

MEDIUM TERM EXPENDITURE FRAMEWORK

TECHNICAL GUIDELINES | 2022



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



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1. INTRODUCTION

Purpose of the guidelines

- 1.1. The Medium-Term Expenditure Framework (MTEF) Technical Guidelines are issued in accordance with section 27(3) of the Public Finance Management Act (PFMA), Act No. 1 of 1999. The guidelines provide national government departments, as well as public institutions, with guidance on how to prepare their medium-term budget estimates for the 2022 Budget. While primarily intended for national government departments and national public institutions¹ the guidelines also contribute to the budgeting process in provinces.
- 1.2. The guidelines provide an outline of the fiscal strategy for the 2022 medium-term expenditure framework as well as guidance on the data required to inform budget deliberations. The outcome of the deliberations will be recommended first to the Medium-Term Expenditure Committee and then the Minister's Committee on the Budget, to be ultimately approved by Cabinet.

Economic Outlook

- 1.3. The macro economic environment remains constrained. As a consequence, the main budget revenue is expected to remain below main budget spending. The COVID-19 pandemic continues to impact economic recovery with a slow roll out of the vaccination programme. Debt stabilisation remains a priority of government. Moreover, the wage bill and the weak financial position of State-Owned Companies (SOCs) continues to pose a risk to the fiscus. It is for this reason that fiscal consolidation will remain for the first two years of the MTEF with projected primary surplus in the outer year- 2024/25, which will mark the end for the consolidation. It is not anticipated that there will be further reductions required for year 2022/23 and 2023/24.
- 1.4. The Government must continue to focus on interventions that mitigate the negative impacts of the pandemic while supporting recovery efforts. The national rollout of the COVID-19 vaccination programme and the implementation of the Economic Reconstruction and Recovery Plan (ERRP) are programmes that are vital to support medium term recovery.

Fiscal strategy

- 1.5. Over the medium-term the objective of fiscal policy will be to reduce the risks to the public finances. The medium-term fiscal strategy is to achieve a primary surplus and stabilise the debt trajectory. This will stop the trend of debt service costs crowding out the budget for service delivery spending. At the same time government will aim to shift spending from consumption to investment in strategic economic infrastructure in order to support government's economic reconstruction and recovery efforts. These key

¹ Public institutions these include public entities, trading entities, government components and constitutional institutions. They need to provide budget information to National departments and National Treasury. Constitutional institutions may also approach the National Treasury directly regarding their budget submission.

priority areas are outlined in the Budget Prioritisation Framework: Towards Budget 2022 developed by the Department of Planning, Monitoring and Evaluation (DPME). Departments must continue to implement key interventions outlined in the Medium-Term Strategic Framework (MTSF) 2019-2024 for the remaining term of this Administration. However, prioritisation of interventions must be done within the context of the overall fiscal strategy. This will require that departments reprioritise towards the most impactful interventions.

2. BUDGETING FRAMEWORK

2.1 Medium Term- Expenditure Framework

- 2.1.1 In 2000 South Africa adopted the Medium-Term Expenditure Framework allowing for inflationary increase to be applied on the 2nd year of the three-year rolling cycle. Some programme budgets have grown with little consideration for their usefulness.
- 2.1.2 In recent times there have been some efforts to reduce spending by reducing baselines across the board which if continued, could have a negative impact on service delivery. The budget constraints have escalated over the past decade, prompting government to introduce another strategic budget reform that will assist the fiscus in moving towards a recovery trajectory. It is against this backdrop, that spending reviews and Zero-Based Budgeting (ZBB) have been identified as critical tools government will start to utilise. The methodology raises questions about the efficiency and cost-effectiveness of government expenditure and enables government to make better decisions about resource allocation.
- 2.1.3 ZBB will be implemented using spending reviews as the main tool. The ZBB does not usurp medium term budgeting but enhances it by introducing evidence based analytical budgeting in place of incrementalism.

