



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Technical Guidelines for the Preparation of Adjusted Estimates of National Expenditure

National Treasury

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1. INTRODUCTION

The aim of the Adjusted Estimates of National Expenditure (AENE) is to:

- provide detailed information on revised spending projections and revised performance projections for the current financial year, as provided for in section 30 of the Public Finance Management Act 1 of 1999 (PFMA);
- provide mid-year actual expenditure and performance achievements; and
- relate this information to the information published in the 2014 Estimates of National Expenditure (ENE).

The format for the 2014 AENE publication is similar to previous years and the link with the 2014 ENE chapters will be maintained in:

- selected performance indicators as published in the 2014 ENE, with actual achievements up to September 2014;
- estimated departmental receipts, with any changes and mid-year actual receipts; and
- estimated expenditure by programme and economic classification, with any changes and mid-year actual expenditure incurred.

2. IMPORTANT NOTES FOR THE 2014 AENE

2.1 General

Section 4 of this guideline provides details regarding how chapters should be written. A separate template for the preparation of the AENE chapter is provided. Departments must use the formatting style contained in the separate template in order to compile their chapters.

2.2 Technical Adjustment to the Annual Budget

The following are adjustments allowed in the AENE process: roll-over of funds, unforeseeable and unavoidable expenditure, virements and shifts, declared unspent funds, funds shifted within votes or between votes to follow a transfer of function, adjustments due to significant and unforeseeable economic and financial events, use of funds in emergency situations in terms of Section 16 of the PFMA, money already announced by the Minister of Finance in the annual budget but not appropriated, self-financing expenditure as well as gifts, donations and sponsorships from the vote.

2.3 2014 National Macro Organisation of the State

In terms of Section 33 of the PFMA, as functions are transferred between departments, so are the associated funds. Treasury Regulation 6.5.1 stipulates that where a function is to be transferred between votes, the relevant treasury must be consulted in advance and that in the absence of an agreement between the affected departments on the amount of funds to be transferred, the relevant treasury will determine the funds to be shifted. When the transfer of functions involves a change to the vote budget programme structure, a separate submission needs to be made in this regard to the National Treasury.

Funds should be transferred to new departments from existing budget votes, as functions are fully transferred to new departments, and the new departmental structures are properly established.

In order to transfer funds following a function/s shift/s, the department relinquishing the function/s must submit a formal request to the National Treasury through their Public Finance Division representative. The request should include an explanatory memorandum motivating the function/s shift/s; the approval from the Department of Public Service and Administration for the transfer of the function/s between the relevant departments; a copy of the agreement between the transferring department and the recipient department which indicates that the departments are in agreement with the proposed function/s shift/s and quantum of funds being transferred; as well as the financial data (including carry through costs) pertaining to the shifting of funds.

New departments which would have finalised the national macro organisation of the state approval process by 19 September 2014 should submit a separate AENE chapter and database to the National Treasury. In this database, expenditure must be adjusted retrospectively to 1 April 2014, and be set out in respect of relevant programmes, subprogrammes and economic classification items. Revenue figures should also be adjusted retrospectively to 1 April 2014. The budget of the new department will then be allocated in the 2014 Adjustments Appropriation Bill, to be tabled in Parliament in October 2014.

Funding for current unavoidable operational activities in respect of new departments which have not completed the national macro organisation of the state approval process, should be allocated against the budget vote of the department to which the new department has been aligned for transitional purposes. Expenditure incurred by an existing department on behalf of a new department must be in terms of a *memorandum of understanding* agreement entered into between the two departments. This agreement must, among others, regulate the approval of expenditure, the accountability for expenditure and the allocation of PFMA responsibilities, between the Executive Authorities and Accounting Officers of the respective departments.

For the expenditure of the offices of the new Ministers and Deputy Ministers, provision must be made on existing votes, mostly through reprioritisation of the budget of the department to which the new department has been aligned for transitional purposes, at an average cost of R4 million for a new Deputy Ministry and R8 million for a new Ministry. These costs must be reflected in the AENE database.

