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Department of Finance

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UmNyango weZeemali

Departement van Finansies

Kgoro ya Matlotlo

Reference: *DOF 12/1/1*

PROVINCIAL TREASURY CIRCULAR 22 (a) OF 2012

TO:

THE ACCOUNTING OFFICER: VOTE 1: OFFICE OF THE PREMIER (MR JM RABODILA)
THE ACCOUNTING OFFICER (ACTING): VOTE 2: PROVINCIAL LEGISLATURE (MR LB TSHABALALA)
THE ACCOUNTING OFFICER (ACTING): VOTE 3: FINANCE (MR JB MBATHA)
THE ACCOUNTING OFFICER: VOTE 4: COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS (MR D MAHLOBO)
THE ACCOUNTING OFFICER: VOTE 5: AGRICULTURE, RURAL DEVELOPMENT AND LAND ADMINISTRATION (MS NL SITHOLE)
THE ACCOUNTING OFFICER: VOTE 6: ECONOMIC DEVELOPMENT, ENVIRONMENT AND TOURISM (DR DV DLAMINI)
THE ACCOUNTING OFFICER: VOTE 7: EDUCATION (MS MOC MHLABANE)
THE ACCOUNTING OFFICER: VOTE 8: PUBLIC WORKS, ROADS & TRANSPORT (MR KM MOHLASEDI)
THE ACCOUNTING OFFICER: VOTE 9: SAFETY, SECURITY & LIAISON (MR ST SIBUYI)
THE ACCOUNTING OFFICER: VOTE 10: HEALTH (MR RM MNISI)
THE ACCOUNTING OFFICER: VOTE 11: CULTURE SPORTS AND RECREATION (MS SP MJWARA)
THE ACCOUNTING OFFICER: VOTE 12: SOCIAL DEVELOPMENT (MS NL MLANGENI)
THE ACCOUNTING OFFICER: VOTE 13: HUMAN SETTLEMENTS (MR D DUBE)

THE CHIEF FINANCIAL OFFICER: VOTE 1: OFFICE OF THE PREMIER (MR T NKOJOANA)
THE CHIEF FINANCIAL OFFICER: VOTE 2: PROVINCIAL LEGISLATURE (MR S SANYANE)
THE CHIEF FINANCIAL OFFICER: VOTE 3: FINANCE (MS P SEMENYA)
THE CHIEF FINANCIAL OFFICER: VOTE 4: COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS (MR MD SHIPALANA)
THE CHIEF FINANCIAL OFFICER: VOTE 5: AGRICULTURE, RURAL DEVELOPMENT AND LAND ADMINISTRATION (MR C. DLAMINI)
THE CHIEF FINANCIAL OFFICER: VOTE 6: ECONOMIC DEVELOPMENT, ENVIRONMENT AND TOURISM (MS JP HLATSHWAYO)
THE CHIEF FINANCIAL OFFICER: VOTE 7: EDUCATION (MR CB MNISI)
THE CHIEF FINANCIAL OFFICER (ACTING): VOTE 8: PUBLIC WORKS, ROADS & TRANSPORT (MR S SHONGWE)
THE CHIEF FINANCIAL OFFICER: VOTE 9: SAFETY, SECURITY & LIAISON (MR BH NGOMA)
THE CHIEF FINANCIAL OFFICER: VOTE 10: HEALTH (MS G MILAZI)
THE CHIEF FINANCIAL OFFICER: VOTE 11: CULTURE SPORTS AND RECREATION (MR M KHOZA)
THE CHIEF FINANCIAL OFFICER: VOTE 12: SOCIAL DEVELOPMENT (MS P MORGAN)
THE CHIEF FINANCIAL OFFICER (ACTING): VOTE 13: HUMAN SETTLEMENT (MS B MOJAPELO)

THE GENERAL MANAGER: SUSTAINABLE RESOURCE MANAGEMENT (PT) (MS N NKAMBA)
THE GENERAL MANAGER (ACTING): ASSETS AND LIABILITIES MANAGEMENT (PT) (MS E VISSER)
THE GENERAL MANAGER: FINANCIAL GOVERNANCE (PT) (MS J BEZUIDENHOUT)



SUBMISSION OF FIRST DRAFT OF BUDGET DOCUMENTS (ESTIMATES OF PROVINCIAL REVENUE AND EXPENDITURE AND ANNUAL PERFORMANCE PLANS FOR 2013 MTEF PERIOD)

This circular is issued in line with Sections 6.1 and 6.2 of Treasury Regulations which requires that annual budget circulars be issued by Provincial Treasury for Accounting Officers of departments and other institutions to comply with the set budget guidelines and format as set by National Treasury.

Departments are required to submit the following budget documents to Provincial Treasury:

1. Database;
2. Estimates of Provincial Revenue & Expenditure;
3. Annual Performance Plan

Departments are required to provide documents that have clear assumptions on the allocated resources and to indicate in detail in the APP how the allocated resources would be economically, efficiently and effective utilised to achieve the planned outputs.

