

2020 MTEF

**MEDIUM TERM
EXPENDITURE
FRAMEWORK**

TECHNICAL GUIDELINES
PROVINCES



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA





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National Treasury
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2020 MTEF Technical Guidelines for Provinces

GUIDELINES FOR THE PREPARATION OF
EXPENDITURE ESTIMATES FOR THE 2020
MEDIUM TERM EXPENDITURE FRAMEWORK
(MTEF)

June 2019

This document is available at: www.treasury.gov.za/publications/guidelines

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1 INTRODUCTION

- 1.1 The aim of these technical guidelines is to ensure that the documentation prepared by provincial departments and entities provide all the relevant information, on main strategic proposals, required to prepare clear recommendations in respect of the budget as required by the budget decision-making structures, such as Budget Council, MINCOMBUD, Cabinet and Provincial Executive Councils.
- 1.2 The Guidelines provide provincial institutions with guidance on how to prepare their medium-term budget submissions for the 2020 Budget. They are issued in accordance with section 27(3) of the Public Finance Management Act (PFMA), Act No. 1 of 1999.
- 1.3 Through the budget process, a large number of public institutions plan, collaborate, negotiate and decide together on a comprehensive government-spending plan for the next three years. Given fiscal limits, resources must be allocated in the most effective and efficient way to meet the policy objectives of South Africa, as set out in the Constitution and the National Development Plan (NDP).
- 1.4 Due to the elaborate budget process for provinces that needs to align to the national and municipal budget process, National Treasury deems it necessary to develop a guideline document that is specifically poised at integrating these processes to provincial budget activities.
- 1.5 The following are the main principles guiding this year's budget submission:
- **Provisional baseline downward adjustments** as reflected in the 2019 Budget have now been effected on planning budget baselines by 0.4 per cent.
 - There are **NO additional resources, with budget reductions likely to be implemented**. Any additional allocations proposed to a programme must be funded by reductions in funding from another programme.
 - Departments must continue to operate within **Compensation of employees' expenditure ceilings**, by containing costs and achieving efficiencies emanating from undertaking appropriate operational changes in line with CoE Technical Guidelines.
 - **Budgets must align with national and sub-national plans**, which include the National Development Plan (NDP) Vision 2030, the 5-Year NDP Implementation Plan (Medium-Term Strategic Framework), Budget Priorities Framework (Mandate Paper), the government's seven (7) strategic priorities and Provincial Growth and Development Strategies (PGDS) for the new cycle.
 - **Strategic** areas of budget baseline **reallocations** must be determined.

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- The 2020 Budget will continue to change the **composition of spending** towards spending that stimulates economic growth and the achievement of greater value for money in realising service delivery priorities, by shifting funds from non-essential items to priority items, **particularly towards capital expenditure**.
- A **compulsory budget baseline reduction scenario** of 5 per cent in 2020/21, 6 per cent in 2021/22 and 7 per cent in 2022/23 must be shown by institutions indicating where baseline reductions could be implemented with the least implications for service delivery. This must include proposals for non-priority programmes and projects to be scaled down or closed, changing service delivery models and using technology more effectively, etc.

1.6 Scope: These guidelines apply to provincial departments, provincial public entities and other provincial institutions in preparing for provincial MTECs.

2 INTEGRATED PLANNING AND BUDGETING

2.1 Provincial Growth and Development Strategy/ Provincial Development Plans/Provincial Strategic Goals: These provides a strategic framework to grow the economy for the development and improvement of the quality of life to all people living in the province. It further provides the province with a framework to ensure full alignment with the NDP, as well as to provide a basis for the alignment with the municipal Integrated Development Plans. The 2020 MTEF marks the beginning of the new planning cycle and provinces should be mindful that a new PGDS should be developed for this period.

2.2 Alignment between the NDP, the PGDS/PDP/PSGs and IDPs: The NDP focuses on a more capable State in partnership with stakeholders, and the goal is to treble the size of the economy by 2030 so that 11 million more work opportunities are created. The focus on developing and improving the capacity of the State is to enable sustainable and inclusive development.

2.3 Interventions, indicators and targets contained in the PGDS/PDP/PSGs should be aligned to government's seven (7) priorities below. Government institutions should consider the national strategic objectives and social considerations in their decisions and actions. Similarly, all government programmes and policies across all departments and entities will be directed in pursuit of these overarching tasks.

