their core functions/mandates. These institutions must reflect their spending and performance information in a programme format. Institutions should continue to refine this to provide a more meaningful alignment to government priorities.**

2.3 Medium term expenditure planning: Functional MTECs

Institutions are grouped together where they have related and concurrent responsibilities. The functional groups, together with the associated outcomes, are listed in Table 1. Functional MTECs have the responsibility for reviewing the MTEF budget submissions of all institutions within the functional group in order to make recommendations to the main MTEC and Ministers Committee on the Budget. The functional MTEC hearings will be convened by the National Treasury, and will facilitate consultation amongst participating institutions as well as representatives of the National Planning Commission, the Departments of Performance Monitoring and Evaluation, Public Service and Administration, Economic Development and Cooperative Governance.

With respect to concurrent functions, national departments must reach an agreement with their provincial counterparts about expenditure they plan to propose in each province in the 2013 MTEF. Agreements on proposed provincial priorities must be taken from functional MTEC discussions into other provincial budget forums for further deliberation. This process is facilitated by National Treasury, with the participation of national and provincial departments with concurrent functions and the provincial treasuries.

The main MTEC and the Ministers' Committee on the Budget will need to be advised on the rationale behind the recommendations of the functional MTECs, and the details of reprioritisation and reductions within the functional budget baseline will have to be presented. Approval must be obtained from the main MTEC and the Minister's Committee on the Budget before recommendations can be approved by Cabinet. In preparing these recommendations, the functional MTECs will need to:

- Bring together key stakeholders and work collaboratively, with a view to seeking consensus on recommendations for the current MTEF, based on the submissions from individual institutions;
- Review departmental programme plans and public entity plans, associated performance indicators and targets, and their links with government's agreed priority outcomes;
- Identify and review proposals for baseline reprioritisation and budget baseline reductions, taking into consideration slow or under spending and spending on non-priority items, amongst others to accommodate spending pressures, new projects or effect an increase within existing programmes;
- In respect of Boards, Councils and Commissions, a review should be undertaken of their mandate, personnel numbers and cost to ensure efficacy and non-duplication of activities being performed.
- Where necessary, negotiate and make the required agreements and trade-offs between participating institutions within functional groups to achieve effective cooperation in pursuing relevant outcomes and efficient service delivery;
- Ensure that implementation plans for programmes are in place and have been correctly costed and sequenced;
- Identify risks to service delivery and the attainment of outcomes, and appropriate mitigation measures;
- Assess revenue projections associated with specific programmes and entities, where relevant;
- Include State Owned Companies' revenue and expenditure issues in their discussions; and
- Address cross-cutting issues within and across functions.

Table 1: Functional groups and related outcomes

General Public Services (Outcomes 4, 11, 12)	
Executive and Legislative Organs	<u>**National Departments**</u> • **The Presidency [1]** • **Government Communication and Information System [9]** • **Parliament [2]** • **Performance Monitoring & Evaluation [6]** • **Cooperative Governance and Traditional Affairs [3]** - Traditional Affairs

	<u>**Public Entities**</u>
	• **The Presidency**
	    - Brand South Africa
	• **Government Communication and Information System**
	    - Development and Diversity Agency
	
	<u>**Provincial Departments**</u>
	• **Office of the Premier**
	• **Provincial Legislature**
	• **Royal Household**

Financial and Fiscal Affairs	<u>**National Departments**</u>
	• **National Treasury [10]** (Programmes 1-5, 8, 9)
	• **Public Enterprises [11]**
	• **Statistics South Africa [13]**
	
	<u>**Public Entities**</u>
	• **National Treasury**
	    - Accounting Standards Board
	    - Co-operative Banks Development Agency (CBDA)
	    - Government Pensions Administration Agency (GPAA)
	    - Independent Regulatory Board for Auditors
	    - South African Revenue Service
	    - The Financial and Fiscal Commission
	    - Financial Intelligence Centre
	    - Financial Services Board
	    - Public Investment Corporation (PIC)
	    - Ombudsman for Financial Service Providers
	    - Pension Funds Adjudicator
	
	<u>**Provincial Departments**</u>
	• **Finance**

External Affairs and Foreign Aid	<u>**National Departments**</u>
	• **International Relations & Cooperation [5]**
	
	This functional group will also focus on the Estimates for the South African Customs Union (SACU) included as negative revenue in the NRF revenue calculation
	