Furthermore the 2013 MTEF budget process should aim at achieving the 12 identified government outcomes. Department's cost savings will continue to play an important role in the budget process as government seeks reprioritised funding to address its key expenditure priorities.

The expenditure estimates for the 2013/14 MTEF period remains broadly unchanged. Departments and public entities are expected to plan ahead within the indicative forward estimates of the 2012 Budget. For the 2015/16 financial year, the baseline for recurrent allocations is a 4.6 per cent overall increase to the 2014/15 amount. Non-recurrent allocations must be removed from the baseline in the outer years of the MTEF where projects and activities have come to an end.

The following are the consumer price inflation assumptions for the 2013 MTEF planning process:

2013/14:	5.5 per cent
2014/15:	5.0 per cent
2015/16;	4.6 per cent

Compensation of Employees

Departments and entities are reminded that they are required to budget for the full costs of personnel, including increases in staff establishment, temporary or supplementary personnel, overtime allowances and other benefits, as well as the annual inflation-related adjustment. All aspects of compensation of employees funding must be provided for within the budget baseline.

For the MTEF period ahead, budgets for compensation of employees should be prepared on the basis of the following annual increases, which are calculated at the CPI projection plus 0.5 per cent:

April 2013: 5.0 per cent
April 2014: 5.0 per cent,
April 2015: 5.0 per cent.

Goods and services

In budgeting for goods and services, provision must be made for all inflation-related cost increases. The following CPI assumptions can be used for price increases for general goods and services for the MTEF period ahead:

2013/14: 5.5 per cent
2014/15: 5.0 per cent
2015/16: 4.6 per cent

Transfers and subsidies

Budget projections for all categories of transfer payments must include provision for annual inflation-related adjustments. In the absence of more directly relevant indicators, the CPI projections for the period ahead may be used for this purpose.

Payments for capital assets

In keeping with standard project management practice, budgeting for capital projects should include appropriate allowances for inflation-related cost escalations and provision for contingencies. Maintenance and rehabilitation costs are estimated as part of goods and services expenditure.

Targeted areas for reduction and subsequent reprioritisation include expenditure targeted at areas which are not aligned to the achievement of identified department's outcomes and mandates.

You are advised that the CPIX projections might be revised by National treasury and you will be informed of those amendments.

For preparation of expenditure estimates each department should therefore thoroughly review its:

1. Aims , objective and identified outcomes;
2. Service deliverables and outputs that are needed to meet these outcomes;
3. Allocations to programmes that provide these outputs;
4. Identification and costing of the key activities and outputs under programmes or sub programmes.

Amounts for projects that are once off or involve spending over a defined period should be excluded upon termination. This should be identified by sub programme.

BUDGET STRUCTURES

All budget submissions must be completed in terms of approved Budget and Programme structure. The newly released Budget and Programme structure Guideline should be consulted.

PUBLIC ENTITIES

The budget estimates of all entities must be included in the submissions of the oversight departments.

ADDITIONAL BUDGET REQUIREMENTS

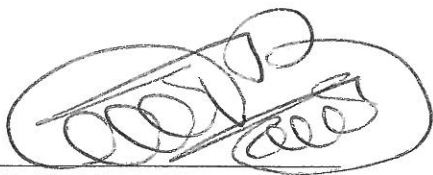
Departments are requested not to include new budget requirements in these documents. Additional budget requirements should be submitted separately, and these should be motivated and properly costed to determined estimated cost.

Attached here is the **2012 Provincial budget process schedule** indicated critical dates for submission of documents to Provincial Treasury as well as Provincial **2013 Medium Term Expenditure Guideline** for more information about the required budget documents.

SUBMISSION DATES

All votes are requested to submit all budget documents (Annual Performance Plans, Database, Estimates of Provincial Revenue Expenditure chapters as well as cost per head) by **24th August 2012**.

Your co-operation will be highly appreciated.



MR. JB MBATHA
ACTING HEAD OF DEPARTMENT

DATE: 31/07/2012

2012/13 Provincial Budget Process Schedule

20 January 2012	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM)
22 February 2012	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM)
March 2012	Publish Provincial Section 32 numbers (Third quarterly numbers as at 31 December 2011) in Government Gazette
15 March 2012	Provinces submit consolidated cash flow information for 2012/13 to the National Treasury (Section 40(4)(a) of the PFMA)
22 March 2012	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM)
31 March 2012	Tabling of the 2012/13 Annual Performance Plans in Provincial Legislatures
April 2012	Estimates of Provincial Expenditure Guideline Workshop (Provincial Treasuries) <ul style="list-style-type: none"> • Evaluation of 2012 Estimates of Provincial Revenue & Expenditure • Inputs for Estimates of Provincial Revenue & Expenditure Guidelines for 2013 Budget
20 April 2012	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM)
0 April 2012	Provincial Treasuries submit 4th Quarter signed-off IRM Reports for 2011/12
20 April 2012	Provincial Treasuries submit 4th quarter non-financial data submitted to National Treasury
30 April 2012	Provincial Treasuries submit information on unspent conditional grants and CG funds committed to National Treasury and National Department
30 April 2012	Submission of requests for 2011/12 financial year rollovers to 2012/13 financial year.
22 May 2012	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM) <p>Provincial departments surrender unspent funds not committed to identified projects to the relevant National Department</p>
31 May 2012	Provincial Treasuries submit validated 4 th quarter (2011/12) non-financial data to National Treasury.