2.2 Zero-based budgeting through spending reviews

- 2.2.1 The need for fiscal consolidation has necessitated the need to review all baseline allocations in a different manner from what we have done in the past decade. Over the years some programmes have become obsolete and duplicated across sectors, and therefore need to be reviewed for relevance and effectiveness. Other programmes need repurposing given changes brought by technology. It is for this reason that the Minister of Finance pronounced that ZBB be undertaken to align spending with growth enhancing programmes. The first step in implementing ZBB is to initiate spending reviews. (ZBB Framework: 2021)
- 2.2.2 The spending review methodology allows officials to probe expenditure trends in great detail in order to understand the articulation between policy goals and budget needs from a unique perspective. The methodology may provide insight of policy and programme logic and the institutional implementation framework, which is then

combined with readily available expenditure data from government accounting systems (BAS, PERSAL, LOGIS). In the case of public institutions, the data from the individual accounting systems will be utilised in a series of systematized steps, expenditure is analysed, unit costs estimated, and cost drivers analysed. These expenditure analyses inform cost models that anticipate different spending scenarios and articulate the impact on service delivery of such scenarios.

- 2.2.4 The primary purpose of the spending reviews is to encourage the re-examination of expenditure baselines to identify possible efficiency gains and to identify savings. This will not only free up additional resources for priorities. Therefore, each spending review is:
- Firstly, expected to cover a proportion of the department's budgets such that the resultant efficiency gains have a material impact on the department's overall budgets. Ideally the selected topic should be policy or programme related as opposed to being expenditure item focused.
 - Secondly, the efficiency gains identified through the spending reviews must be incorporated into the department's budget submissions.
- 2.2.5 For the 2022 Budget submissions, the spending reviews are being conducted by National Treasury's Public Finance officials, with the assistance of departments and institutions.
- 2.2.6 The outcomes of the previous spending review and those that are currently underway may also inform the discussions at function group meetings.

3. PRINCIPLES FOR THE 2022 MTEF

This budget is formulated within a very tight fiscal environment and the following policy guidance should be taken into consideration when preparing the budget submission:

- 3.1. NO additional resources are available for the 2022 MTEF Budget. Therefore, departments must not submit any requests for baseline increases.
- 3.2. This means that any additional allocations to a programme will need to be funded through reductions in another programme or through reprioritisation, either within the department's budget, or from other departments' budgets.
- 3.3. The outcome of previous spending reviews and those underway must inform strategic reallocations.
- 3.4. Any additional revenue due to public institutions that receive funding from the fiscus may NOT be used for increased spending plans outside their spending framework, unless this has been expressly discussed by and/or approved by the function group.
- 3.5. Public institutions should adhere to the fiscal consolidation framework. Salary adjustments must therefore be guided by the public service wage bill management

strategy outlined in the 2022 Guidelines for the Costing and Budgeting for Compensation of Employees.

- 3.6. There will not be a further downward revision for the total non-interest expenditure baseline for 2022/23 and 2023/24. However, there will be a nominal baseline increase applied in 2024/25.

4. BUDGET SUBMISSION

- 4.1. The Budget submissions must be made to the National Treasury by 12 August 2021.
- 4.2. The primary budget submission of a national department must be submitted by the Accounting Officer of the department and accompanied by a signed covering letter confirming that the submission is the expression of the department's strategic direction with regards to any budget baseline changes that have resulted from budget deliberations of its executive management.
- 4.3. A comprehensive submission, covering all the expenditure proposed for appropriation against a vote, including transfers to institutions and other spheres of government within the budget vote is required.
- 4.4. In cases where a department makes a transfer to or plays an oversight role of other government institutions, the submissions of these institutions should be prepared under the guidance of the accounting officer of the national department, in collaboration with all institutions that report to the same executive authority. Where applicable an endorsement letter from the accounting officer of the executive department must be submitted.

5. COMPONENTS OF SUBMISSION

For each national government department, as well as each public institution, the budget submission consists of:

- 5.1. Narrative report; and
- 5.2. Excel workbook/s containing the data submissions
- 5.3. Other submissions

The requirements pertaining to each of these elements are described in the sections that follow.