	<u>**Affiliated programmes of other Departments**</u>
	• **National Treasury**
	    - Programme 6: International financial relations
	
	<u>**Public Entities**</u>
	• **International Relations and Cooperation**
	    - African Renaissance and International Co-operation Fund

General Services 1	<u>**National Departments**</u>
	• **Public Works [7]** (Programmes 1,2, 4 and 5)
	• **Public Service and Administration [12]**
	
	<u>**Public Entities**</u>
	• **Public Service and Administration**
	    - PALAMA (including Trading Account)
	    - Public Service Commission
	    - State Information Technology Agency
	• **Public Works**
	    - Property Management Trading Entity (PMTE)

	- Construction Industry Development Board - Council for Build Environment - Independent Development Trust **<u>Provincial Departments</u>** • **Public Works**
General Services 2	**<u>National Departments</u>** • **Home Affairs [4]** **<u>Public Entities</u>** • **Home Affairs** - Film and Publication Board - Government Printing Works - The Independent Electoral Commission
Science and Technology (Outcomes 4, 5)	
Basic Research and Applied Research and Development	**<u>National Department</u>** • **Science and Technology [34]** **<u>Science Councils</u>** • **Health** - Medical Research Council of South Africa • **Agriculture, Forestry and Fisheries** - Agricultural Research Council • **Mineral Resources** - Council for Geoscience - Council for Mineral Technology (Mintek) • **Science and Technology** - Academy of Science of South Africa - Africa Institute of South Africa, Pretoria - Council for Scientific and Industrial Research (CSIR) - Human Sciences Research Council (HSRC) - National Research Foundation (NRF) - South African National Space Agency - Technology Innovation Agency • **Water Affairs** - Water Research Commission
Defence, Public Order and Safety (Outcomes 3, 11)	
Defence and State Security	**<u>National Department</u>** • **Defence and Military Veterans [22]** - Including Programme 6 Military Health Support **<u>Affiliated programmes in other Department</u>** • **National Treasury** - Programme 10: State Security **<u>Public Entity</u>** • **Defence and Military Veterans** - Armaments Corporation of South Africa Limited - Castle Control Board
Police Services	**<u>National Departments</u>** • **Independent Police Investigative Directorate [23]** • **Police [25]**

	<u>Public Entities</u> • **Police** - Private security Industry Regulator Authority **<u>Provincial Departments</u>** • **Safety and Security**

Law Courts	**<u>National Department</u>**
	• **Justice and Constitutional Development [24]**
	
	<u>Public Entities</u>
	• **Justice and Constitutional Development**
	  - Legal Aid South Africa
	  - Special Investigating Unit
	  - The South African Human Rights Commission
	  - The Public Protector of South Africa

Prisons	**<u>National Department</u>** • **Correctional Services [21]**
Economic Services and Environmental Protection (Outcomes 4, 7, 10)	

General Economic and Commercial Affairs
Mining, Manufacturing and Construction
Other Industries
	<u>National Departments</u>
	• **Economic Development [28]**
	• **Mineral Resources [32]**
	• **Tourism [35]**
	• **Trade and Industry [36]**
	
	<u>Public Entities</u>
	• **Economic Development**
	  - Competition Commission & Competition Tribunal
	  - International Trade Administrative Commission of SA
	
	• **Mineral Resources**
	  - Mine Health and Safety Council
	  - South African Diamond and Precious Metals Regulator
	  - State Diamond Trader
	• **Tourism**
	  - SA Tourism Board
	• **Trade and Industry**
	  - Companies and Intellectual Property Commission
	  - Companies Tribunal
	  - Estate Agency Affairs Board
	  - National Consumer Tribunal
	  - National Consumer Commission
	  - National Credit Regulator
	  - National Empowerment Fund
	  - National Gambling Board of South Africa
	  - National Metrology Institute of SA (NMISA)
	  - National Regulator for Compulsory Specs
	  - South African Bureau of Standards (SABS)
	  - South African National Accreditation System
	  - Small Enterprise Development Agency
	