31 May 2012	<p>Provincial Departments submit validated 4th quarter data and pre-audited Publish Provincial Section 32 numbers (Fourth quarterly numbers as at 31 March 2012) in Government Gazette</p> <p>Provincial departments submit annual reports to Auditor-General</p>
8 June 2012	Provincial treasuries submit pre-audited 2011/12 In-year Monitoring data file (mirror image of pre-audited AFS) to the National Treasury
15 June 2012	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM) to Provincial Treasury
22 June 2012	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM)
13 July 2012	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM) to provincial treasury
10 July 2012	Provincial departments submit 1st quarter non-financial database to Provincial treasury
20 July 2012	<p>Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM) to National treasury</p> <p>Provincial Treasury submit 1st quarter non-financial database to National Treasury</p>
31 July 2012	Office of the Auditor-General issue audit report to Accounting Officer
24 August 2012	<p>Provincial departments submit 2013 Budget submissions and first draft 2013/14 Annual Performance Plans to Provincial Treasury for purposes of the MTBPS</p> <p>Provincial departments submit draft 2013/14 UAMPS/Infrastructure plans to Provincial Treasury</p>
August 2012	<p>Provincial Treasuries review the 2013 budget submissions by provincial departments in preparation of PMTEC hearings</p> <p>Provincial Visits: Province Specific Agenda</p>
15 August 2012	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM) to Provincial Treasury
22 August 2012	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM) to National Treasury
24 August 2012	Provincial departments submit 2013 Budget submissions and first draft 2013/14 Annual Performance Plans to Provincial Treasury for purposes of the MTBPS
31 August 2012	<p>Publish Provincial Section 32 numbers (First quarterly numbers as at 30 June 2012) in Government Gazette</p> <p>Provincial Treasury to submit 2013 Budget submissions and first draft 2013/14 Annual Performance Plans to National Treasury for purposes of the MTBPS</p> <p>Provincial Treasury submit draft 2013/14 UAMPS/Infrastructure plans to National Treasury</p>

Annual report tabled at the Provincial Legislature	
14 September 2012	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM) to Provincial Treasury
22 September 2012	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM)
September 2012	Provincial departments submit adjustment budgets
10 October 2012	Provincial treasuries submit 2012/13 Annual Reports (electronic in PDF format and 13 hardcopies) as well as the updated In-year Monitoring data file (mirror image of Annual Financial Statements in Annual Reports) to the National Treasury
15 October 2012	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM) to Provincial Treasury
16 October 2012	Provincial departments submit 2nd quarter non-financial data file to the Provincial Treasury
22 October 2012	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM)
October 2012	Tabling of 2012 Adjustment Budget
26 October 2012	Provincial treasuries submit 2 nd quarter non-financial data file to the National Treasury
31 October 2012	Provincial departments submit 2nd draft 2013 Budgets (Estimates of Provincial Expenditure and database) and 2nd draft 2013/14 Annual Performance Plans Consolidated annual financial statements tabled at the Provincial Legislature
November 2012	ENE guidelines issued to National Departments and to provincial treasuries
15 November 2012	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM) to Provincial Treasury
22 November 2012	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM)
December 2012	Preliminary Allocation letters to provinces – Conditional Grants
01 December 2012	Provincial treasuries submit 2 nd draft 2013 Budgets (Estimates of Provincial Expenditure and database) and 2 nd draft 2013/14 Annual Performance Plans
12 December 2012	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM) to Provincial Treasury
15 December 2012	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM)
13 January 2013	Provincial departments submit 3rd quarter non-financial data to Provincial Treasury
15 January 2013	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM) to Provincial Treasury

22 January 2013

Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM)

23 January 2013	Provincial Treasuries submit 3 rd quarter non-financial data to National Treasury
	Provincial treasuries submit 3 rd quarter In-year Monitoring data file to the National Treasury
31 January 2013	Provincial departments submit final 2013/14 UAMPS/Infrastructure plans to Provincial Treasury
February 2013	Final Allocation Letters to Provinces
15 February 2013	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM) to Provincial Treasury
22 February 2013	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM)
February 2013	National Budget Day: 2013 Budget tabled before Parliament
28 February 2013	Publish Provincial Section 32 numbers (Third quarterly numbers as at 31 December 2011) in Government Gazette
March 2013	Provincial 2013 Budget tabled
15 March 2013	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM) to Provincial treasury
22 March 2013	Submission of monthly PFMA section 40(4) reports, including conditional grant expenditure (IYM)



Mpumalanga Provincial Treasury

Preliminary Medium Term Expenditure Guidelines

Preparation of Expenditure Estimates for the 2013
Medium Term Expenditure Framework

July 2012

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1. Introduction

The “Medium Term Expenditure Guidelines” provide government departments and public entities with advice on the preparation of expenditure plans for the three-year period ahead, and the process to be followed in seeking Executive Council approval for appropriations for the year ahead and indicative allocations for the outer years of the 2013 Medium Term Expenditure Framework (MTEF) period.