5.1 NARRATIVE REPORT

A narrative report explains the context for the budget, provides costing of mandates and policies, indicates where efficiency gains can be realised and the impact on targets outlined in the MTSF 2019-2024 and highlight where targets should be rescheduled or reduced in line with resource availability. The report should provide the department's rationale for expenditure recommendations over the medium term. The report must be clear as it is aimed at helping decision makers reach conclusions on the basis of evidence and the evaluation of performance. It must be a comprehensive report that includes the following elements, which are explained in more detail below:

- Spending reviews efficiency gains
 - Composition of spending
 - Strategic reallocations
 - Human Resources including Public Institutions
 - Public Institutions, including schedule 2
- Spending reviews efficiency gains must provide an explanation of the rate of efficiency realization that informed the budget impact contained in the excel workbook; and identify the action plans, and the associated timelines, that must be implemented to ensure that these efficiency gains are indeed realized.
 - Composition of spending: 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.
 - Strategic reallocations: must provide an explanation of the proposals to reallocate spending between programmes or economic classifications with a view of addressing cost pressures or better aligning resources with identified priorities in line with the Budget Prioritisation Framework: Towards Budget 2022. The budget implications must be quantified and a rationale must be provided for the source of funding.

HUMAN RESOURCES

- Human resources narrative must be in respect of the information that will be contained in the Human Resource Budget Plan (HRBP), which forms part of the data submission. It should explain the departments' plans and intentions in respect of the establishment headcount management, recruitment and human resource development within the compensation of employees' expenditure ceilings, which has been set in the 2021 MTEF process. This requires the inclusion of information on key changes effected and envisaged on the department's personnel profile and, including the related department's personnel expenditure and headcount. The HRBP includes an assessment of these personnel numbers and expenditures of the particular department. National Treasury's Guidelines for the Costing and Budgeting for Compensation of Employees will outline the requirements for human resource assessments and must be used for the preparation of expenditure estimates for the 2022 Medium Term Expenditure Framework (MTEF) when costing compensation of employees. All National Treasury guidelines can be found at: <http://www.treasury.gov.za/publications/guidelines/>.

PUBLIC INSTITUTIONS

- Public Institutions including schedule 2 public entities previously not required to participate in the process are required to:
 - provide further narration of functions performed by the institution, financial commitments and human resource plan. must give a summary of the financial status and policy imperatives in respect of the public institutions receiving transfers from the department.
 - must demonstrate how they will address any cost pressures within existing baselines - given that there are no additional funds available for allocation.

5.2 EXCEL WORKBOOK/S CONTAINING THE DATA SUBMISSIONS

Information contained in the department's budget explanatory narrative report in the section above, must be supported by relevant data workbooks. The following are the three workbooks:

- 2022 MTEC Submission workbook for the national government departments,
- 2022 Human Resource Budget Plan workbook,
- 2022 MTEC Budget Planning Baseline tool for public institutions, including schedule 2 public entities

When working with the workbooks, note that:

- The impact of the efficiency gains identified through the spending reviews must be incorporated into the department's MTEF workbooks. As far as reasonably possibly, this must be done at the lowest economic classification level.
- For estimation/ planning purposes, the 2024/25 baseline has been calculated. Non-recurrent allocations ending in 2023/24 have been excluded from the 2023/24 baseline, for the purposes of calculating 2024/25. Technical adjustments were also effected, where applicable.
- 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 2022 MTEF period.

Costing assumptions

(a) Consumer Price Index

- 2022/23 financial year: 4.23 per cent
- 2023/24 financial year: 4.45 per cent
- 2024/25 financial year: 4.49 per cent

National departments and public institutions must apply their discretion when using these assumptions, taking into consideration Covid-19 restrictions, especially in 2022/23. 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. Discretion cannot be applied to compensation of employees as it is subject to another process.

