

MEDIUM TERM EXPENDITURE FRAMEWORK

Technical Guidelines 2023



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



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1. INTRODUCTION

Purpose of the guidelines

- 1.1. Section 27(3) of the Public Finance Management Act (PFMA), Act No-1 of 1999 states that an annual budget must be in accordance with a format prescribed by the National Treasury. The Medium Term Expenditure Framework (MTEF) Technical Guidelines 2023 are issued to make such prescriptions and provide national government departments, as well as public institutions, with guidance on how to prepare their medium-term budget estimates for the 2023 Budget. While primarily intended for national government departments and national public institutions¹ these guidelines also contribute to the budgeting process in provinces.
- 1.2. The guidelines provide an outline of the economic environment under which this MTEF is formulated. They also give a summary of the fiscal strategy for the 2023 MTEF 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 (MTEC) and then the Minister's Committee on the Budget (MINCOMBUD), to be ultimately approved by Cabinet.

Economic Context

- 1.3. Structural constraints have reduced potential economic growth for the past decade and remain an impediment to economic recovery. During 2021, the economic effects of the pandemic – lost jobs and delayed investments were exacerbated by inadequate electricity supply, with the highest levels of load-shedding to date. Government's previously announced economic reforms are under way. More rapid implementation of these reforms, complemented by fiscal consolidation to provide a stable foundation for growth, will ease investor concerns about South Africa, and support a faster recovery and higher levels of economic growth over the long term.

Despite an uneven economic recovery, tax collections in 2021/22 outperformed expectations due to the strength of mining sector revenue and an uptick in corporate earnings following the 2020 recession. This windfall is, however, not expected to be a long term phenomenon and therefore cannot be used to support long term baseline adjustments. Economic growth remains slow, and the wage bill and the weak financial position of State-Owned Companies (SOCs) continues to pose a risk to the fiscus. Added to this are the risks posed by global events and natural disasters. Government should therefore continue its fiscal consolidation path, debt stabilisation and economic recovery efforts.

¹ Public institutions 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.

Fiscal strategy

- 1.4. Restoring fiscal sustainability over the medium term remains the key focus of the fiscal strategy. Over the medium-term the objective of fiscal policy will be to reduce the budget deficit and stabilise the debt-to-GDP ratio. This will stop the trend of debt-service costs crowding out the budget for service delivery spending. In the short-term, government will continue to strike a delicate balance between mitigating the negative impacts of the COVID-19 pandemic and recent floods in KwaZulu-Natal and Eastern Cape provinces, while restoring the health of the public finances and supporting economic growth. Any permanent large increases in spending should be accommodated with matching permanent increases in revenue or reprioritisation. In addition, the fiscal framework will be finalised taking into account the prevailing fiscal risks, including government's contingent liabilities.

2. BUDGETING FRAMEWORK

2.1 Medium Term Expenditure Framework

- 2.1.1 In 2000 South Africa adopted the Medium Term Expenditure Framework to facilitate a more effective medium term planning.
- 2.1.2 In recent times, poor economic growth, the COVID 19 pandemic, civil riots and floods have exerted further constraints on the budget. The fiscus remains committed to returning its finances to a stable trajectory, while responding to the needs of the citizens of South Africa.
- 2.1.3 Since 2020, the National Treasury has introduced spending reviews to provide an evidence-based analytical budget allocation methodology to replace incrementalism. The spending reviews highlight issues around the efficiency and cost-effectiveness of government expenditure and enables government to make better decisions about resource allocation.

2.2 Spending reviews

- 2.2.1 Fiscal consolidation has necessitated a review of all baseline allocations, which is an important and necessary departure from what was done over the previous 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 these reasons that spending reviews have been initiated to implement an evidence-based analytical budgeting system.
- 2.2.2 The spending reviews methodology allows officials to probe expenditure trends in detail to understand the articulation between policy goals and budget needs from a unique perspective. The methodology may provide insight into policy and programme

logic and the institutional implementation framework, which is then combined with readily available expenditure data from government accounting systems (e.g., BAS, PERSAL, LOGIS). In the case of public institutions, the data from the individual accounting systems will be utilised in a series of systematised 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.