- Economic transformation and job creation
- Education, skills and health
- Consolidating the social wage through reliable and quality basic services
- Spatial integration, human settlements and local government
- Social cohesion and safe communities

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- A capable, ethical and developmental state
- A better Africa and World

2.4 Collaboration: Relevant departments, public entities and other institutions must work collaboratively with each other to prepare their 2020 MTEF expenditure estimates submission, taking all the requirements of the guidelines into consideration. In this regard, sector specific intergovernmental fora are crucial to establish alignment between policy and service delivery of concurrent functions. Provinces must promote and coordinate integrated planning with local government.

2.5 Provinces are encouraged to adopt a district-based approach to speed up service delivery in pursuit of government's policy objectives. To this effect, provinces must ensure that municipalities are properly supported. Achieving this will forge durable partnerships between government, business, labour, communities and civil society. Through spatial interventions, economic development needs to be stimulated in local areas. Particular focus should be given to small medium enterprises in cities, townships and rural areas and creating market places to trade products. Government must be central in creating an enabling environment, use public resources wisely and invest in developing the country's human potential.

2.6 Promoting good governance practices and policy alignment to support a growth and development trajectory requires facilitating spatial equity to ensure that all geographic regions of the province receive attention and are optimally developed.

2.7 A critical factor in aligning resources with policy intent is to build the discipline around a **clear annual planning and budgeting cycle**.

2.8 Provinces are required to incorporate **climate change** sensitive allocations into their budgets that prevent and respond to disaster risks, and to develop climate resilient strategies for social and economic infrastructure projects.

2.9 Infrastructure is a critical area of investment that supports structural transformation, growth and job creation. The new approach to infrastructure development should be based on stronger partnerships between the public and private sectors, and with local communities. It includes a special package of financial and institutional measures to boost construction through a more efficient use of budgeted money.

3 BUDGET SUBMISSION REQUIREMENTS

The first draft budget submission (31 July 2019) consist of:

- A narrative report; and
- A database for provincial departments and public entities.

The second draft budget submission (15 November 2019) consist of:

- Estimates of Provincial Revenue and Expenditure (EPRE); and
- A database for provincial departments and public entities.

3.1 Narrative Report: Each department should submit an explanatory narrative to its provincial treasury. It is important to keep in mind that this explanatory analysis of the institution's budget is the determinant of the credibility of its budget. This narrative is the main proposal and should clearly articulate the rationale of the proposal, with the provincial database providing supporting information. Provincial Treasuries need to consolidate these narratives and submit with the first database to the National Treasury by **31 July 2019**.

The narrative report must explain the context for the budget and provide an evidence-based rationale for decision makers to formulate their expenditure recommendations. It must be a comprehensive report that includes the following elements, together with their underlying reasoning:

- 3.1.1 Departments need to explain the alignment of their budgets and identify key policy priorities that guide resource allocation;
- 3.1.2 The general current status of the institutional budget and the trends in the achievement of deliverables (including conditional grants) and in programmes, underlying cost assumptions and prevailing issues; composition of spending must discuss trends, issues and challenges per economic classification over the seven-year period, i.e. in respect of compensation of employees, capital spending, goods and services, transfers and subsidies and other relevant elements of the budget defined by economic classification. The 2020 Budget aims to change the composition of spending away from compensation of employees towards capital expenditure;
- 3.1.3 Departmental management of personnel expenditure including information on key changes to the department's personnel profile;
- 3.1.4 Value-for-money must explain the departments' plans to improve efficiency, realise savings, contain costs and improve value-for-money, with particular reference to supply chain management, procurement and strategic sourcing. Savings realised through the value-for-money plan could be reallocated towards priority areas. Guidance on the initiatives undertaken by the Office of the Chief Procurement Officer (OCPO) to decrease procurement costs can be found on the OCPO website;
- 3.1.5 Information on the programmes and projects to be scaled back, rescheduled to a later period or closed, in order to raise resources for higher-priority programmes;