Accounting Officers and Chief Financial Officers (CFOs), Chief Executive Officers of Public Entities are reminded that they are responsible for ensuring cost-efficiency, economy in the use of resources and effectiveness in pursuing government’s policy objectives. These Guidelines seek to contribute to these objectives through promoting sound planning, budgeting and programming of public expenditure, informed by clear and coherent objectives and supported by relevant quantitative and qualitative performance indicators and targets.

While the budget process provides an opportunity for new spending proposals to be tabled for consideration by the Budget and Finance Committee, the main emphasis in the budget process falls on more efficient and effective use of resources within the already-announced medium term spending envelope.

Key points to note in this year’s Medium Term Expenditure Guidelines are:

- Provincial Departments and Public Entities are requested to review their programme structures and activity descriptions at the outset of the 2013 budget process.
- Departments and Public Entities are to consider their outputs and other performance indicators and targets and reprioritise their three-year programme allocations, broken down by the Appropriation Acts’ main economic classification category. This must be done within the indicative baseline allocations for the MTEF period.
- The departments and Public Entities must work within formal functional Medium Term Expenditure Committee (MTEC) structures in preparation and finalization of programme allocations and estimates of expenditure; these may include proposals for further savings and for additional allocations. All the requirements outlined in these Guidelines for preparing medium term expenditure estimates apply to all provincial departments and entities, including constitutional institutions.
- All estimates of expenditure must be submitted in the required format to the National Treasury.

2. Economic growth and the medium term expenditure framework

Savings remain low and the current account of the balance of payments is still in deficit. The fiscal environment is therefore constrained by both the limited revenue resources of the state, and the need to encourage accelerated business investment through lower interest rates and a moderation in the tax burden.

Public infrastructure backlogs are a constraint to faster growth, and the fiscal stance therefore has to allow for stronger growth in public sector capital formation and improved maintenance of infrastructure. At the same time, shortcomings of municipal service delivery must be addressed and poverty reduction programmes strengthened. The challenges confronting the fiscus are immense, and every effort must be made to ensure that public resources are effectively managed and spending programmes are efficiently implemented.

Departments and public entities are expected to plan ahead within the indicative forward estimates of the 2012 Budget. For the 2015/16 year, the baseline for recurrent allocations is a 6 per cent overall increase to the 2014/15 amount. Non-recurrent allocations are removed from the baseline in the outer years of the MTEF where projects and activities have come to an end.

The following are the consumer price inflation assumptions for the 2013 MTEF planning process:

2012/13:	5.3 per cent
2013/14:	5.5 per cent
2014/15:	5.0 per cent.
2015/16:	4.6 per cent

Please note that these are indicative figures and will be revised when advised so by National Treasury.

3. Budgeting by programme

In approving the expenditure ceilings for each vote in the main Appropriation Bill each year, Provincial Legislature endorses a set of allocations by “main division” or “programme” within a vote, and by the breakdown of these into economic categories: Compensation of Employees; Goods and Services; Transfer Payments, such as social grants to households, subsidies to businesses, transfers to public entities or conditional grants to provinces or municipalities; Payments for Capital Assets; and Payments for Financial Assets.

The Public Finance Management Act recognises that during the course of the year there may be a need for a “virement” between programmes and economic categories, but sets limits to the discretion of Accounting Officers and of Provincial Treasuries in this regard.

It is therefore important that the costing of expenditure between and within programmes should be carefully done, as the law allows for only limited movement of funds between

programmes once the Appropriation has been enacted. Cost estimates for each programme are also the key information inputs into the budget process. These provide the essential data both for analysis of budget submissions and, once approved, for populating the financial management systems through which transactions are recorded against approved allocations.

The first requirement for departmental budgeting is that:

- Approval must be obtained from the relevant treasury in respect of proposed changes to the programme and sub-programme structure of departmental votes. Budget programme structures typically remain unchanged during an electoral cycle unless there are formal changes to a department's mandate. The date for submission of proposals to change national departmental budget structures is 31st July 2012. Once budget structures have been amended and approved through the formal process, they must be used to compile MTEF submissions. All historical information in the MTEF submissions must be aligned to the new budget structure.

For each programme, cost estimates must be provided for:

- Compensation of employees, including filled and funded posts by level, funded vacancies by level, provision for improvements in conditions of service and approved increases or decreases in the establishment;
- Goods and services;
- Transfers and subsidies;
- Capital payments, including projected expenditure schedules for multi-year projects.

In general, the programme breakdown of departments or objectives of entities form the basis of the costing data that must be submitted for review by provincial treasuries. Budget submissions must be set out by programme and by entity, and engagements between departments and treasury officials will largely be devoted to understanding and reviewing programme-based and entity-based cost estimates. Early agreement on the **approved budget programme structure** of a department is therefore critical.