2.2.3 The primary purpose of the spending reviews is to re-examine expenditure baselines to identify efficiency gains and savings. This will not only free up additional resources for priorities but allow for a more efficient allocation of resources and to measure whether the programmes are still relevant and responsive to the current economic landscape. Therefore, each spending review:

- Is expected to cover a significant proportion of the department's budget such that the resultant efficiency gains have a material impact on the department's overall budget. Ideally the selected topic should be policy or programme related as opposed to being expenditure item focused.
- Should consider the efficiency gains identified through the spending reviews when preparing the department's budget submissions.

3. PRINCIPLES FOR THE 2023 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 2023 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 reprioritisation, either within the department's or public entity's budget, or from other departments' or public entities' budgets.
- 3.3. The outcomes of a detailed budget baseline analysis, mainly through spending reviews, must inform strategic reallocations.
- 3.4. Public institutions should adhere to the fiscal consolidation framework. In particular, salary adjustments must be guided by the same approach adopted in respect of the public service wage bill management strategy.
- 3.5. There will not be a further downward revision for the total non-interest expenditure baseline for 2023/24. However, there will be a nominal baseline increase applied in 2024/25, already apportioned to vote baselines in the 2022 Budget.

4. BUDGET SUBMISSIONS

- 4.1. The Budget submissions must be made to the National Treasury by **8 July 2022**.
- 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 for 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 to 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 that executive authority. Where applicable an endorsement letter from the accounting officer of the executive department must be submitted.

5. COMPONENTS OF A SUBMISSION

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

5.1 NARRATIVE REPORT

A narrative report explains the context for the budget, provides costing of mandates and policies, indicates where expenditure reductions can be implemented and the impact of this on service delivery indicators. 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 based on evidence and the evaluation of performance. It must be a comprehensive report that includes the following elements:

- A detailed budget baseline analysis done mainly through spending reviews: 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 the efficiency gains identified 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. The budget implications must be quantified and a rationale must be provided for the source of funding.

HUMAN RESOURCES

- The 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 submissions. It should explain the departments' plans and intentions regarding the establishment headcount management, recruitment and human resource development within the compensation of employees' expenditure ceilings, which was set in the 2022 MTEF process. However, it should be noted that the set compensation ceilings are still subject to and depend on the outcomes of current and future wage negotiations in the Public Sector Coordinating Bargaining Council (PSCBC). The HRBP requires the inclusion of information on key changes effected and envisaged on the department's personnel profile, including the related department's personnel expenditure and headcount. The HRBP includes an assessment of these personnel numbers and expenditures of the 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 2023 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 are required to:
 - adhere to the principles of 2023 MTEF as articulated in section 3 above
 - provide narration of functions performed by the institution, financial commitments and the human resource plan. They must give a summary of the financial status and policy imperatives in respect of the public institutions receiving transfers from the department.
 - demonstrate how they will address any cost pressures within existing baselines - given that there are no additional funds available for allocation.
 - submit their budget templates in the formats provided
 - Schedules 1, 3A and 3C entities must seek National Treasury approval in instances where the institution intends spending from reserves.

5.2 EXCEL WORKBOOKS FOR 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:

- 2023 MTEC Submission workbook for the national government departments,
- 2023 Human Resource Budget Plan workbook,
- 2023 MTEC Budget Planning Baseline tool for public institutions

When working with the workbooks, note that:

- The outcomes of the efficiency gains identified through the detailed baseline analysis done mainly through spending reviews must be included in the department's MTEF workbooks. As far as reasonably possible, this must be done at the lowest economic classification level (SCOA item level 4).
- For estimation and planning purposes, the 2025/26 baseline (outer year of the 2023 MTEF) has been calculated and pre-populated in the MTEC workbooks. To calculate 2025/26, non-recurrent allocations ending in 2024/25 were excluded from the 2024/25 baseline. Technical adjustments were also applied, where applicable.
- In budgeting for non-personnel expenditure items within the department's expenditure ceiling, the following Consumer Price Index projections can be utilised to inform the provisions that departments choose to make for general price increases over the 2023 MTEF period.