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- 3.1.6 The costed implications of spending pressures on existing programmes / policy areas / projects and proposed initiatives to manage them;
- 3.1.7 The current status of the public entities receiving transfers from the department, including underlying cost assumptions, prevailing issues and their trends;
- 3.1.8 Spending on the compensation of employees has grown substantially over the past few years. This trend needs to be reversed to ensure that the spending on compensation of employees does not crowd out spending in critical areas, including the complementary resources required by personnel to undertake their tasks in an efficient manner;
- 3.1.9 In determining 2020 MTEF budget proposals, institutions must not reprioritise funding away from on-going infrastructure projects. Reprioritisation of infrastructure projects must be done within the scope of the institution's infrastructure plan, and target projects still in their planning phase. Cognisance must be taken of the life cycle costs, including maintenance and operational requirements, regarding all capital infrastructure. The Capital Planning Guidelines must be consulted in this regard; and
- 3.1.10 Strategic reallocations must provide an explanation of the key strategic proposals to reallocate spending between programmes or economic classifications with a view of addressing cost pressures or better aligning resources with identified priorities. This must include the justification and rationale for the programmes and projects to be scaled down, rescheduled to a later period or closed. In the case of strategic proposals to meet new policy imperatives, the priority must be identified and the solution explained, together with its budget and performance impact. The budget implications must be quantified and a rationale must be provided for the source of funding.
- 3.2 MTEF databases:** The data submission consists of the departmental and public entities databases that provide data to support the information contained in the institution's budget explanatory narrative submission. ***First draft budget submissions (databases and narrative report) must be received by the National Treasury by 31 July 2019.*** These data submissions inform budget engagements at functional and sub-functional meetings at the national level.
- 3.3 Estimates of Provincial Revenue and Expenditure (EPRE) chapters:** The information contained in these chapters intend to provide stakeholders with sufficient detail of what departments and public entities intend achieving in the coming MTEF period. A clear linkage with the overview section in the EPRE will demonstrate how departments are integrating socio-economic data to inform budgetary decisions. National Treasury requires Provincial Treasuries to submit a ***second budget submission (database) and Estimates of Provincial Revenue and Expenditure on 15th November 2019.*** This submission should be aligned to the draft annual performance plans submitted to the Department of Planning, Monitoring and Evaluation (DPME) on the 30th October 2019.
- 3.4 Conditional grant business plans:** Conditional grants for the year ahead requires that the business plans be submitted two weeks after the Division of Revenue Bill has been enacted. Business plans seek to promote sufficient planning at the provincial

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level before the eventual execution that requires funds. Planning should focus on how their envisioned activities for the year, using conditional grant allocations, allows them to appropriately apportion funds to achieve the government priority that each grant seeks to address.

- 3.4.1 Although business plans are submitted yearly, they technically form part of a much longer planning horizon, particularly where infrastructure is concerned. As such the business plan for the year shows the activities that will be carried out for a year, and how the activities link with outputs, and in the long run address the priorities under which the grant was created. It is important to ensure that the dates, activities that will take place, the outputs expected from the activities, and when they are expected, are spelt out. This is especially important for activities that are sequential and are required before other activities can be carried out.
- 3.4.2 Based on an activities and output execution plan, the projected cash flow, matching the dates of the activities will need to be provided. Activities, outputs, and cash flow projections are necessary but not the only inputs into business plans. Business plans should also demonstrate how activities will allow the achievement of some outputs, which eventually should be linked to the outcomes of the grants. Risks to the projected activities, and mitigation strategies against them, should also be spelt out. Business plans templates provided by the national departments responsible for monitoring the grants should be a guiding principle when drafting plans.

When completing the submissions, note that:

- Provincial Treasuries must submit their province's **first draft 2020 MTEF database and narrative report** to National Treasury by **31 July 2019**.
- Provincial Treasuries must **submit their province's second draft 2020 MTEF database and EPRE to National Treasury by 15 November 2019**.
- No additional resources are available in aggregate for allocation in the 2020 MTEF; therefore, this budget cycle will continue to focus on expenditure control within the existing budget limits.
- For estimation purposes, the 2022/23 baseline has been calculated. Non-recurrent allocations ending in 2021/22 have been excluded from the 2022/23 baseline. The 2022/23 baseline aims to shift the composition of expenditure away from compensation of employees towards non-current expenditure.