The new Ministries and Deputy Ministries must take into consideration the 2014 Cost Containment Guidelines for the National Macro Organisation of the State Project when they establish the office of their Executive Authority. Where insufficient funds are identified through the reprioritisation exercise, an application for funding could be put forward through the in-year adjustments budget process, in terms of section 30(2) of the PFMA. Departments must provide explanations for expenditure which has not been accommodated within the baseline budget of the department to which the new department has been aligned, and submit requests by 15 August 2014. Any such funds approved by the Ministers' Committee on the Budget will be communicated to departments in allocation letters and then appropriated in the 2014 Adjustments Appropriation Bill.

2.4 Performance information

In all AENE chapters, performance indicators should be reported on against the targets reflected in the 2014 ENE. Indicators and targets should be revised only if the outputs will be affected by: an adjustment to the budget, a change in the budget programme structure, or a function shift related to the 2014 National Macro Organisation of the State Project. Where a particular programme for a new department did not have published indicators in the 2014 ENE; new indicators relating to that programme should be included.

3. DEADLINES

TABLE 1: CRITICAL DATES FOR THE 2014 AENE PROCESS

ITEM	DATE
Departments submit Cabinet memoranda requesting additional funds due to unforeseeable and unavoidable expenditure	15 August 2014
Departments submit requests for function shifts to follow a transfer of function to National Treasury for approval	1 September 2014
Departments submit monthly expenditure reports as at 31 August 2014 (with projections including all proposed adjustments)	15 September 2014
Allocation letters issued to departments	17 September 2014
Departments submit AENE chapter and database: - including expenditure and receipts data for 2013/14 - excluding expenditure and receipts data for the first six months of 2014/15 - excluding performance estimates for the first six months of 2014/15	19 September 2014
Departments submit expenditure and receipts data for the first six months of 2014/15 Departments submit performance estimates for the first six months of 2014/15	7 October 2014
AENE tabled in Parliament	22 October 2014

4. HOW TO WRITE THE AENE CHAPTER

Use the instructions below to complete the department's Adjusted Estimates of National Expenditure chapter template.

Numbers style

Use a full stop to separate a whole number from the decimal numbers denoting the fraction. Provide three numbers after the decimal point, unless any of these are zero.

Use a space to separate thousands.

Example: R75 000 (75 thousand rand) but R10.2 billion (10 billion and 200 million rand)

Vote [insert vote number]

[Insert department name]

Adjusted budget summary

[The following table will be created from the database.]

R thousand	2014/15			
	Main appropriation	Adjusted appropriation	Decrease	Increase
Amount to be appropriated				
<i>of which:</i>				
Current payments				
Transfers and subsidies				
Payments for capital assets				
Payments for financial assets				
Direct charge against the National Revenue Fund				
Executive authority				
Accounting officer				
Website address				

Aim

[Write the aim of the department exactly as it was published in the 2014 Appropriation Act, or as recently approved if it has changed due to a significant policy or mandate change.]

2014 National Macro Organisation of the State

[Provide a brief summary of any organisational change the vote may be undertaking in terms of the 2014 National Macro Organisation of the State Project.]

Changes to programme purposes and objectives

Changes to programme purposes and objectives are published in the AENE to maintain the link between the departments' strategic plan, annual performance plan, main appropriation and the adjusted budget.

To complete this section, follow the instructions below for **each** programme on the vote, for which there has been a change:

Programme [insert programme number]: [insert programme name]

Changed purpose: [insert new purpose]

Changed objectives: [insert new objectives]

[Insert explanation for changes]

Mid-year performance status

Progress on the achievement of performance targets set in the 2014 ENE must be reported for the first six months of the financial year. Explanations of changes to performance indicators and their 2014/15 targets as published in the 2014 ENE must be provided. These changes must be confined to adjustments made to the budget, including implications of the National Macro Organisation of the State Project.