	<u>Provincial Departments</u>
	• **Economic Development**
	• **Tourism**

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Ncera Farms (Pty) Ltd
Onderstepoort Biological Products Limited
Perishable Products Export Control Board
Rural Development and Land Reform
Agricultural Land Holding Account
Ingonyama Trust Board
Registration of Deeds Trading Entity
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SA National Parks
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National Treasury
Programme 4: Eskom loan
<u>Public Entities</u>
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Electricity Distribution Industry Holdings (Pty) Ltd
National Energy Regulator of South Africa
National Nuclear Regulator
SA Nuclear Energy Corporation
South African National Energy Development Institute
The National Radioactive Waste Disposal Institute</td></tr>
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	<u>**Departmental Public Entities**</u> • **Transport** - Passenger Rail Agency of South Africa (PRASA) - Ports Regulator of South Africa - Railway Safety Regulator - Road Traffic Infringement Agency - Road Traffic Management Corporation - South African Civil Aviation Authority - South African Maritime Safety Authority (SAMSA) - Sanral - Driving Licences Card Account - Cross-Border Road Transport Agency <u>**Provincial Departments**</u> • **Roads and Transport** • **Public Transport**
Communication	<u>**National Department**</u> • **Communications [27]** <u>**Public Entities**</u> • **Communications** - National Electronic Media Institute of SA - Sentech Ltd - The Independent Communications Authority of South Africa - Universal Service and Access Fund - Universal Service and Access Agency of SA
Local Government, Housing and Community Amenities (Outcomes 7, 8, 9)	
Housing Development	<u>**National Department**</u> • **Human Settlements [31]** <u>**Public Entities**</u> • **Human Settlements** - Housing Development Agency - National Urban Reconstruction and Housing Agency – NURCHA - Social Housing Regulatory Authority - National Home Builders Registration Council - National Housing Finance Corporation Limited - Rural Housing Loan Fund <u>**Provincial Departments**</u> • **Human Settlements** • **Housing**
Local Government and Community Development (including transfers to municipalities)	<u>**National Department**</u> • **Cooperative Governance [3]** <u>**Affiliated programmes in other Department**</u> • **National Treasury** - Programme 8: Technical Support and Development Finance o Financial Management and Skills Development grants o Neighbourhood Development o Municipal Finance Improvement Programme <u>**Public Entities**</u> • **Cooperative Governance and Traditional Affairs** - SA Local Government Association (SALGA) - The Municipal Demarcation Board

	<u>Provincial Departments</u> • **Local Government** • **Traditional Affairs**

Water Supply	**<u>National Department</u>**
	• **Water Affairs [38]**
	
	<u>Public Entities</u>
	• **Water Affairs**
	  - Breede-River Catchment Management Agency (BOCMA)
	  - Inkomati Catchment Management Agency
	  - The Water Services Trading Entity
	  - Trans-Caledon Tunnel Authority
	  - Water Boards

Education and Related functions (Outcomes 1, 4, 5, 12)	

Arts, Sport, Recreation and Culture	**<u>National Departments</u>**
	• **Arts and Culture [14]**
	• **Sport and Recreation South Africa [20]**
	<u>Public Entities</u>
	• **Arts and Culture**
	  - Freedom Park Trust
	  - National Arts Council of South Africa
	  - National Film and Video Foundation of South Africa
	  - National Heritage Council of South Africa
	  - SA Heritage Resources Agency
	  - The Pan South African Language Board
	  - Arts Institutions (Consolidated)
	  - Heritage Institutions (Consolidated)
	  - Libraries (Consolidated)
	• **Sport and Recreation South Africa**
	  - Boxing South Africa
	  - SA Institute for Drug-free Sport
	• **Trade and Industry**
	  - National Lotteries Board
	  - National Lottery Distribution Trust
	• **Cooperative Governance and Traditional Affairs**
	  - The Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities
	
	<u>Provincial Departments</u>
	• **Arts and Culture**
	• **Sport and Recreation**

Pre-School, Primary and Secondary Education	**<u>National Departments</u>** • **Basic Education [15]** **<u>Public Entities</u>** • **Basic Education** - SA Council for Educators **<u>Provincial Departments</u>** • **Education**
Post-Secondary and Tertiary Education Adult Education	**<u>National Departments</u>** • **Higher Education and Training [17]**

