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PROVINCIAL TREASURY CIRCULAR NO. 34 OF 2021

TO:-

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**HEAD: CO-OPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS VOTE 4:
(MR S NGUBANE)**
**HEAD: AGRICULTURE, RURAL DEVELOPMENT, LAND AND ENVIRONMENTAL AFFAIRS
VOTE 5 :(MR C CHUNDA)**
**HEAD: ECONOMIC DEVELOPMENT AND TOURISM (ACTING): VOTE 6:
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HEAD: EDUCATION VOTE 7: (MS L MOYANE)
HEAD: PUBLIC WORKS, ROADS AND TRANSPORT VOTE 8: (MR MC MOLORO)
**HEAD: COMMUNITY SAFETY, SECURITY AND LIAISON (ACTING): VOTE 9:
(MR GS NTOMBELA)**
HEAD: HEALTH (ACTING): VOTE 10: (MS DS MDLULI)
HEAD: CULTURE, SPORT AND RECREATION: VOTE 11: (MR GS NTOMBELA)
HEAD: SOCIAL DEVELOPMENT: VOTE 12: (MR SM MTSWENI)
HEAD: HUMAN SETTLEMENTS (ACTING): VOTE 13: (MS H ZITHA)

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(MS H MDAKA)**
**THE CHIEF FINANCIAL OFFICER: VOTE 9: COMMUNITY SAFETY, SECURITY AND
LIAISON (MS S SEFALA)**
THE CHIEF FINANCIAL OFFICER: VOTE 10: HEALTH (MR PP MAMOGALE)
**THE ACTING CHIEF FINANCIAL OFFICER: VOTE 11: CULTURE, SPORT AND
RECREATION (MR M THOBELA)**
THE CHIEF FINANCIAL OFFICER: VOTE 12: SOCIAL DEVELOPMENT (MS MOJAPELO)
THE CHIEF FINANCIAL OFFICER: VOTE 13: HUMAN SETTLEMENTS (MR SB NYOKA)

PROVINCIAL TREASURY CIRCULAR NO. 34 OF 2021

FIRST DRAFT BUDGET SUBMISSIONS FOR 2022 MTEF

In terms of Treasury Regulation 5.1, the Accounting Officer of an institution must prepare a plan that is consistent with the period covered by the Medium Term Expenditure Framework (MTEF) for approval by the executive authority.

The following policy guidance should be taken into account when preparing the budget submission:

- There are **NO additional resources** available for allocation over the 2022 MTEF period. This means that additional allocations to a programme will need to be funded by reductions in funding for another programme, either within the department's budget. This may involve the scaling down of non-priority programmes and projects, changing service delivery models, using technology more effectively, etc.
- For this draft there will be no adjustments on the baseline for 2022/23 and 2023/24. Non-recurrent allocations ending in 2023/24 must be excluded from the 2023/24 baseline, for the purposes of calculating 2024/25 and a nominal baseline increase must be applied in 2024/25.

COSTING ASSUMPTIONS

In budgeting for non-personnel expenditure items within the department's budget baseline, the following projections can be utilised to inform the provisions that departments choose to make for general price increases over the 2022 MTEF period:

Consumer Price Index (CPI)

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

In budgeting for **Compensation of Employees** with the department's baselines, the following projections can be utilised over the 2022 MTEF:

- 2022/23 financial year: 0 per cent (excluding housing allowance and medical contributions);
- 2023/24 financial year: 0 per cent (excluding housing allowance and medical contributions);
- 2024/25 financial year: 4.49 per cent (CPI);

Provincial departments must also make sure that sufficient provision is made for pay progression of 1.5 per cent in each of the 2022 MTEF financial years. Housing allowance must also be increased by CPI while medical contributions are increased by medical price index which is estimated at CPI plus 4 per cent based on previous trends.

The attached National Treasury's **2022 MTEF Guidelines for the Costing and Budgeting for Compensation of Employees** as well as the **2022 MTEF Technical Guidelines** must be consulted for more details in preparation of expenditure estimates for the 2022 MTEF.