In the table, list:

- all the performance indicators published in the 2014 ENE;
- programme related to each indicator;
- outcome related to each indicator, including the outcome number and name;
- the targets projected for the whole year for each indicator, as published in the 2014 ENE;
- what has been achieved in the first six months of the financial year for each indicator;
- any changes in the original target, confined to adjustments to the budget including the National Macro Organisation of the State Project; and
- new indicators as a result of the National Macro Organisation of the State Project.

[The table below is not extracted from the database. Complete the relevant information in the template provided].

Indicator	Programme	Outcome	Annual performance		
			Projected for 2014/15 as published in the 2014 ENE	Achieved in the first six months of 2014/15 (April to September)	Changed target for 2014/15

Below this table:

- Explain any changes to indicators;
- Explain any changes to targets;
- Discuss mid-year progress, relating this to mid-year expenditure on departmental programmes and to outcomes where relevant;
- Explain the impact on performance due to:
 - the roll-over of funds,
 - unforeseeable and unavoidable expenditure,
 - virements and shifts,
 - declared unspent funds,
 - funds shifted within votes or between votes to follow a transfer of function,
 - adjustments due to significant and unforeseeable economic and financial events,
 - use of funds in emergency situations in terms of Section 16 of the PFMA,
 - appropriation of expenditure earmarked in the 2014 Budget speech for future appropriations, and
 - self-financing expenditure as well as gifts, donations and sponsorships from the vote.

Adjusted Estimates of National Expenditure 2014

The adjusted estimates of national expenditure provide for categories of expenditure specified in section 30(2) of the PFMA, by programme and economic classification as follows:

- **Main appropriation:** the total amount voted per programme and by economic classification in the Appropriation Act (2014).
- **Adjustments appropriation consists of the following categories:**
 - **Roll-overs:** unspent funds from the preceding financial year that may be rolled over when activities planned to be completed by the end of that year have not been completed but are close to completion. Treasury Regulations 6.4 restrict roll overs as follows: compensation of employees funding may not be rolled over; a maximum of 5 per cent of a department's budget for goods and services may be rolled over; transfers and subsidies funding may not be rolled over for any purpose other than what the funds were originally allocated for; and unspent funds on payments for capital assets may only be rolled over to finalise projects or assets acquisitions already in progress.
 - **Unforeseeable and unavoidable expenditure:** expenditure that could not be anticipated at the time of the main budget. Treasury Regulations 6.6 specify that the following may not be regarded as unforeseeable and unavoidable expenditure: spending that was known when the main budget was being finalised but could not be accommodated in the allocations at the time; spending increases due to tariff adjustments and price increases; and spending to extend existing services or create new services that are not unforeseeable and unavoidable. Spending made necessary by adverse weather conditions is an example of unforeseeable and unavoidable expenditure.
 - **Virements and shifts:**
 - **Virements:** the utilisation of savings or unspent funds from amounts appropriated under one main division (programme) towards the defrayment of excess expenditure under another main division (programme) within the same vote. Section 43 of the PFMA sets parameters within which virements may take place.
 - Funds reallocated between programmes or subprogrammes or economic classification items within the 2014/15 financial year should be expressed as either a **virement** or a **shift**, and should be captured in the database. Explain why funds are not used/spent in a particular programme or subprogramme or economic classification item to which they were appropriated and what these funds will be used for in the programme or subprogramme or economic classification item where they are shifted to.
 - Departments require approval before a virement can take place from either their own Accounting Officer, the National Treasury, or from Parliament. The level of approval depends on the nature of the virement.

The following virements require approval from National Treasury:

- Increase of funds appropriated for compensation of employees;
- Increase of funds appropriated for transfers and subsidies to other institutions;
- Introduction of a new transfer to other institutions;
- Those which result in utilisation of funds that were appropriated for transfers and subsidies to other institutions provided the expenditure will be utilised for the same purpose as that of the main division within the vote in which it was originally appropriated;
- Those which result in utilisation of funds that were earmarked by National Treasury in

the allocation letter to an institution; and

- Those which result in utilisation of funds that were appropriated for payments for capital assets for other categories of expenditure other than for the compensation of employees.