	Public Entities • **Basic Education** - Education Labour Relations Council - uMalusi Council of Quality Assurance in General and Further Education and Training • **Higher Education and Training** - Council on Higher Education - National Skills Fund - National Student Financial Aid Scheme - South African Qualifications Authority - Sector Education and Training Authorities - Quality Council for Trades and Occupations **Provincial Departments** • **Education** (Further Education and Training and Adult Education Programmes)
Employment and Social Security (Outcome 4)	
Employment Programmes	**National Departments** All Expanded Public Works Programmes in other National Departments **Provincial Departments** • Public Works • Roads • Transport (EPWP programmes)
Labour Affairs	**National Departments** • **Labour [18]** **Public Entities** • **Labour** - Commission for Conciliation, Mediation & Arbitration - National Economic, Development and Labour Council - Productivity South Africa
Social Security	**National Departments** • **National Treasury [10]** - Programme 7: Civil and Military Pensions **Public Entities** • **Health** - Compensation Commissioner for Occupational Diseases in Mines and Works • **Transport** - Road Accident Fund • **Labour** - Compensation Fund and Reserve Fund - Unemployment Insurance Fund
Health and Social Protection (Outcomes 2, 8, 12)	
Health	**National Departments** • **Health [16]** **Public Entities** • **Health** - Council for Medical Schemes - National Health Laboratory Service

	<u>Provincial Departments</u> • **Health**
Social Assistance	<u>National Department</u> • **Social Development [19]** (Programmes 2, 3) Including Social Security Policy & Administration <u>Public Entity</u> • **Social Development** - SA Social Security Agency (SASSA)
Social Development and Welfare Services	<u>National Departments</u> • **Social Development [19]** (Programmes 1, 4, 5) • **Women, Children and People with Disabilities [8]** <u>Affiliated programmes in other Department</u> • **Presidency** - National Youth Development Agency <u>Public Entities</u> • **Social Development** - National Development Agency • **The Presidency** - National Youth Development Agency • **Women, Children and People with Disabilities** - The Commission on Gender Equality <u>Provincial Departments</u> • **Social Development**

2.4 Budget process timelines

The critical dates in respect of the budget process, applicable to institutions, are set out in tables 2 and 3. **Dates are subject to change**.

Provincial departments and entities are to follow the specific requirements of their own treasuries and provincial budget processes. These guidelines should thus be read together with the **Provincial Budget Process Schedule and Guide for Provincial Budget Formats,** available at www.treasury.gov.za/publications/guidelines. Provincial treasuries must receive revised baseline estimates from provincial departments and entities by **17 August**, in order for consolidated provincial estimates to be prepared.

Table 2: Critical dates for the 2013 national budget process

Departments, public entities and constitutional institutions receive Medium Term Expenditure Framework (MTEF) guidelines and databases	July 2012
Information sessions on MTEF guidelines and databases	July 2012
Departments submit proposals for budget programme structure revision to National Treasury	31 July 2012
Budget submission: submit expenditure estimates, endorsement letter and database	17 August 2012
Medium Term Expenditure Committee (MTEC) starts	August 2012
MTEC ends	September 2012
Estimates of National Expenditure (ENE) guidelines distributed to institutions	November 2012
Allocation letters issued	November 2012
First draft of ENE chapter submitted	7 December 2012
Revised (2nd draft) ENE chapters submitted	10 January 2013
Budget tabled in Parliament	February 2013

Table 3: Provincial budget timelines

Executive Committee (EXCO) considers spending priorities	Between May 2012 and January 2013
Provincial technical committees consider key spending pressures Policy discussions with line departments	September 2012
Revise macroeconomic framework and Annual Performance Plans (APPs)	August and November 2012
EXCO considers in-year pressures and policy priorities for upcoming MTEF	October 2012
Adjusted Estimates tabled in legislature	November 2012
Provinces prepare/ finalise budget and planning documentation	January 2012
Provincial budgets tabled	February 2013

2.5 What must be included in budget submissions

Budget submissions must be in the form of an endorsement letter, a database and an explanatory narrative. Information must be provided by programme, sub-programme and by economic classification category.

2.5.1 The explanatory narrative

The explanatory narrative should include the following, where relevant:

- Statutory authority for spending programmes, and relevant policies and regulations;
- A summary of the rationale underlying the reprioritisation initiatives in respect of the baseline and also the budget baseline reductions;
- A summary of the impact of both reprioritisation and baseline reductions on outputs;
- A summary of where baseline costing has been adjusted to more accurately reflect the underlying input costs;
- Details of funded vacancy rates per programme if they are higher than 10 per cent, including on how long these posts have been vacant and the reasons for this;

- Alternative or complementary sources of funding such as revenue generated by institutions' activities and new public private partnerships for new proposed priorities or donor finance;
- Details of interdepartmental, provincial or municipal implementation plans, co-funding or complementary activities;
- Progress on the implementation of conditional grants in the past financial year (2011/12) as well as the reasons for underspending and a description of measures taken to address this; and scheduled information required in respect of existing or new conditional grants for the 2013 MTEF;
- Details of the Presidential Infrastructure Coordinating Commission Strategic Integrated Projects; and
- Other relevant information.