In budgeting for non-personnel expenditure items within the department's expenditure ceiling, the following projections can be utilised to inform the provisions that departments choose to make for general price increases over the 2020 MTEF period:

Costing Assumptions

(a) Consumer Price Index

2020/21 financial year: 5.1 per cent

2021/22 financial year: 5.0 per cent

2022/23 financial year: 4.8 per cent

(b) Exchange rate – Rand/US\$

2020/21 financial year: R 14.67/US\$

2021/22 financial year: R 14.79/US\$

2022/23 financial year: R 15.07/US\$

In budgeting for personnel expenditure items, the departments should consult Compensation of Employees Technical Guidelines published on the National Treasury website. Institutions must apply their discretion when using the assumptions. If the outcomes are different from the forecasted estimates, institutions will need to absorb any resultant differences within their budget baselines. It is also expected that budgets for some goods and services items, such as travel and accommodation grow below inflation. The costing assumptions are provisional estimates, which will be updated during the year. There are risks to these estimates originating from the global and domestic environment. In addition, departments must consult the Early retirement without penalisation of pension benefits in terms of Section 16(6)5 of the Public Service Act, 1994 issued by the Department of Public Service and Administration (DPSA) on its website. These together with associated tools and templates are aimed at assisting departments in managing employee numbers over the MTEF period.

4 PROVINCIAL BUDGET PROCESS

The MTEF details three-year rolling expenditure and revenue plans for provincial departments and public entities. The MTEF budget process is designed to match the overall resource envelope, estimated through 'top-down' macro-economic and fiscal policy processes, with the bottom-up estimation of the current and medium-term cost of existing departmental plans and expenditure programmes.

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The budget process ensures that resources are allocated to meet South Africa's political priorities and to improve the quality and effectiveness of spending within sustainable fiscal limits.

The budget process allows government to:

- Prepare the 2020/21 expenditure estimates in the context of enhancing service delivery and ensuring value for money.
- Strengthen and evaluate the alignment between medium and long-term plans.
- Revise its policy priorities, macro-economic framework and resource envelope.
- Evaluate departmental plans in line with the national outcomes, provincial priorities and the objectives of the PGDS.
- Involve various role-players that provide political and technical advice when faced with trade-offs between competing spending priorities.
- Focus on changing the structure of the economy from a resource extraction economy to a more production-led economy that can create employment opportunities.
- Focus on fiscal prudence by way of cost-cutting, ensuring enhanced service delivery, as well as value for money.
- Compile a reprioritised budget (with the focus on cost-cutting) that is aligned with the national priorities, the nine-point plan, as well as provincial priorities. Note that this approach builds on previous years' budget reforms.
- Obtain the required authority (voting process) from the Provincial Legislature to spend.

Critical dates for the provincial budget process are provided in the table on page 13. Provincial departments and public entities follow the specific requirements of their own treasuries and provincial budget processes. These guidelines should thus be read together with the 2019/20 Provincial Budget Process Calendar and Guide for Provincial Budget Formats. Provincial treasuries must receive revised baseline estimates from provincial departments and public entities at least two weeks before submission to National Treasury.

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ITEM	DATE
Provincial MTEF Guidelines issued	26 June 2019
Budget workshop for Provinces	4 July 2019
Technical Committee on Finance Lekgotla in Limpopo	17 – 19 July 2019
Provincial treasuries submit first draft 2020 Budgets to National Treasury: database and narrative report	31 July 2019
Provincial Budget Visits	July / August 2019
Technical Committee on Finance meeting	18 September 2019
Budget Council and Budget Forum meeting	25 - 26 September 2019
Preliminary conditional grant frameworks submitted to National Treasury by national departments	October 2019
Tabling of Medium Term Budget Policy Statement	October 2019
Preliminary allocation letters issued to provinces: equitable share allocations - two days after MTBPS	October 2019
Provincial treasuries submit 2nd draft 2020 Budgets to National Treasury: Estimates of Provincial Revenue and Expenditure and database	15 November 2019
Final conditional grant frameworks and allocations submitted to National Treasury by national departments	2 December 2019
Provincial benchmark exercise for 2020 Budget	2 – 12 December 2019
Second allocation letter to provinces	December 2019
Technical Committee on Finance meeting	17 January 2020
Budget Council meeting	24 January 2020
Final allocation letters issued to provinces	End Jan / Early Feb 2020
Provincial 2020 Budgets tabled at provincial legislatures	End Feb / Early March 2020