5.3 OTHER SUBMISSIONS

Separate submissions in respect of the following elements will also be considered in the 2022 Budget process:

- **LARGE INFRASTRUCTURE PROJECTS**

As directed by Cabinet, National Treasury is working with the Presidential Infrastructure Coordinating Commission (PICC) Secretariat and the DPME in managing the operations of the Budget Facility for Infrastructure (BFI). This facility encompasses specialised structures, procedures and criteria for appraising and evaluating projects before committing fiscal resources to large public infrastructure spending items. The Guideline for the Preparation of Budget Submissions for Large Strategic Infrastructure Projects was published early this year and submissions closed on **30 June 2021**. The process of appraising projects is underway and recommended projects will be entered into the 2022 MTEF process for consideration.

Proposals that do not meet the criteria for Large Infrastructure Projects are encouraged to follow the normal budgeting process using the Capital Planning Guidelines. All National Treasury guidelines can be found at: <http://www.treasury.gov.za/publications/guidelines/>.

- **CONDITIONAL GRANT CHANGE PROPOSALS**

Conditional grant change proposals must be submitted when a national department is proposing changes to the structure of a conditional grant. Such changes must be submitted to the National Treasury as part of the narrative accompanying the budget submission by **12 August 2021**. This submission must include a brief narrative on the description and motivation for any proposed changes to the purpose, components or implementation model of a grant, as well as any proposed new grant that can be funded within the department's baseline. Before submitting such a proposal, it must be discussed with analysts in the Intergovernmental Policy and Planning unit of the National Treasury (this unit can be contacted at **DORA@treasury.gov.za**) as well as the relevant official from the Public Finance unit.

Departments proposing changes to the structure of their conditional grants must also account for the capacity and resources needed to manage and support the implementation of their grants (including monitoring and oversight of transferred funds, and the provision of support to enable provinces/municipalities to implement grant-funded programmes).

Note that section 26(2)(c) of the Division of Revenue Act, 2021 requires that any change to the allocation criteria for conditional grants must be approved by National Treasury before provisional allocations and draft frameworks are submitted. Section 26(2)(a) requires that all draft conditional grant frameworks and allocations must be submitted to the National Treasury by **01 October 2021**. This is necessary even if no

changes to the structure of a grant have been proposed in terms of the process described in the paragraph above. The submission of final grant frameworks and allocations is 02 December 2021 and they must be signed by the accounting officer or a delegated official (if signed by delegated official, delegation letter should also be submitted) in terms of Section 26(2)(e).

- **BUDGET PROGRAMME STRUCTURE CHANGE PROPOSALS**

Where a department is considering revising budget programme structures and activity descriptions, these budget programme structure changes should be discussed with the relevant Treasury budget analyst before submitting a formal request for approval of the change. The Budget Programmes Structure Guidelines must be consulted. All National Treasury guidelines can be found at:
<http://www.treasury.gov.za/publications/guidelines/>.

Formal requests for budget programme structure changes must be submitted to the National Treasury by 30 July 2021, together with an update to the 2021 ENE database, in the structure of the proposed budget programme structure.

On approval of the budget structure change, the National Treasury will provide the department with an updated and customised 2022 MTEC Submission workbook to complete. The new workbook template will be in the format of the newly approved budget programme structure, in line with the updated ENE database submitted with the application.

The department must then return the completed 2022 MTEC Submission workbook by **12 August 2021**.