Approval is required from the legislature for the virements which:

- Result in utilisation of funds appropriated for items specifically and exclusively earmarked in an appropriation act;
- Result in utilisation of funds that amount to more than 8 per cent of the amount appropriated for a programme (shifts between different segments within a programme do not affect the overall amount appropriated for a programme, only virements from a programme effectively reduce the programme budget);
- Result in utilisation of funds appropriated as transfers and subsidies that could not be approved by the National Treasury; and
- Result in utilisation of funds appropriated for payments for capital assets for the payment of current assets that could not be approved by the National Treasury.

Virement applications that require the approval of Parliament are tabled in the Adjustments Appropriation Bill and detailed in the Adjusted Estimates of National Expenditure publication with motivations provided.

- **Shifts:** the utilisation of savings or unspent funds towards the defrayment of increased expenditure within a main division (programme) of a vote between the different segments (sub-programme and economic classification) of the main division (programme). Shifts include the reallocation of funds incorrectly allocated during the 2014 ENE process.
- **Function shifts:** functions which are shifted to another vote or institution in terms of legislation and/or following the reassignment of responsibility for the functions. The associated assets and liabilities also need to be shifted. Such shifts can also happen between main divisions (programmes) within a vote.
- **Declared unspent funds:** unspent amounts that departments explicitly indicate they will not require in the current financial year including budget reductions.
- **Other adjustments include:**
 - **Appropriation of expenditure earmarked in the 2014 Budget speech for future allocation:** in certain instances, an amount to be allocated for the three years of the MTEF period for a specific purpose will be announced by the Minister of Finance when the main budget is tabled, though the details of the annual allocations are to be decided later. This is usually when plans have not been finalised in time to decide on the specific allocation amounts for the main budget.
 - **Adjustments due to significant and unforeseeable economic and financial events:** when unforeseeable economic and financial events affect the fiscal targets set by the main budget, adjustments may need to be made. Significantly higher inflation than anticipated in budget projections over the MTEF period is an example of such an event.
 - **Use of funds in an emergency situation:** the Minister of Finance can approve the use of unappropriated funds for spending of an exceptional nature. This happens if postponing the spending to a future parliamentary appropriation would seriously prejudice the public interest. The Minister of Finance must subsequently provide a report to Parliament.
 - **Self-financing expenditure:** spending financed from revenue derived from a vote's specific activities. The revenue is paid into the National Revenue Fund. If

self-financing expenditure is approved, these funds are allocated to the vote.

- **Gifts, donations and sponsorships:** if valued at more than R100 000, they are also included in the adjustments budget.
- **Direct charges against the National Revenue Fund:** amounts spent in terms of statutes and do not require parliamentary approval, such as expenditure on state debt costs.
- **Total adjustments appropriation:** the sum of all expenditure adjustments by programme and by economic classification. This number may be negative. In most instances this would be because of a virement of funds out of the programme or economic classification, or due to function shifts.
- **Adjusted appropriation:** the total funds available to departments after the adjustments have been appropriated, that is the sum of the main appropriation and any adjustments.

[The table on adjusted expenditure for the vote will be created from the database].

Programme	2014/15								Adjusted appropriation
	Main appropriation	Adjustments appropriation						Total adjustments appropriation	
R thousand		Roll-overs	Unforeseeable/unavoidable	Virements and shifts	Function shift	Declared unspent funds	Other adjustments		
Programme name									
Subtotal									
Direct charge against the National Revenue Fund									
Item									
Total									
Economic classification									
Current payments									
Economic classification item									
Transfers and subsidies									
Economic classification item									
Payments for capital assets									
Economic classification item									
Payments for financial assets									
Total									

[The tables for each programme will be created from the database].

Programme number: Programme name

Subprogramme		2014/15								
		Adjustments appropriation						Total	Adjusted	
R thousand	Main appropriation	Roll-overs	Unforeseeable/unavoidable	Virements and shifts	Function shift	Declared unspent funds	Other adjustments	adjustments appropriation	appropriation	
Subprogramme name										
Total										
Economic classification										
Current payments										
Economic classification item										
Transfers and subsidies										
Economic classification item										
Payments for capital assets										
Economic classification item										
Payments for financial assets										
Total										

Details of adjustments to Estimates of National Expenditure 2014

Roll-overs – [write full amount: R00.000 million]

Programme [insert programme number]: [insert programme name]

R00.000 million for [explain what the funds will be used for].