2.5.2 Reporting against past performance (*in both the database and narrative submissions*)

Performance information contained in submissions will be analysed to assess, among other things, whether value for money has been realised over time in respect of previous budget allocations. The following requirements must be adhered to:

- Through the functional MTECs, agreement must be reached between national departments, the Department of Performance Monitoring and Evaluation and the National Treasury on the **key** performance indicators and targets that direct departmental and entity budget decision making in the 2013 MTEF, guiding the functional MTEC reprioritisation and budget reduction processes. This agreed upon list of key indicators will be used throughout the budget process;
- Provincial departments must reflect their performance indicators and targets as agreed upon per sector and as set out in their annual performance plans for the coming financial years;
- Public entities must report against outputs specified in the shareholder compact or service level agreements between the departments and public entities, and those that have been approved by the board of directors;
- When reporting for the current financial year (2012/13), the progress for April to June 2012 against the 2012/13 targets must be included; and
- Reporting on performance should be based on performance indicators that:
    - reflect policy priorities that were funded in the previous year's budget;
    - relate to the twelve national outcomes;
    - relate to the eighteen Presidential Infrastructure Coordinating Commission Strategic Integrated Projects;
    - relate to outputs that will be achieved over the MTEF period; and
    - are included in provincial performance plans for concurrent function departments.

The following performance information should be summarised in the **narrative** submission:

- National departments must only reflect the **key** performance indicators and targets, from their annual performance plans, highlighting outputs that were achieved with the previous budget and those that will be achieved in the 2013 MTEF; and
- Institutions should indicate how reprioritisation of funds to and from each of the **sub-programmes** results in changes to the achievements of their outputs for the MTEF period. Where targets have been revised, the narrative submission should highlight the trade-offs being proposed by the institution.

2.5.3 Baseline analysis

2.5.3.1 Baseline reprioritisation (*in both the database and narrative submissions*)

The reprioritisation on baselines should be done at programme and sub-programme level as provided for in the database. **The process and methodology used by institutions in the assessment should be detailed in the explanatory narrative submission**.

The following factors should be considered when baselines are reprioritised:

- A list of core institutional performance indicators that will be finally agreed upon by institutions, National Treasury and the Department of Performance Monitoring and Evaluation. The impact of reprioritisation on performance targets must ultimately be agreed upon within the functional MTECs.
- Reprioritising towards areas of high priority from areas of less priority or lower performance. Particular attention must be given to underperforming programmes (including areas of underspending) and non-essential goods and services budgets (for example, travel and subsistence, advertising and catering costs). Where reductions are being made as well as to where funding is being reprioritised must be explicitly shown.
- Providing for cost adjustments in response to known budget pressures;
- Providing for all inflation-related cost adjustments. The CPI assumptions provided for the 2013 MTEF can be used to inform provisions for price increases for the 2013 MTEF. However, institutions are reminded to consider the specific items directly impacted by inflation when making inflationary adjustments;
- Shifting of funds can be between programmes within an institution, and between programmes across institutions;
- Amounts budgeted for conditional grants should not be reprioritised to other spending items, except when there is underspending, for which evidence must be provided of blockages that will continue to cause underspending;
- For infrastructure projects that have been underspending over a number of years the reasons for underspending and a description of measures taken to address this must be given; and
- Results from expenditure reviews and programme evaluations should be taken into consideration.

2.5.3.2 Baseline reductions (*in both the database and narrative submissions*)

Similar to baseline reprioritisation, reduction on baselines should be done at programme and sub-programme level as provided for in the database. **The process and methodology used by institutions in the assessment should be detailed in the explanatory narrative submission.**

- Reduction of baselines by 1% in 2013/14, 2% in 2014/15 and 3% in 2015/16 is a requirement. Details of where the reduction will be effected (i.e. programmes, sub-programmes and economic classification categories) should be provided as well as information on how the percentage reductions will impact on achievement of outputs.
- All factors that are considered when baseline reprioritisation is done should also be considered for baseline reductions.