4.1 Provincial MTECs

- 4.1.1 In order to enhance the integration of policy alignment, planning, budgeting and implementation, provinces are encouraged to adopt the similar approach to the national MINCOMBUD technical committee. Therefore, provincial MTECs should be used as one of the platforms that encourage joint planning between national and provincial departments, municipalities and public entities. This will further promote the alignment of provincial budgets with strategic planning documents such as the NDP, PGDS, IDPs and Spatial Development Frameworks in support of inclusive growth and transformation.
- 4.1.2 Provincial MTEC committees should make recommendations to provincial 'MINCOMBUD', Premiers' Budget Committees, Provincial Executive Councils and other political structures tasked with taking final decisions on the budget proposals. Discussions at provincial MTECs should be led and chaired by Provincial Treasuries, which also assesses the allocative efficiencies of provincial budget taking into account the current fiscal climate affecting the provincial fiscal framework. The departmental delegations may be led by the HODs (or MECs as done in other provinces) supported by CFOs and other senior officials. However, it is highly recommended that the MTEC committees in provinces also be inclusive of the following internal stakeholders:

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

4.2 Benchmark process

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

4.2.2 The main objectives of the **Benchmark exercise meetings to be held in December 2019** are to:

- Assess provincial MTEF draft budget including the extent to which the province's budget gives effect to the agreed social sector priorities;
- Highlight possible risks in the budgets and propose measures to manage these risks;
- Give a critical view of the draft provincial budget as per the November submissions;
- Highlight key issues and challenges from National Treasury's perspective; and reach an agreement on key aspects affecting the provincial budget;
- In addition to budget assessment, focus would also be on improving efficiencies:
 - Participation in the transversal contracts and the efficiencies gained;

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- Impact of the implementation of personnel headcount and personnel expenditure control measures;
- PFMA compliance – Irregular, fruitless and wasteful expenditure, and unauthorised expenditure;
- Management of accruals and how cash management strategies could be used to address accruals;
- Debt owed by provincial departments and the strategy to address it.

4.3 Budget tabling

4.3.1 Provinces are required to table their 2020 budgets not later than two weeks after the tabling of the national budget as per section 27(2) of PFMA. On the day of the tabling, provinces are required to provide National Treasury with **3 hardcopies** together with the **electronic** versions in PDF format of the 2020 Provincial Budget Documents. These budget documents should include the following:

- MEC's speech;
- Appropriation Bill;
- Overview of Provincial Revenue and Expenditure;
- Estimates of Provincial Revenue and Expenditure (Votes);
- Guide to the Budget (tabloids, etc.) (if any);
- Provincial Database in Excel (National Treasury's database);
- Gazettes in terms of the 2020 Division of Revenue Bill (Local Government, Schools, Hospitals, etc.); and
- Any other applicable budget documents.

5 BUDGET REFORMS

5.1 Framework for Strategic and Annual Performance Plans

5.1.1 The Framework for Strategic Plans and Annual Performance Plans was issued by the National Treasury in 2010 to guide institutional short and medium term planning. The Framework for Strategic Plans and Annual Performance Plans (2010) provided a standardised approach to strategic and annual performance planning; it promoted accountability for performance and service delivery, and promoted alignment between the planning, budgeting and reporting processes.

5.1.2 The emphasis of the Revised Framework for Strategic Plans and Annual Performance Plans is to build on the foundation of the Framework for Strategic Plans and Annual Performance Plans (2010), reaffirm the planning logic and institutionalise planning to

better enable the policy delivery. The planning principles implemented through the Revised Framework aims to focus the planning approach towards achieving results, standardise concepts used across short and medium term planning instruments, streamline planning, monitoring and evaluation processes, and improve the use of evidence, and monitoring and evaluation findings to better inform improvement, learning and innovation. The Revised Framework will also focus on planning for women, children, youth and people with disabilities.