Costing assumptions

- 2023/24 financial year: 4.42 per cent
- 2024/25 financial year: 4.45 per cent
- 2025/26 financial year: 4.48 per cent

National departments and public institutions must apply their discretion when using these assumptions, taking into consideration circumstances that may be unique to them. If the outcomes are different from the forecasted estimates, institutions will need to absorb any resultant differences within their budget baselines. Discretion cannot be applied to compensation of employees as it is determined in a separate process.

5.3 OTHER SUBMISSIONS

Separate submissions in respect of the following elements will also be considered in the 2023 Budget process:

- **LARGE INFRASTRUCTURE PROJECTS**

As directed by Cabinet, National Treasury is working with the Presidential Infrastructure Coordinating Council (PICC) Secretariat and the Department of

Planning, Monitoring and Evaluation (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 Guidelines for the Preparation of Budget Submissions for Large Strategic Infrastructure Projects for Window 6 was published in April 2022 and the call for proposals are divided into two parts, the 2022 Adjustments Budget and the 2023 MTEF period. The closing date for the 2022 Adjustments Budget is on 31 May 2022 and closing date for the 2023 MTEF is on 30 June 2022. The process of evaluating projects that will be recommended into the 2023 MTEF process for consideration, will commence in July 2022.

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

- **CONDITIONAL GRANTS CHANGE PROPOSALS**

Proposals to change the structure of conditional grants must be submitted to the National Treasury as part of the narrative accompanying the budget submission by **30 June 2022**. This submission must comprise a brief narrative, including a 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.

The conditional grants are currently being reviewed, and only changes that are consistent with the review can be made in the 2023 Budget. The introduction of new indirect grants will not be possible in this budget since the review process will evaluate this support mechanism carefully and develop a systematic approach to the creation of these grants that is consistent across sectors and spheres of government. 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, 2022 requires that any change to the allocation criteria for conditional grants must be approved by the 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 03 October 2022. 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 2 December 2022 and they must be signed by the accounting officer or a delegated official (if signed by a delegated official, a delegation letter should also be submitted) in terms of Section 26(2)(e).

- **BUDGET PROGRAMME STRUCTURE CHANGE PROPOSALS**

Where a department is considering revising its budget programme structure 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/>. If a department also wants to create new transfer items, they should discuss with the relevant Treasury budget analyst.

A formal request for budget programme structure changes, including any requests to create new transfer items must be submitted to the National Treasury by **10 June 2022**, together with an update to the 2022 ENE database, in the structure of the new proposed budget programme structure.

On approval of the budget structure change, the National Treasury will provide the department with an updated and customised 2023 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 2022 ENE database submitted with the application.

The department must then return the completed 2023 MTEC Submission workbook by **8 July 2022**.

6. CRITICAL DATES

ITEM	DATE
2023 MTEF and COE guidelines issued	31 May 2022
2023 MTEC submission workbooks issued to departments	31 May 2022
Start information sessions with institutions on MTEF technical guidelines and workbooks	1 June 2022
Institutions submit requests for budget programme structure revision	10 June 2022
Institutions submit requests to create new transfer items for the 2023 MTEF	10 June 2022
2023 MTEF Submission from institutions	8 July 2022
MTEC process concludes: Recommendations tabled to MINCOMBUD	September 2022
MINCOMBUD and Cabinet approval of 2023 MTEF	September 2022
Tabling of the Medium Term Budget Policy Statement (MTBPS)	October 2022
Preliminary allocation letters issued to departments (2 days after MTBPS)	October 2022
Cabinet approved final allocations distributed to departments (3 days after Cabinet approval)	December 2022
Budget tabled in Parliament	February 2023