Submission Requirements

All Votes and Public Entities are requested to submit **budget explanatory narrative report** supported by the completed **2022 MTEF Database** issued including **spending reviews workbook** as well as **detail cost per head** on or before **13 August 2021**.

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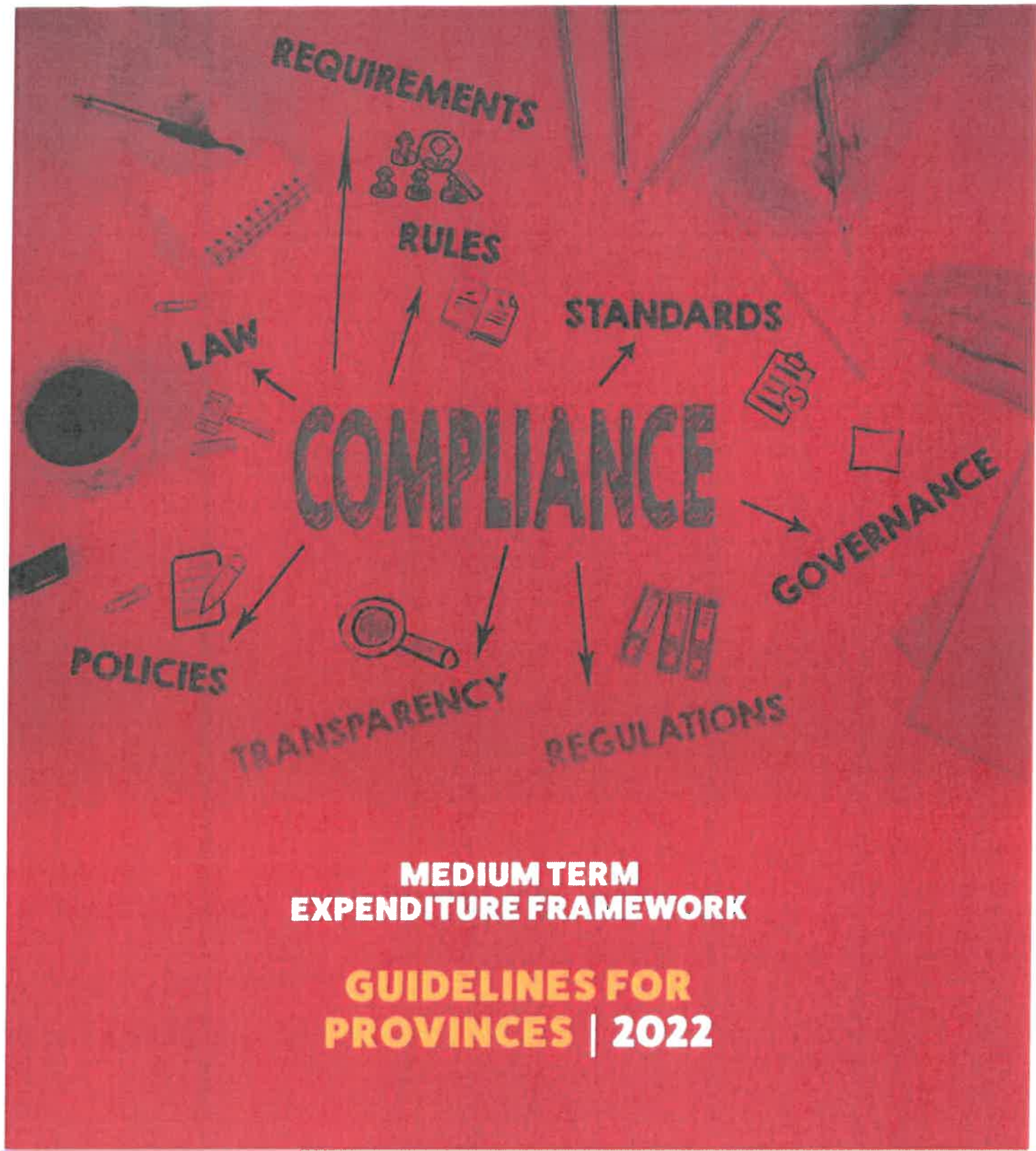
The Provincial Treasury will be conducting a 2022 MTEF Budget Preparation Workshop to assist departments on Wednesday, 28 July 2021 commencing with guidelines discussions with CFOs then taking technical officials through the templates.