5.1.3 The Revised Framework outlines the core principles for short and medium term planning and confirms the legislative and policy prescripts which must be adhered to in the development of institutional short and medium term plans, and the rationale for the results based approach to planning, monitoring and evaluation. It then details the processes for the development and approval of plans as well as processes for effective oversight and feedback by relevant institutions. In addition, it sets out the planning principles that inform the logic and content of the strategic plan, annual performance plan, annual operational plan and programme implementation plans, and the linkages between other short and medium term plans in government. It further provides the logic for the monitoring and evaluation of plans, as well as the utilisation of related reporting instruments and the results thereof at the different stages of the planning cycle.

5.1.4 The Revised Framework is applicable to all national departments, provincial departments, and government components as listed in Schedule 1, Schedule 2 and Schedule 3A of the Public Service Act (PSA) (1994) respectively, constitutional institutions as provided in the Constitution of the Republic of South Africa (1996) and public entities listed in Parts A and C of Schedule 3 of the Public Finance Management Act (PFMA) (1999). The Revised Framework will be implemented from the 2019/20 financial year going forward.

5.2 Classification Circular 21 - Classification of Transfers and Subsidies versus Goods and Services or Capital Assets

5.2.1 The Standard Chart of Accounts (SCOA) Technical Committee issued “Classification Circular 21 – Classification of Transfers and Subsidies versus Goods and Services or Capital Assets” in May 2018. Classification Circular 21 serves as a guide to the Economic Reporting Format (ERF) for application by all departments.

5.2.2 The Human Settlements departments had a special dispensation for classification of payments. This was stipulated in the Human Settlements Guide issued by National Treasury in March 2012. The Human Settlements Guide issued in March 2012 was based on the ultimate use of funds. For this reason, it prescribed that construction-related payments which are made by a Human Settlements departments must be classified as transfers to households.

5.2.3 Classification of payments as transfers to households for most of housing-related expenditure leads to misalignment with the ERF. This transition guide seeks to align the Human Settlements Departments classification with the ERF classification principles, which are further explained in the Classification Circular.

5.2.4 According to the principle in the ERF, ***the immediate use of funds should be applied when classifying transactions***. When classifying expenditure, one should identify

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“what is being bought”. In identifying “what is being bought”, the immediate use of funds is considered. Immediate use provides for the description of the item being bought and refers to its actual form (i.e. purchase of bricks, use of consultants, etc.). When items are bought (or services are paid for), the payment is classified as goods and services and/or payments for capital assets.

- 5.2.5 Departments of Human Settlements are required to classify all expenditure in the budget and the financial statements in line with the ERF. In the transition year (2020/21) Human Settlements Departments will perform actions listed in the circular as part of the transition to align the classification in the budget and reporting to the ERF. In the implementation year, 2021/22, Departments of Human Settlements are required to classify all expenditure in the budget and the financial statements in line with the ERF for auditing purposes.

ANNEXURE A: RESOURCE ALLOCATION PROCESS STEPS

MONTH	TASK	ROLE-PLAYERS	FORUM/S	OUTPUTS REQUIRED
June – July	Compilation of budget submissions by departments and public institutions Formulation of recommendations to technical committees	Departments Public institutions National Treasury Public Service and Administration Planning, Monitoring and Evaluation Cooperative Governance	Bilateral and technical group interactions ¹	Written and data budget submissions to function groups
End June – July	Consultation between the Executive Authority of Parliament and Minister of Finance before submission of budget by Parliament of South Africa (in line with s17(1) (b) (d) of Financial Management of Parliament and Provincial legislatures Act, 2009	Minister of Finance Speaker of National Assembly Chairperson of National Council of Provinces (NCOP) Secretary of Parliament	MTEC hearings	Recommendations to Minister of Finance
End July – September	Formulation of recommendations to technical and political committees	Departments Public institutions Function groups Technical Committee on Finance (TCF) MTEC	Function group interactions ² 10x10 meeting/s ³ MTEC hearings TCF meeting/s FOSAD	Recommendations to political committees on information to be tabled in MTBPS, need to include: <ul style="list-style-type: none"> • fiscal framework • key national government spending priorities • division of revenue • substantial adjustments to conditional grants