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 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 (electrification 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	Forestry, Fisheries and the Environment, Agriculture, Land Reform and Rural Development
	Job creation and labour affairs	Employment and Labour, Public Works and Infrastructure (Programme 3), Expanded Public Works Programmes, Cooperative Governance, (community works programme) Employment Creation Facilitation Fund and National Treasury (Programme 7)
	Economic regulation and infrastructure	Mineral Resources and Energy (remaining Energy functions), Transport, Forestry, Fisheries and the Environment (environmental regulation), Communications and Digital Technologies, Water and Sanitation (water services), Provincial (Roads only) and Local Governments
	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
	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, Public Service Commission, Centre for Public Service Innovation
	External affairs	International Relations and Cooperation, National Treasury (programme 6)

8. 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 priorities can be quantified in the budget as a means to ascertain that government is giving it precedence. There are developments internationally with regards to cross cutting programmes such as gender, youth, climate change and science, technology and innovation. Each one of these is important as the impact of neglecting them are far reaching. To fully address the challenges each one of these priorities present, 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 (PFM) mechanisms, South Africa has adopted expenditure tagging as a tool to identify, clarify, weight and mark relevant expenditures in government's 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 was not 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 subsequent budget cycles.

Gender Responsive Budgeting (GRB): In the budget guidelines of recent past, the National Treasury requested disaggregated data from departments, in compliance with the Gender Responsive Planning, Budgeting, Monitoring, Evaluation and Auditing Framework (2019). 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 National Treasury, with technical assistance from the International Monetary Fund developed a road map, which comprises of three phases, to be implemented over time. MTEF 2023 will see the beginning of implementation of Phase 1 with the development of comprehensive GRB guidelines, a living document, which will be used throughout the process

Science, Technology and Innovation (STIs): 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 Standard Chart of Accounts classification to enable analysis. This demonstrated that there needs to be a different approach to tagging STIs.

The Department of Science and Innovation has developed a decadal plan for the implementation of the NRDS. Together with the Department of Planning, Monitoring and Evaluation, they are working on prioritisation and planning, as a preparatory process for tagging in later MTEFs.

Climate Budget Tagging (CBT): The National Climate Change Response White Policy Paper (2011) makes provision for climate responsive budgeting. Through the World Bank, a service provider has been contracted to design a CBT system for South Africa. The technical work for developing the CBT framework commenced in September 2020.

To date, the National Treasury, in collaboration with the World Bank has conducted an institutional and policy assessment and international review; conducted a stakeholder consultative workshop; run a series of awareness raising workshops and focussed engagements; held peer exchange learning sessions with various ministries of finance and national treasuries from Kenya, Bangladesh, Uganda and Nigeria. The National Treasury also engaged critical reference groups on the design of the CBT such as the Department of Forestry, Fisheries and the Environment's Intergovernmental Climate Change Coordination Committee: Working Group 9, the Collaborative Africa Budget Reform Initiative and the Public Finance Management Week, including the internal National Treasury Climate Change Working Group.

At present, the National Treasury is implementing the CBT pilot in 11 sites across national, provincial and local governments. National Treasury expects to conclude these by end of May 2022. Once finalised and approved, the outcomes of the pilot will serve as the indicative CBT framework for systematically tracking and monitoring of climate change-relevant public expenditure.

The National Treasury is also conducting capacity needs assessments and stress-testing to determine the level of system readiness, human capability measure and support requirements for institutionalising and embedding CBT into the PFM system.

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Private Bag X115, Pretoria, 0001 | 40 Church Square, Pretoria, 0002

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

www.treasury.gov.za



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Department:
National Treasury
REPUBLIC OF SOUTH AFRICA