



2020 SPECIAL ADJUSTMENT BUDGET GUIDELINES



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



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1. INTRODUCTION

- 1.1** On 15 March 2020 the President declared a national state of disaster in South Africa in terms of the Disaster Management Act, 2002, following the declaration of the global COVID-19 pandemic by the World Health Organisation. Government had to act swiftly to minimise the economic impact of the pandemic, this implies a redirection of resources.
- 1.2** On the 21st of April 2020 the President announced a R500 billion fiscal support package that includes spending towards COVID-19 priorities. On 30 April National Treasury published on the “Economic Measures for COVID-19”, outlining an R500bn response, as well as identifying the funding sources for the package. Part of the funding sources for this package is a R130 billion baseline reprioritisation in the 2020/21 financial year. The table below shows the announced economic measures.

Table 1: COVID-19 fiscal response package	R million
Credit Guarantee Scheme	200 000
SME and informal business support	100 000
Job creation and protection	
Measures for income support(further tax deferrals, SDL holiday and ETI extension)	70 000
Support to vulnerable households fro 6 months	50 000
Wage protection (UIF)	40 000
Health and other frontline services	20 000
Support to municipalities	20 000
Total	500 000

Source : National Treasury

- 1.3** A proposed Special Adjustment Budget seeks to modify the 2020/21 budget to utilise current baseline allocations to provide for the rapidly changing economic conditions and enable spending on the COVID-19 response. A revised fiscal framework will also be presented, to account for substantial revenue losses emanating from the economic shock of the pandemic and subsequent lockdown.
- 1.4** All other adjustments not included in this Special Adjustment Budget will be tabled in the October Adjustment Budget.

2. THE SPECIAL ADJUSTMENT BUDGET

2.1. Technical amendments to the Annual Budget

The Special Adjustment Budget provides for changes in the main appropriation owing to the categories of expenditure specified in Section 30(2) of the PFMA, by programme and economic classification.

The following are technical financial amendments included in the Special Adjustment Budget process:

- **Adjustments due to significant and unforeseeable economic and financial events:** When unforeseeable economic and financial events affect the fiscal targets set by the budget, adjustments may need to be made. In this instance the adjustments are required due to a significant reduction in government revenues and changes in spending priorities in response to the COVID-19 pandemic.
- **Section 16 of the PFMA:** The Minister of Finance may approve the use of unappropriated funds, if it is 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 and to the Auditor-General.
- **Virements and shifts within the vote/department:**
 - **Virements:** The use of unspent funds from amounts appropriated under one main division (programme) to defray excess expenditure under another main division (programme) within the same vote/department. Section 43 of the PFMA read in conjunction with Treasury Regulation 6.3, and Section 5 of the Appropriation Act, 2020 set out the current parameters within which virements may take place. Modifications to parameters may also be tabled in the Special Adjustment Appropriation Bill, 2020. The sum of funds vired from a programme may not exceed 8 per cent of the **total** amount appropriated, in the main appropriation as well as in any other subsequent adjustment/special appropriations, for a programme for the 2020/21 financial year.

- Before a virement or shift can take place departments require approval from either their own Accounting Officer, the National Treasury, or from Parliament. The level of approval depends on the nature of the virement or shift.

The following virements or shifts require approval from National Treasury:

- increase the funds appropriated for transfers and subsidies to other institutions;
- introduce a new transfer;
- use funds appropriated for compensation of employees, provided that the funds are to be used for transfers and subsidies for the payment of severance or exit packages;
- use funds appropriated for transfers and subsidies, provided that the funds are to be used within the same programme, other than for the compensation of employees;
- use funds that were earmarked by the National Treasury in the allocation letter for a specific purpose for other purposes; and
- use funds appropriated for payments for capital assets for current payments, other than for the compensation of employees.