Your co-operation in this regard is highly appreciated.

Regards,



MS G. MASHITENG
HEAD: PROVINCIAL TREASURY
DATE: 21 / 07 / 2021



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA





national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2022 MTEF Technical Guidelines for Provinces

**GUIDELINES FOR THE PREPARATION OF
EXPENDITURE ESTIMATES FOR THE
2022 MEDIUM TERM EXPENDITURE
FRAMEWORK (MTEF)**

July 2021

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

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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 public institutions with guidance on how to prepare their medium-term budget estimates for the 2022 Budget.
- 1.2. The aim of these technical guidelines is to ensure that the documentation prepared by provincial departments and other provincial institutions provide all the relevant information on the main strategic proposals and recommendations in respect of the budget as required by the budget decision-making structures, such as Budget Council, MINCOMBUD, Cabinet and Provincial Executive Councils.

Economic Outlook

- 1.3. The macro-economic environment remains constrained. Consequently, 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. Further reductions for year 2022/23 and 2023/24 are not anticipated.
- 1.4. The Government must continue to focus on interventions that mitigate the negative impact 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 national 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 the year 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. Programme budgets have grown with little consideration for their usefulness and the value for money they deliver.
- 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 The ZBB reform 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 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 individual accounting systems will be utilised in a series of systematic steps, analysis of expenditure, estimation of unit costs, and analysis of cost drivers. These expenditure analysis inform cost models that anticipate different spending scenarios and articulate the impact on service delivery for such scenarios.
- 2.2.3 From the 2022 MTEF, Provincial Treasuries are encouraged to undertake and institutionalise the spending reviews process at a provincial level. The GTAC has

undertook various capacity building processes by training officials in both the National and Provincial Treasuries to undertake the spending reviews. The spending reviews already conducted by provincial officials in 2019 provide a good start for most provinces in institutionalising the process.

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 significant portion 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 focusing on the expenditure item.
- Secondly, the efficiency gains identified on the spending reviews must be incorporated into the department's budget submissions.

2.2.5 The outcomes of previous and current spending review will also inform the discussions at function group meetings. Similarly, the Provincial Treasuries led spending reviews should inform the budget discussions during the provincial budget process.

2.3 Other reforms in the pipeline are described in section 8 below.

3. PRINCIPLES FOR THE 2022 MTEF

This budget is 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, provincial departments are not expected to submit any requests for baseline increases unless instructed to do so by the relevant Provincial Treasury.
- 3.2. This means that any additional allocations to a programme will need to be funded through reductions in another programme, 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 the spending framework, unless this has been expressly discussed by and/or approved by Provincial Executive Councils.
- 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 MTEF Guidelines for the Costing and Budgeting for Compensation of Employees**.

- 3.6. There will not be a 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 submitted to the National Treasury by **20 August 2021**.
- 4.2. The primary budget submission of a provincial department to the Provincial Treasury 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. Comprehensive submission, covering all the expenditure proposed for appropriation against a vote, including transfers to public entities/institutions and municipalities.
- 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 provincial 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

A complete budget submission consists of the following requirements:

- 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. Provincial Treasuries need to consolidate these narratives and submit with the 2022 MTEF database to the National Treasury by **20 August 2021**.
- 5.2. The narrative report must be a comprehensive report that includes the following elements, together with their underlying reasoning:
 - Departments need to explain the alignment of their budgets and identify key policy priorities that guide resource allocation;