The programme and sub-programme costing information may be disaggregated in different ways depending on the nature of the programme. Departments and entities should provide this lower level institutional information in the amount of detail as is appropriate. For example, where programmes of large departments are managed through regional or district organisational structures or decentralised institutions, such as hospitals - then cost estimates should be separately provided for such structures or institutions.

4. Outcomes, outputs and performance information

Government's strategic and policy priorities are organised into twelve outcome areas. These, in turn, comprise a range of output targets which are reflected in the service delivery agreements signed by Ministers and Members of Executive Council (MECs). Departments and public entities are expected to maintain service delivery records and performance information that can be used for monitoring and evaluation purposes. The Department of Performance Monitoring and Evaluation oversees these processes.

Table 1: Government's twelve outcomes

1. Improved quality of basic education	2. A long and healthy life for all South Africans
3. All people in South Africa are and feel safe	4. Decent employment through inclusive growth
5. A skilled and capable workforce to support an inclusive growth path	6. An efficient, competitive and responsive economic infrastructure network
7. Vibrant, equitable and sustainable rural communities with food security for all	8. Sustainable human settlements and improved quality of household life
9. A responsive, accountable, effective and efficient local government system	10. Environmental assets and natural resources that are well protected and continually enhanced
11. Create a better South Africa and contribute to a better and safer Africa and World	12. An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship

These outcomes involve shared responsibilities of several departments, and require effective cooperation between national, provincial and local government. Executive Council Committee and inter-departmental cluster committees are responsible for the coordination and collaboration, and for monitoring implementation. Individual departments and public entities have responsibility for the specific outputs, programmes and projects that contribute to these shared objectives. The MTEF planning process is designed to achieve an allocation of fiscal resources between government programmes and entities consistent with a balanced and cost-effective promotion of these outcome priorities. Departments and entities therefore need to set out their roles and responsibilities relating to government's outcome priorities, as part of their strategic and annual performance plans and budget submissions.

In preparing these plans and submissions, departments and public entities are expected to set out the outputs and performance indicators and targets relevant to programmes and sub-programmes (other than administration programmes). This must be considered when reprioritising the budget in the preparation of revised MTEF baseline estimates. Provincial departments must reflect their performance measures as agreed upon per sector and the performance targets set out in their annual performance plans for the upcoming financial years. By means of the formal functional MTECs agreement must be reached between departments and the Provincial Treasury on the relevant (non-financial) outputs, performance indicators and targets to be included in departmental and entity submissions.

Guidance on strategic and annual planning as well as on performance information is outlined in the Framework for Strategic Plans and Annual Performance Plans.

5. Medium term expenditure planning: Formal functional MTECs

Formal functional MTECs will have responsibility for reviewing the 2013 MTEF budget submissions of all institutions within the functional group on programme allocations, savings, reprioritisation, MTEF spending priorities, provision for personnel establishments, allocations for capital projects and earmarked transfer payments, within a three-year spending envelope approved by the Budget and Finance Committee. These hearings will be convened by the Provincial Treasury, and will provide an opportunity for independent expert advice to be heard and for consultation amongst participating departments and entities as well as representatives of the Office of the Premier (Macro Policy).

The Budget and Finance Committee will need to be advised on the reasoning behind the recommendations of the formal MTECs, and will want to see details of reprioritisation within the functional budget baseline. These recommendations will be made through a consolidated report based on individual institutions' submissions and deliberations in the formal functional MTECs. In preparing these recommendations, the MTECs will need to:

- Bring together key stakeholders contributing to a particular function to discuss policy priorities and spending pressures;
- Review departmental programme plans and public entity plans, associated outputs, performance indicators and performance targets, and their links with government's agreed priority outcomes;
- Work collaboratively, with a view to seeking consensus on 2013 MTEF recommendations, based on submissions from individual institutions;
- Assess revenue projections associated with specific programmes and entities, where relevant;
- Identify and review proposals for savings and baseline reprioritisation, taking into consideration slow spending and spending on non-priority items, among others;
- Where necessary, negotiate and make the required agreements and trade-offs between participating departments and entities to achieve effective cooperation in pursuing relevant outcomes and efficient service delivery;
- Ensure that implementation plans are in place and have been correctly costed and sequenced;
- Identify risks to service delivery and the attainment of outcomes, and appropriate mitigation measures; and
- Address cross-cutting issues within and across functions.