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

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

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

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MONTH	TASK	ROLE-PLAYERS	FORUM/S	OUTPUTS REQUIRED
End September – October	Formulation of recommendations to Cabinet	MINCOMBUD	MINCOMBUD meeting/s Cabinet meeting/s	Approval of recommendations to be tabled in MTBPS
End October	Tabling of 2019 MTBPS	Minister of Finance Parliament		MTBPS publication including: <ul style="list-style-type: none"> • fiscal framework • key national government spending priorities • division of revenue • substantial adjustments to conditional grants
End October – November	Draft allocation letters Finalisation of details of National government allocations to be included in 2020 Budget	Function groups MTEC MINCOMBUD Cabinet	MTEC hearings FOSAD MINCOMBUD meeting/s Cabinet meetings	Final national government allocation letters
December – February	Finalisation of recommendations to be tabled in 2020 Budget Drafting of budget documentation	MTEC MINCOMBUD Cabinet National departments and public institutions	MTEC hearings FOSAD MINCOMBUD meeting/s Cabinet meetings	Budget review publication Appropriation bill Division of revenue bill Estimates of national expenditure publications People's guide to the budget Tax proposals
February	Tabling of budget	Minister of Finance Parliament		Budget tabled
March – July	Adoption of budget expenditure legislation	National Assembly National Council of Provinces	Hearings Debates Adoption of bills	Budget adopted

ANNEXURE B: BUDGET PROCESS TECHNICAL AND POLITICAL STRUCTURES

TECHNICAL STRUCTURES

1. The senior technical structures of the MTEF budget process are the Minister's Committee on the Budget Technical Committee (MTEC) and the Technical Committee on Finance (TCF):
 - MINCOMBUD Technical Committee (MTEC) is a committee of senior officials from National Treasury (NT), together with those responsible for the Planning, Monitoring and Evaluation, Cooperative Governance and Public Service and Administration that makes recommendations to Ministers' Committee on the Budget (MINCOMBUD) regarding budget allocations in the medium term expenditure framework, taking into account government priorities, funding available, alternative funding sources and the division of revenue amongst the three spheres of government.
 - TCF is a committee of the heads of all provincial treasuries and is chaired by the Deputy Director-General (DDG) of the Intergovernmental Relations division of the National Treasury. The TCF considers intergovernmental finances and the Division of Revenue and makes recommendations to the Budget Council, Budget Forum and MTEC.
2. The process of generating final recommendations to the MTEC includes the following elements:
 - National Treasury appoints a coordinator for each technical group, who will be responsible for engaging with budget departments and preparing reports to the MTEC for each technical group.
 - Budget *bilaterals* are convened between National Treasury and senior finance and programme officials in each department.
 - *Technical group* meetings are held, in which relevant departments, institutions and provincial structures participate. Technical groups, and the function groups within which they are housed, are both aligned with particular outcomes specified in the MTSF. The technical group considers submissions by departments and discusses the reallocation of resources within the group as a whole. Financial analysis discussions are also held with selected institutions.
 - In function areas with a large degree of concurrent powers, a function 10x10, composed of heads of department of the nine provincial and the national lead department in the function, together with their finance counterparts, may be convened as a substitute or complement for the work of the technical group. Where resource allocation decisions are recommended that alter the division of

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revenue across the three spheres of government, a function 10x10 will be required.

- *Performance dialogues*, convened by officials responsible for coordinating Planning, Monitoring and Evaluation across government together with the departmental, technical group or functional stakeholders may be held.
 - MTEC may also convene *function group hearings*, *DG's budget forums* on budget policy or other meetings involving senior officials from relevant departments and experts in the relevant field. In this setting, several technical groups may be brought together to consider submissions by departments and discuss the allocation of resources across the function as a whole.
3. Technical group coordinators will prepare a final report on the budget proposals recommended as an outcome of the process. These reports will be presented to MTEC, which will make final recommendations to MINCOMBUD and then to Cabinet.

POLITICAL STRUCTURES

The Ministers' Committee on the Budget

4. MINCOMBUD has been constituted as a Committee of Cabinet, chaired by the Minister of Finance. Its members are appointed by the President on recommendation from the Minister of Finance. MINCOMBUD may invite other members of Cabinet or senior officials to attend and/or present on issues of relevance to its mandate. In addition to political office bearers, MINCOMBUD meetings are attended by the Directors-General of National Treasury, the Presidency and Cooperative Governance. Senior officials of National Treasury attend as determined by the Director General: National Treasury. The Director-General: National Treasury ensures that the National Treasury provides administrative services for the proper functioning of MINCOMBUD.