Unforeseeable and unavoidable expenditure – [write full amount: R00.000 million]

Programme [insert programme number]: [insert programme name]

An additional R00.000 million has been allocated to [explain what the funds will be used for].

Virements and shifts

Each virement or shift must be motivated, in both the FROM and TO columns.

- **FROM:** specify where funds have been reduced, by programme and economic classification item. Virements to other programmes as well as shifts within programmes are shown as a percentage of the programme budget.
- **TO:** specify what the funds will be used for, by programme and economic classification item. These funds offset the reductions.
- **Motivation:** explain reasons for funding reductions and what such funds will be used for.
- All virements or shifts that require approval from National Treasury or the Legislature must be indicated by means of the appropriate footnote, as shown below the table.

[The table for virements and shifts will be extracted from the database]. Example:

Programmes					
1. Programme name					
2. Programme name					
FROM:			TO:		
Programme by economic classification	Motivation	R thousand	Programme by economic classification	Motivation	R thousand
Programme 1		(12 656)	Programme 1		12 656
Compensation of employees	Non-critical posts at head office were not filled	(12 656)	Goods and services	Upgrading of computer equipment	12 545
			Machinery and equipment	Office equipment such as photocopiers	111
Shifts within the programme as a percentage of the programme budget		0.1%			
Virements to other programmes as a percentage of the programme budget		0%			
Programme 2		(130 000)	Programme 2		20 000
Machinery and equipment	Funds earmarked for the new passport system were reclassified ¹	(130 000)	Goods and services	Network infrastructure and hardware	20 000
			Programme 3		110 000
			Departmental agencies and accounts	Government Printing Works for new passport system	110 000
Shifts within the programme as a percentage of the programme budget		0.1%			
Virements to other programmes as a percentage of the programme budget		0.6%			
Programme 3		(233 430)	Programme 2		233 430
Software and other intangible assets	Funds earmarked for HANIS Smart ID Card were reclassified	(213 430)	Goods and services	Smart ID card	205 430
	Funds earmarked for new passport system were reclassified ²	(20 000)		New client contact centre	8 000
				New passport system	20 000
Shifts within the programme as a percentage of the programme budget		0%			
Virements to other programmes as a percentage of the programme budget		0.3%			
Total		(376 086)			376 086

1. National Treasury approval has been obtained.

2. Only the legislature may approve this virement in terms of the Public Finance Management Act, (Act 1 of 1999).

Funds shifted between votes following a transfer of a function – [write full amount: R00.000 million]

Programme [insert programme number]: [insert programme name]

R00.000 million has been transferred to the Department of [insert department name] for [explain what the funds will be used for]. **OR**

R00.000 million will be received from the Department of [insert department name] for [explain what the funds will be used for].

Where appropriate, use the words “as part of the National Macro Organisation of the State Project” in the explanation.

Funds shifted within a vote following a function shift – [write full amount: R00.000 million]

Programme [insert programme number]: [insert programme name]

R00.000 million has been received from the [insert other programme name] programme following the shift of the [insert name of function, e.g. monitoring, research, IT, etc.] to the [insert subprogramme name] subprogramme in this programme.

Declared unspent funds – [write full amount: R00.000 million]

Programme [insert programme number]: [insert programme name]

R00.000 million of unspent funds has been declared on [insert area of reduction] due to [insert reason].

Other adjustments – [write full amount: R00.000 million]

Appropriation of expenditure earmarked in the 2014 Budget speech for future allocation

Programme [insert programme number]: [insert programme name]

An additional R00.000 million has been allocated for [explain what the funds will be used for].

Adjustments due to significant and unforeseeable economic and financial events

Programme [insert programme number]: [insert programme name]

An additional R00.000 million has been allocated to cover costs related to [insert expenditure category].