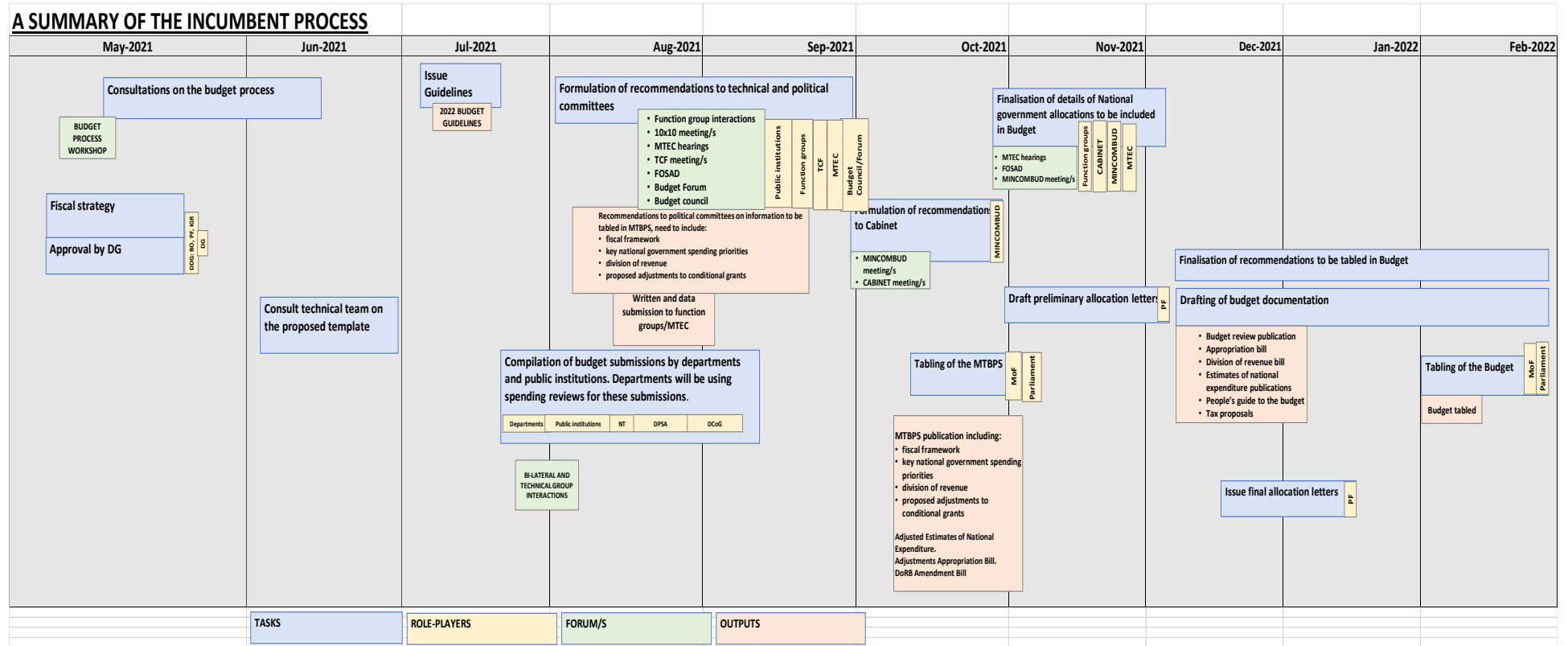
6. CRITICAL DATES

ITEM	DATE
2022 MTEF guidelines issued	16 July 2021
Information sessions with institutions on MTEF technical guidelines and workbooks	July 2021
2022 MTEC submission workbooks issued to departments and public entities	20 July 2021
Institutions submit proposals for budget programme structure revision	30 July 2021
2022 MTEF Submission from institutions	12 August 2021
MINCOMBUD Technical Committee process concludes: Recommendations tabled to MINCOMBUD	September 2021
Tabling of Medium-Term Budget Policy Statement	November 2021
Preliminary allocation letters issued to departments (2 days after MTBPS)	November 2021
Cabinet approved final allocations distributed to departments (3 days after Cabinet approval)	December 2021
Budget tabled in Parliament	February 2022