5. The functions of MINCOMBUD are to:

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

Budget Council and Budget Forum

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

Joint MINMECs

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

ANNEXURE C: FUNCTION GROUPS

1. Programmes and activities are grouped according to **broad policy purposes or types of expenditure called functions**. All government institutions that contribute to achieving a particular outcome are grouped in a function workgroup. Function groups comprise all national, provincial and local government institutions that contribute to achieving a particular outcome. Each function is given a budgetary envelope to work towards achieving an outcome.
2. In the 2020 Budget process, function groups will be undertaking costing exercises to determine the required quantum of funding the implementation of current policies requires. Function group leaders will determine the policies to be costed, the methodology, and process, including the timelines and tasks, to be undertaken by affected departments and public institutions. Information in this regard will be communicated to function groups by function group leaders. The analysis produced by these exercises will then be considered by the MTEC in its formulation of budgetary recommendations.

FUNCTION GROUP	TECHNICAL GROUP (FUNCTION SUB-GROUP)	KEY DEPARTMENTS AND OTHER INSTITUTIONS ¹
1. Learning and culture	Basic education	Basic Education, Provincial Education departments
	Post-school education and training	Higher Education, Sector Education and Training Authorities, National Skills Fund, National Student Financial Aid Scheme, Quality Council for Trades and Occupations, Council for Higher Education, South African Qualifications Authority
	Arts, culture, sport and recreation	Sports and Recreation, Arts and Culture, Provincial and Local Arts, Culture and Sport and Recreation
2. Health	Health	Health, Provincial Health departments, National Health Laboratory Service, Military Health Services
3. Social development	Social protection	Social Development, South African Social Security Agency, National Development Agency, National Youth Development Agency, Provincial Social Development departments, Women, Youth and Persons with Disabilities, Commission for Gender Equality
	Social security funds	Road Accident Fund, Unemployment Insurance Fund, Compensation Fund
4. Community development	Community development	Cooperative Governance (limited to conditional grant and urban development programmes), Human Settlements, Water and Sanitation (water services), Public Transport, Energy, Provincial Human Settlements, Provincial Public Transport, National Treasury (only local government conditional grants)
5. Economic development	Industrialisation and exports	Trade and Industry, Economic Development, Mineral Resources, Tourism, Small Business Development, Public Works, Provincial Economic Development
	Agriculture and rural development	Agriculture, Rural Development, and Reform
	Job creation and labour affairs	Labour, Public Works Programme 4, Expanded Public Works Programmes, Cooperative Governance (only Community Works Programme)
	Economic regulation and infrastructure	Energy, Transport (excluding public transport and Passenger Rail Agency of South Africa), Environmental Affairs, Communications and New Technologies, Water and Sanitation (excluding water services), Provincial transport

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		(only Roads) and Local Governments
	Innovation, science and technology	Science and Technology
6. Peace and security	Defence and state security	Defence, Military Veterans, Financial Intelligence Centre, State Security, Armscor and the Castle Control Board
	Police services	Police, Independent Police Investigative Directorate, Civilian Secretariat for Police
	Law courts and prisons	Justice and Constitutional Development, Correctional Services, Office of the Chief Justice, Legal Aid South Africa, Public Protector of South Africa, South African Human Rights Commission
	Home affairs	Home Affairs
7. General public services	Executive and legislative organs	Presidency, Government Communication and Information System, Parliament, Provincial Legislatures, Planning, Monitoring and Evaluation
	Public administration and fiscal affairs	Public Service and Administration, National Treasury, Public Enterprises, Statistics South Africa, Traditional Affairs, Public Works (only Programme 1, 2, and 5)
	External affairs	International Relations and Cooperation, National Treasury (only Programme 6)

2020 MTEF

**MEDIUM TERM
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NATIONAL TREASURY

Private Bag X115 | Pretoria, 0001, South Africa

Tel: +27 12 315 5944 | Fax: +27 12 406 9055

www.treasury.gov.za



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