Table 2: 2013 Budget process: Functional groups and main related Outcomes

	National votes	Provincial votes
General Public Services (Outcomes 4, 11, 12)		
Executive and legislative organs	Presidency including National Planning Commission Parliament Traditional Affairs	Office of the Premier Provincial Legislature
Financial and fiscal affairs	National Treasury - Programmes: 1-5, 7 and 9 Public Enterprises	Finance
External affairs and foreign aid	International Relations and Cooperation National Treasury - Programme 6: <i>International financial relations</i>	
General services 1	Public Works - Programmes 1, 2 and 5 Performance Monitoring and Evaluation Public Service and Administration	Public Works sector
General services 2	Home Affairs Government Communication and Information System Statistics South Africa	
Science and Technology (Outcomes 4, 5)		
Basic research and applied research and development	Science and Technology Science Councils	
Defence, Public Order and Safety (Outcomes 3, 11)		
Defence and state security	Defence and Military Veterans National Treasury - Programme 10: <i>Financial Intelligence and State Security</i>	
Police services	Independent Complaints Directorate Police	Safety, Security and Liaison
Law courts	Justice and Constitutional Development	
Prisons	Correctional Services	
Economic Services and Environmental Protection (Outcomes 4, 7, 10)		
General economic and commercial affairs Mining, manufacturing and construction Other industries	Economic Development Mineral Resources Tourism Trade and Industry Public Works - Programme 4: <i>Property and Construction Industry</i> - <i>Construction Industry Development Board</i> - <i>Independent Development Trust</i>	Economic Development, Environment Tourism

Table 2: 2013 Budget process: Functional groups and main related Outcomes (continued)

Agriculture, forestry and fisheries Rural development and land reform	Agriculture, Forestry and Fisheries Rural Development and Land Reform	Agriculture, Rural Development and Land Administration
Environmental protection	Environmental Affairs	Economic Development, Environment Tourism
Economic Infrastructure (Outcomes 4, 6)		
Fuel and energy	Energy	
Transport	Transport	Roads and Transport sector
Communication	Communications	
Local Government, Housing and Community Amenities (Outcomes 7, 8, 9)		
Housing development	Human Settlements	Human Settlements
Local government and community development (including transfers to municipalities)	Cooperative Governance National Treasury <i>- Programme 8: Technical Support and Development Finance)</i>	Department of Cooperative Government and Traditional Affairs Finance
Water supply	Water Affairs	
Education, Labour and Related functions (Outcomes 1, 4, 5, 12)		
Arts, sport, recreation and culture	Arts and Culture Sport and Recreation South Africa Trade and Industry <i>- National Lotteries Board</i> <i>- National Lotteries Board Distribution Trust Fund</i> Cooperative Governance and Traditional Affairs <i>- The Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities</i>	Culture, Sport and Recreation
Pre-school, primary and secondary education	Basic Education	Education
Post-secondary and tertiary education Adult education Labour affairs	Higher Education and Training Labour Basic Education <i>- uMalusi Council of Quality Assurance in General and Further Education and Training</i>	Education (Further Education and Training and Adult Education Programmes)

Table 2: 2013 Budget process: Functional groups and main related Outcomes (continued)

Employment programmes	Public Works - Programme 3: Expanded Public Works Programme All Expanded Public Works Programmes in other national departments	Education Health Social Development Public Works sector Transport sector (Expanded Public Works Programme) Agriculture, Rural Development and Land Administration
Health and Social Protection (Outcomes 2, 8, 12)		
Health	Health Defence - Military Health Support Programme	Health
Social assistance	Social Development - Programmes 2 and 3 - South African Social Security Agency (SASSA)	n/a
Health and Social Protection (Outcomes 2, 8, 12)		
Social development and welfare services	Social Development - Programmes 1, 4 and 5 Women, Children and People with Disabilities Presidency - National Youth Development Agency	Social Development
Social security	Social Development - Programme 3 excluding SASSA Health - Compensation Commissioner for Occupational Diseases in Mines and Works Transport - Road Accident Fund Labour - Compensation Fund and Reserve Fund - Unemployment Insurance Fund	

6. Budget process timelines

The 2013 Budget process critical dates, applicable to provincial departments and public entities, are set out in table 3. Provincial departments and entities should note that they are expected to follow the specific requirements of the Provincial Treasury and provincial budget processes. Timelines for key budget decisions in the provincial budget process are outlined in table 4. The Provincial Treasury will solicit revised baseline estimates from provincial departments and entities by mid-August, in order for consolidated provincial estimates to be prepared.

With respect to concurrent functions, national departments must reach an agreement with their provincial counterparts about expenditure they plan to propose in the province in the 2013 MTEF, and include recommendations from meetings held by the national and provincial sector departments and the formal functional MTECs. These national departments must have separate submissions, for the national department itself and for its provincial counterparts.

Table 3: Critical dates for the 2013 budget process

Departments receive Medium Term Expenditure Framework (MTEF) guidelines and MTEF database templates	13 July 2012
Budget submission 1: Departments submit expenditure estimates, database and supplementary information following Formal functional MTEC engagements recommendations made	24 August 2012
Medium Term Expenditure Committee (MTEC)	September/October 2012
Departments submit Adjusted Estimate chapters, database and Adjustments Appropriation Bill	22 September 2012
Adjustments Appropriation and Adjusted Estimates tabled in Provincial Legislature	October 2012
Allocation letters to departments	November 2012
Departments prepare/ finalise budget and planning documentation	16 November 2012
Provincial Budget Day: 2013 Budget tabled before Provincial Legislature	March 2013

7. What must be included in budget submissions?

In compiling budget submissions for the 2013 MTEF institutions are required to ensure that the resources in their baseline allocations are effectively reprioritised towards government's twelve outcomes and other key government priorities.