The following virements and shifts can only be approved by the legislature:

- use funds totalling more than 8 per cent of the amount appropriated for a programme for a financial year. (Shifts between different segments within a programme do not affect the overall amount appropriated for a programme, only virements from a programme effectively reduce a programme budget);
- use funds appropriated for compensation of employees, that cannot be approved by the National Treasury;
- use funds appropriated as transfers and subsidies, that cannot be approved by the National Treasury; and
- use funds appropriated for payments for capital assets that cannot be approved by the National Treasury.

For virements requiring Parliamentary approval, National Treasury consensus must be obtained before such virements are included in the 2020 Special Adjustment Budget data workbook.

- **Direct charges against the National Revenue Fund:** An amount spent in terms of a statute and that is not budgeted for in any programme in a particular vote. These amounts are shown as separate items, such as expenditure on debt-service costs.

2.2. Departmental submission

As announced by the President, the response package will be partly funded through a reprioritisation of R130 billion within existing baselines. This constitutes 12.1 per cent of the consolidated non-interest, non-compensation budget. In order to find resources to fund the response package, departments are required to identify programmes or activities that can be temporarily suspended without negatively impacting the longevity of such programmes.

These would typically be programmes or activities that have already been put on hold during the lockdown period, projects where implementation dates could be moved out to the next financial year or projects and spending activities that are not critical to the core service delivery requirements of the department. Such changes in baselines will only be effected in the 2020/21 financial year and will not at this stage be carried forward into the MTEF period.

The response package identifies broad areas of funding, which cuts across multiple programmes and departments. To ensure that funds are efficiently allocated, departments are required to indicate resource requirements to respond to the COVID-19 pandemic. Such proposals must be aligned to the response package as announced by the President and presented by the Minister of Finance in the “Economic Measures for COVID-19” published on 30 April 2020. Refer to table 1 above for the announced measures.

2.3. 2020 Special Adjustment Budget data workbook

A data workbook is provided to departments. Further guidance on completing this workbook is included in the workbook itself and should be read before completing it.

2.4. 2020 Special Adjustment Budget covering letter and narrative report

The workbook submitted by the Accounting Officer in 2.2 must be accompanied with a covering letter confirming that the submission is the expression of the department's choices as a result of budget deliberations of its executive management.

A narrative report must be attached as an annexure to the covering letter and should detail the following:

- a) list of all the elements contained in the department's response to the COVID-19 both internally to the department as well as its service delivery obligations
- b) a detailed costing of each of those elements
- c) For the elements where funds are being temporarily suspended, the department must give the actual impact on service delivery, if there is any, by providing the reduction in outputs as a result of the suspension of funds

3. DEADLINES

TABLE 1: CRITICAL DATES FOR THE SPECIAL ADJUSTMENT BUDGET PROCESS

ITEM	DATE*	RESPONSIBLE
Guidelines provided to departments	15 May 2020	EP
Special Adjustment Budget data workbook provided to departments	18 May 2020	PFS
Departments submit proposed adjustments	25 May 2020	Departments

ITEM	DATE*	RESPONSIBLE
Meetings to formulate recommendations to technical and political committees on the Budget	25 May to 05 June	Function Groups leaders and departments
National Treasury coordinated 2020 Special Adjustment Budget approval process (quasi- MTEC or Senior Management Committee or Inter-departmental committee)	TBC	PF, IGR, BO
Technical Committee for Finance	TBC	IGR
Documents to MINCOMBUD	TBC	BO
Budget Council meeting	TBC	IGR
Cabinet approval	TBC	BO, IGR, PF
Allocation letters issued to departments and provinces	1 day after Cabinet approval	BO, PF, IGR
Departmental final submission date for Special Adjustment Budget data workbook	3 days after Allocation letters	PF
Table 2020 Special Adjustment Budget, which includes a Mini Budget Review document, Special Adjustments Appropriation Bill, Division of Revenue Amendment Bill and a revised Fiscal Framework.	TBC	Minister of Finance

**TBC (to be confirmed)*

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