2.5.4 Database

Starting this year, there will only be one database used throughout the entire budget process, for both the MTEF decision making and the Estimates of National Expenditure (ENE) processes. It is therefore critical that databases be completed in the required format by 17 August 2012. This includes:

- Estimates of recurrent expenditure by programme and sub-programme, reprioritised in order to attain targeted outputs;
- Estimates of project expenditure and other non-recurrent activities by programme and sub-programme;
- The detail of reprioritisation and the detail of the reduction of baseline funds;
- Impact of spending reprioritisation and baseline reductions on outputs or targets set. Institutions should indicate the changes to their performance targets for the MTEF period in relation to reprioritisation and reduction of funds for each of the subprogrammes. Where targets have been revised, explanation of this revision must be provided in the database comments column;
- An output unit cost template is provided in the database and can be used where it is appropriate. Most institutions have their own methodologies for calculating unit cost;
- Personnel numbers per salary level as well as the unit costs for the seven year period;
- Details on infrastructure spending, including Presidential Infrastructure Coordinating Commission Strategic Integrated Projects, including those from State Owned Companies' SIPs; and
- Donor assistance.

2.6 Compensation of employees

Given that changing the composition of spending from current to capital is a main focus area, institutions should consider the different ways of changing their personnel profile to achieve cost-effectiveness in programme service delivery.

Currently, the wage negotiations reflect higher than budgeted cost of living and other remuneration adjustments. Institutions must report on the implications of these higher costs for their budget baselines and also show how their efforts to accommodate such costs are reflected within their compensation and vote budget baselines.

Institutions should use the cost projection information below, which includes that related to the current wage bill offer by government, together with other information that they have in respect of managing their budget programmes, in order to determine their estimates of expenditure.

Current projections for cost of living adjustments to payroll remuneration are:

2012/13 – 7 per cent with effect from 1 May 2012

2013/14 – CPI plus 1 per cent

2014/15 – CPI plus 1 per cent

2015/16 – CPI

Proposed changes in respect of conditions of service:

1. Long service recognition

   20 years continuous service: a cash award of R7500

   30 years continuous service: a cash award of R15000

   40 years continuous service: a cash award of R20000

2. Night shift allowance

   R2.69 per hour from 1 July 2012

   R3.35 per hour from 1 July 2013

   R4.00 per hour from 1 July 2014

3. Housing allowance

   An additional R100 per month from the current R800 per month

When the current wage negotiations are concluded, institutions will be informed of the details of the settlement, and will be required to make final decisions on compensation of employees' estimates.

2.7 Public entities

Public entities' budgets will be discussed in the relevant functional MTEC processes; hence entities must improve the expenditure information on programmes/objectives/ activities that is provided for the financial years and link that to performance indicators. In the functional MTEC baseline reprioritisation and reduction processes, in addition to shifting of funds between programmes within an institution, shifts between programmes across institutions, including entities, must also be considered.

In order to enable consolidated expenditure estimates to be prepared, budget projections for public entities must be organised into programmes/objectives/activities, as well as by main economic classification, and provided in this format. It is critical that the database be accurately completed for submission to National Treasury by 17 August 2012, as only one database will be used for both the MTEF and ENE processes. A database template has been sent to each entity for completion.

Further guidance on completing the template is included in the template itself and entities are advised to read these as well as the notes sheet before completing the template. The database template has been distributed with departmental databases and must be completed and submitted to National Treasury. Public entities should read through the whole guideline to understand various requirements of the budget submission, as all requirements for departments are applicable to public entities as well.

2.8 Donor assistance

Donor assistance includes both cash and in-kind contributions. Reporting on donor assistance needs substantial improvement in light of the lack of sufficient funding information received in prior financial years from institutions. All institutions should provide a comprehensive schedule of all donor funding by programme or objective/activity and economic classification over the seven year period, a brief description of what the funds will achieve (outputs) and the associated timelines (**template provided in the database**). The information for in-kind contributions must be accurate. Donor information should include approved allocations funded from the general budget support modality.

If some donor information is not available within institutions it should be sought from relevant donors. Specific outputs per donation that are concise and comprehensible must be stipulated on the donor funding sheets in the database.