Departmental submissions must be set out by programme and sub-programme. Costed expenditure estimates, in the form of the database, must be accompanied by an explanatory narrative. The narrative should include the following, where relevant:

- Statutory authority for spending programmes, and relevant policies, regulations and programme documentation;
- Contribution to identified outcomes and other key government priorities;
- Programme outputs, performance indicators and targets;
- Discussion of performance against output targets indicated in the 2011 Budget, as well as projected outputs for new policy priorities;
- Implications for job creation;
- Details in respect of proposed savings measures and reprioritisation to achieve more cost-effective service delivery or planned new activities;
- Alternative or complementary sources of funding such as revenue generated by institutions' activities, donor finance, and new public private partnerships (institutions are to include a separate sheet in the Excel workbook);

- Where relevant, details of interdepartmental, provincial or municipal implementation plans, co-funding or complementary activities, including progress on the implementation of conditional grants and scheduled information required in respect of existing or new conditional grants;
- Other relevant information; and
- A declaration of all requests made for funding from the Jobs Funds.
- Cost per head, indicative of posts planned to be filled.

Reporting against past performance

Performance information contained in submissions will be analysed to assess, among other things, whether value for money has been realised over time in respect of previous budget allocations. Reporting on performance should be based on performance indicators that

- (i) reflect policy priorities that were funded in the 2012 budget,
- (ii) relate to the twelve national outcomes,
- (iii) relate to outputs that will be achieved over the MTEF period, and/or,
- (iv) are included in provincial budgets for concurrent function departments.

In consultation with the relevant Provincial Treasury analyst, a department can report on additional performance indicators and targets that were not reported on last year, and should provide reasons if not reporting against previously published performance indicators and targets. Information must be provided for the past three financial years, the current financial year and the next three years, and all details are to be reported per programme or sub-programme.

Public entities may report against outputs specified in the shareholder compact or service level agreements between the departments and public entities, and those that have been approved by the board of directors.

Performance information for provincial departments must be reported for the same period prescribed for national departments, based on targets set in the 2012 provincial departments' annual performance plans.

When reporting for the current financial year, the progress for April to June 2012 against the 2012/13 targets must be included. Departments are to monitor their relevant entities and report on their progress against targets set for 2012/13.

Baseline assessment and reprioritisation

Baselines will be determined using the departmental indicative baseline as a starting point. The assessment of baselines should be done at programme and sub-programme level. The process and methodology used by departments in the assessment should be detailed in the

explanatory narrative submitted. The following factors should be considered when baselines are assessed:

- Funds should be reprioritised from underperforming or less significant programmes and projects to high level priorities;
- Funding for key service delivery personnel should not be reprioritised to other spending items;
- Funds that have been earmarked in the past and funds for infrastructure projects that have been planned should not be reprioritised to other spending items except when providing evidence of underperformance;
- Spending commitments associated with the twelve outcome priorities, or specific policy commitments by Members of Executive Council that have not been funded, must be prioritised within the department's own reprioritisation of funds over the 2013 MTEF period; and
- Specific savings measures and non-core spending items should be identified and costed.

It is the responsibility of CFOs to provide a summary of the programme and sub-programme baseline analysis undertaken by the department or entity. Joint review exercises that include treasury officials, where practical, should form part of this assessment process.

Database

Budget submissions must be accompanied by a completed database in the required format. This includes:

- Estimates of recurrent expenditure by programme and sub-programme, reprioritised in order to attain targeted outputs;
- Estimates of project expenditure and other non-recurrent activities by programme and sub-programme;
- Detail of reprioritisation of baseline funds;
- Performance information in related to expenditure estimates, by programme or sub-programme;
- Public entity allocation projections, linked to relevant departmental programmes and outputs, wherever possible;
- Details on infrastructure spending; and

Public entities

The 2013 MTEF functional budget approach requires departments to be conversant with the detailed information for all public entities associated with the department. This includes financial estimates and performance information, organised where appropriate in line with the entity's specific objectives and activities. Entity budgets will be discussed in the relevant Formal functional MTEC process.

A database template will be sent to each entity for completion. Broadly four types of entities have been identified: Sector Education and Training Authorities, social security funds, financial entities, and all other entities. To enable the Provincial Treasury to consolidate the entities into the consolidated government account, transactions between entities and the rest of government must be identified. For this purpose, the related party sales sheet must be completed.

Budget submissions must be accompanied by a completed database in the required format.

This includes:

- Summary of the statement of financial performance, statement of cash flow and statement of financial position;
- Costing of outputs; Job creation and employment statistics;
- Spending on infrastructure for all entities engaged in the infrastructure projects (including construction and maintenance); and
- Related party sales.

Information required in the database template must be signed off by the Accounting Officer of the entity and submitted to the Provincial Treasury. A more detailed technical guide will be distributed with the database templates. Entities are encouraged to use the technical guide.

8. Programme and public entity budget requirements

For appropriation purposes, programme budgets comprise the following main elements:

- Compensation of employees;
- Goods and services;
- Transfer payments;
- Payments for capital assets; and
- Payments for financial assets.