Use of funds in emergency situations

Programme [insert programme number]: [insert programme name]

An additional R00.000 million has been allocated for [explain what the funds will be used for].

Self-financing expenditure

Programme [insert programme number]: [insert programme name]

R00.000 million in revenue generated from [insert source of funds] has been surrendered to the National Revenue Fund. It will be used for [insert what funds will be used for].

Gifts, donations and sponsorships¹ – [write full amount: R00.000 million]

Programme [insert programme number]: [insert programme name]

The department will make a donation of R00.000 million to [insert name of institution] for [insert what donation will be used for].

Direct charges against the National Revenue Fund – [write full amount: R00.000 million]

[Insert category of adjustment] – [write full amount: R00.000 million]

An amount of R00.000 million has been allocated to [insert name of direct charge] for [explain what the funds will be used for].

¹ In terms of the Treasury Regulations, section 21, amounts exceeding R100 000 must be separately shown in appropriation legislation and voted on by Parliament.

Expenditure for 2013/14 and preliminary expenditure for 2014/15

[The following table will be created from the database.]

Programme	2013/14					2014/15			
	Expenditure outcome					Preliminary expenditure			
R thousand	Adjusted appropriation	Apr 13 - Sep 13	Apr 13 - Sep 13 % of adjusted appropriation	Apr 13 - Mar 14	Apr 13 - Mar 14 % of adjusted appropriation	Adjusted appropriation	Adjusted appropriation/ Total (%)	Apr 14 - Sep 14	Apr 14 - Sep 14 % of adjusted appropriation
1. Programme name									
2. Programme name									
Subtotal									
Direct charge against the National Revenue Fund									
Item									
Item									
Total									
Economic classification									
Current payments									
Economic classification item									
Economic classification item									
Transfers and subsidies									
Economic classification item									
Economic classification item									
Payments for capital assets									
Economic classification item									
Economic classification item									
Payments for financial assets									
Total									

Expenditure trends for the first half of 2014/15

A paragraph on expenditure trends, focusing on the major changes in expenditure and explanations of these, will be compiled from the information captured in the database.

Departmental receipts

[The following table will be created from the database.]

	2013/14					2014/15				
	Audited outcome					Actual receipts				
R thousand	Adjusted estimate	Apr 13 - Sep 13	Apr 13 - Sep 13 % of adjusted estimate	Apr 13 - Mar 14	Apr 13 - Mar 14 % of adjusted estimate	Budget estimate	Adjusted estimate	Adjusted receipts estimate/ Total (%)	Apr 14 - Sep 14	Apr 14 - Sep 14 % of adjusted estimate
Departmental receipts										
Economic classification item										
Economic classification item										
Total										

Revenue trends for the first half of 2014/15

A paragraph on revenue trends, focusing on the major changes in receipts and explanations of these, will be compiled from the information captured in the receipts database.

Changes to transfers and subsidies, including conditional grants

[These tables will be created from the database].

Summary of changes to transfers and subsidies per programme

		2014/15							
		Adjustments appropriation						Total	Adjusted
R thousand	Main appropriation	Roll-overs	Unforeseeable/unavoidable	Virements and shifts	Function shift	Declared unspent funds	Other adjustments	adjustments appropriation	
Programme name									
Economic sphere									
Current									
Economic classification item									
Programme name									
Economic sphere									
Capital									
Economic classification item									

Summary of changes to conditional grants: Provinces

		2014/15							
		Adjustments appropriation						Total	Adjusted
R thousand	Main appropriation	Roll-overs	Unforeseeable/unavoidable	Virements and shifts	Function shift	Declared unspent funds	Other adjustments	adjustments appropriation	
Programme name									
Conditional grant name									

Summary of changes to conditional grants: Local government

		2014/15							
		Adjustments appropriation						Total	Adjusted
R thousand	Main appropriation	Roll-overs	Unforeseeable/unavoidable	Virements and shifts	Function shift	Declared unspent funds	Other adjustments	adjustments appropriation	
Programme name									
Conditional grant name									