7. COMPOSITION OF TECHNICAL AND FUNCTIONAL GROUP

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 and Training, 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	Sport, Arts and Culture, Provincial and Local Arts, Culture, Sport and Recreation
2. Health	Health	Health, Provincial Health departments, National Health Laboratory Service
3. Social development	Social protection	National Social Development, South African Social Security Agency, National Development Agency, Provincial Social Developments, Women, Youth and Persons with Disabilities, National Youth Development Agency, 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, Mineral Resources and Energy (energy functions), Provincial Human Settlements, Provincial Public Transport, Local Governments
5. Economic development	Industrialisation and exports	Trade, Industry and Competition, Mineral Resources and Energy (mineral resources functions), Tourism, Small Business Development, Public Works and infrastructure (Programme 4) provincial economic development
	Agriculture and rural development	Environment, Forestry, Fisheries and the Environment, Agriculture, Land Reform and Rural Development South African Forestry Company;
	Job creation and labour affairs	Employment and Labour, Public Works and Infrastructure (Programme 3), Expanded Public Works Programmes, Cooperative Governance, Employment Creation Facilitation Fund and National Treasury (Programme 7)
	Economic regulation and infrastructure	Mineral Resources and Energy (remaining Energy functions), Transport, Environment, Forestry, Fisheries and the Environment (environmental regulation), Communications and Digital Technologies, Water and Sanitation (water services), Provincial (Roads only) and Local Governments, Transnet, Eskom, Alexkor, South African Express, Telkom SA Limited, South African Airways
	Innovation, science and technology	Science and Innovation
6. Peace and security	Defence and state security	Defence, Military Veterans, Financial Intelligence Centre, State Security, Armscor and the Castle Control Board, Denel
	Police services	Police, Independent Police Investigative Directorate, Civilian Secretariat for the Police Service
	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
	Health	Military Health Services
7. General public services	Executive and legislative organs	Presidency, Government Communications and Information System, Parliament, Provincial Legislatures, Planning, Monitoring and Evaluation
	Public administration and fiscal affairs	Public service and Administration, National Treasury, Public Enterprises, National School of government, Statistics South Africa, Cooperative Governance, Public Works and infrastructure (programmes 1,2 and 5), Traditional Affairs
	External affairs	International Relations and Cooperation, National Treasury

8. SUMMARY OF THE BUDGET PROCESS



9. BUDGET REFORM UPDATE

The budget is a policy statement of government priorities; it is for this reason that sectors request data to confirm whether or not their policy priority can be quantified in the budget as a means to ascertain that government is taking it seriously. There are developments internationally with regards to cross cutting programmes such as gender, youth, climate change and research and development. Each one of these is important as the impact of neglecting them are far reaching. To fully be able to address the challenges each one of these priorities pose, there needs to be a process to gather data to quantify the extent of the interventions government is implementing in these areas.

In terms of public finance management mechanisms South Africa has adopted expenditure tagging as a tool to identify, clarify, weight and mark relevant expenditures in governments budget system, enabling the estimation, monitoring and tracking of those expenditures by providing data on government's allocations or existing spending. The intention for information gathered through tagging is to inform policy discussions and to monitor implementation of policy imperatives. All the tagging projects above are in different stages of implementation.

The tagging exercise introduced in previous budget cycles has not been fruitful, therefore, the National Treasury is undertaking a process to refine the objectives, assess capacity needs and raise awareness within government departments and entities in order to re-implement the tags in the 2023 Budget.

Gender Responsive Budgeting: In the budget guidelines for the past two financial years, the National Treasury has requested disaggregated data from departments, in compliance with the Gender Responsive Budgeting, Monitoring, Evaluation auditing (2019) framework. The data gathered only confirmed that a reform of this magnitude cannot be done through the guidelines. There is a knowledge gap that needs to be filled for the framework to achieve the desired outcome. The International Monetary Fund (IMF) is assisting the National Treasury to develop a roadmap and implement GRB efficiently.

Research and Development: The National Research and Development Strategy (NRDS) promulgated in 2002 make provision for cross sector implementation of government priorities on research and development. The data gathered subsequently, did not make any significant change to the policy discussion and not all departments used the SCOA classification to enable analysis. This demonstrated that there needs to be a different approach to tagging Research and Development.

Climate Budget Tagging (CBT): The National Climate Change Response White Policy Paper (2011) makes provision for climate responsive budget. Through the World Bank a service provider has been contracted to design a CBT system for the South African context. The team will be starting an awareness campaign and capacity needs assessments this year before starting with pilots in selected sectors. The lessons from this CBT project will provide an opportunity to refine other tagging processes.

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