Details in respect of these categories need to be completed in the database template. The database also makes provision for showing the results of the reprioritisation of funds by programme, sub-programme and economic classification, in line with institutional outcomes and outputs.

In addition as the information required for costing these categories of spending varies considerably, budget submissions must be supplemented by a separate Excel workbook with costing calculation details. In order to enable consolidated expenditure estimates to be prepared, budget projections for public entities must also be organised into these categories.

Compensation of employees

The baseline allocations for departments and public entities include amounts specifically set aside for the “funded personnel establishment”. In cooperation with the Department of

Public Service and Administration, National and Provincial Treasuries aim to improve the quality and reliability of planning and budgeting for personnel costs.

Departments and entities are reminded that they are required to budget for the full costs of personnel, including increases in staff establishment, temporary or supplementary personnel, overtime allowances and other benefits, as well as the annual inflation-related adjustment. All aspects of compensation of employees funding must be provided for within the budget baseline.

For the MTEF period ahead, budgets for salaries and wages should be prepared on the basis of the following annual increases, which are calculated as per CPI projection plus 0.5 per cent:

April 2013: 5.0 per cent

April 2014: 5.0 per cent

April 2015: 5.0 per cent.

These CPI projections will be revised as and when National Treasury advises as such.

Goods and services

“Goods and services” refers to current expenditure other than compensation of employees and interest. Itemised costing of goods and services should include the main purchases required for specific programmes and activities. This is also an area of spending in which opportunities for savings and more cost-effective service delivery may be possible.

Departments or entities with responsibility for infrastructure should pay particular attention to the costing of maintenance and rehabilitation of infrastructure in costing goods and services expenditure. It should be noted that when costing infrastructure and IT capital projects, these costs should be included together with the budgeted costs for the capital asset itself.

In budgeting for goods and services, provision must be made for all inflation-related cost increases. The following CPI assumptions can be used for price increases for general goods and services for the MTEF period ahead:

2013/14: 5.5 per cent

2014/15: 5.0 per cent

2015/16: 4.6 per cent.

Transfer payments

Transfer payments include payments to households, subsidies to non-governmental organisations, subsidies to businesses, operating grants or capital contributions to public entities or education institutions, payments to international organisations and transfers to

other spheres of government. In costing or projecting these expenditures, account must be taken of their specific purpose and design and statutory or contractual requirements. Budget submissions should include details of all transfer payments, underlying cost drivers or allocation rules and relevant conditions, assessment criteria and risks.

Budget projections for all categories of transfer payments must include provision for annual inflation-related adjustments. In the absence of more directly relevant indicators, the CPI projections for the period ahead may be used for this purpose.

Payments for capital assets

Departments and public entities are expected to include details of capital projects in progress, under design or planned for the period ahead in their budget submissions.

Departments or entities with substantial infrastructure responsibilities should also provide a longer term perspective, including plans for addressing identified backlogs and future infrastructure needs.

In keeping with standard project management practice, budgeting for capital projects should include appropriate allowances for inflation-related cost escalations and provision for contingencies. Maintenance and rehabilitation costs are estimated as part of goods and services expenditure.

9. Infrastructure and capital projects/programmes

Improved planning and cost-effective implementation of infrastructure projects are key requirements for strengthening capacity of the economy and ensuring that services are available to all South Africans.

National and provincial departments and public entities are reminded of the requirement to prepare User Asset Management Plans, in keeping with the provisions of the Government Immovable Asset Management Act. Provincial departments, and national departments administering conditional grants, should also note the requirements of the Division of Revenue Act No 5 of 2012 in this regard. A valuable contribution to improved infrastructure planning and management is also made by the Construction Industry Development Board (CIDB) toolkit, which is of particular relevance to departments with extensive building and construction works programmes. The toolkit is available on the CIDB website at [www.cidb.org.za].

National Treasury has issued the 2012 Capital Planning Guidelines, aimed at more rigorous evaluation of project lifecycle costs, benefits and risks, at improving the prospects that projects are implemented on time and within budget, and at ensuring that capital spending yields the intended outcomes and service delivery improvements. These guidelines signal the beginning of continuous appraisal and evaluation of capital projects. Large and mega projects will now be evaluated on an ongoing basis throughout the year against rigorous evaluation criteria. The annual budget process timelines will provide the opportunity for projects which have been appraised to be submitted for funding consideration. Large and

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mega projects that have not been appraised, will not qualify for funding consideration. Institutions are encouraged to carry out planning for their infrastructure projects on an ongoing basis so that they are properly aligned with their asset management plans.

Infrastructure projects plans and expenditure estimates of departments and public entities, including detailed supporting documentation, must be included in budget submissions to the Provincial Treasury which is due on the **24th August 2012**.

In several national and provincial departments, capital spending and maintenance of infrastructure has fallen short of both plans and budget allocations in recent years. For the purposes of the 2013 Budget, national and provincial treasuries will seek clear assurances that spending capacity and the required human resource and management capacity are in place, before allocations for infrastructure projects are made. Where necessary, funds will be shifted from underperforming programmes or entities, or will be postponed until future years.