- **Spending reviews and other related reductions/ reprioritisation (where applicable):** 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. This must also include an explanation of baseline increases and decreases 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. The budget implications must be quantified, and a rationale must be provided for the source of funding.
- **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 (as outlined in the Budget Prioritisation Framework: Towards Budget 2022). The budget implications must be quantified, and a rationale must be provided for the source of funding.
- **Public Institutions/entities:** must give a summary of the financial status and policy imperatives in respect of the public institutions receiving transfers from the department. Public institutions/ entities must demonstrate how they will address any cost pressures within existing baselines, given that there are no additional funds available for allocation. This information regarding the public entities should be considered by the provincial departments in preparation of their inclusive budget submission to the Provincial Treasury.
- **Human resource planning and budgeting:** The human resources narrative should explain the departments' plans and intentions in respect of the establishment of headcount management, recruitment, and human resource development within the compensation of employees' expenditure baselines/ceilings set by Provincial Treasuries. 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. 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/> .
- **Value-for-money** must explain the departments' plans to improve efficiency, realise savings, contain costs and improve value-for-money, with particular reference to supply chain management, procurement and strategic sourcing. Savings realised through the value-for-money plan could be reallocated towards

priority areas. Guidance on the initiatives undertaken by the Office of the Chief Procurement Officer (OCPO) to decrease procurement costs can be found on the OCPO website.

- In determining 2022 MTEF budget proposals, institutions must not reprioritise funding away from on-going infrastructure projects. Reprioritisation of infrastructure projects must be done within the scope of the institution's infrastructure plan, and target projects still in their planning phase. Cognisance of the life cycle costs must be taken into account, including maintenance and operational requirements, regarding all capital infrastructure. The Capital Planning Guidelines must be consulted in this regard.
- 5.3. **MTEF databases:** The data submission consists of the departmental and public entities databases that provide data to support the information contained in the institution's budget explanatory narrative submission. First draft budget submissions must be received by the National Treasury by **20 August 2021**. These data submissions inform budget engagements at functional and sub-functional group meetings.
 - 5.4. **Estimates of Provincial Revenue and Expenditure (EPRE) chapters:** The information contained in these chapters intends to provide stakeholders with sufficient detail of what departments and public entities intend to achieve in the coming MTEF period. The EPRE chapters must be submitted together with the 2nd draft budget submission on the **19th of November 2021**.
 - 5.5. **Conditional grant business plans:** Conditional grants for the year ahead require that the business plans be submitted two weeks after the Division of Revenue Bill has been enacted. Business plans seek to promote sufficient planning at provincial level before the eventual execution that requires funding. Planning should focus on how their envisioned activities for the year, using conditional grant allocations, allow them to appropriately apportion funds to achieve the government's priority that each grant seeks to address.
 - 5.6. Although business plans are submitted yearly, they technically form part of a much longer planning horizon, particularly where infrastructure is concerned. As such the business plan for the year shows the activities that will be carried out for a year, and how the activities link with outputs, and in the long run address the priorities under which the grant was created. It is important to ensure that the dates, activities that will take place, the outputs expected from the activities, and when they are expected, are spelt out. This is especially important for activities that are sequential and are required before other activities can be carried out.
 - 5.7. ~~Based on an activities and output execution plan, the projected cash flow, matching the dates of the activities will need to be provided.~~ Activities, outputs, and cash flow projections are necessary but not the only inputs into business plans. Business plans should also demonstrate how activities will allow the achievement of some outputs, which should eventually be linked to the outcomes of the grants. Risks to the projected activities and their mitigation strategies should also be spelt out. Business plans templates provided by the national departments responsible for monitoring the grants should be a guiding principle when drafting plans.

- 5.8. **Infrastructure:** Infrastructure projects and programmes must be undertaken following the Infrastructure Delivery Management System supported by the Framework of Infrastructure Delivery and Procurement Management (FIDPM). Infrastructure (User) Asset Management Plan must be prepared and updated annually outlining the asset activities and resources required, to provide a defined level of service, in the most cost-effective way. The plan must include a list of programmes and projects for a minimum period of five years or more. The IAMP/UAMP must inform the development of the Infrastructure Programme Management Plan (IPMP) and Infrastructure Procurement Strategy (IPS) which specifies what the department intends to achieve in the next 3 years of implementation of projects/programmes. This will ensure that all programmes implemented over the MTEF period are aligned with broader strategic objectives of government.
- 5.9. The infrastructure investments in the IPMP should inform the project list that must be tabled as part of EPRE (Table 5) which comprises of project/programmes that are committed and have not been completed (all projects that have not reached hand-over/final completion) and additional projects/programmes to be implemented over the MTEF. The Infrastructure Reporting Model (IRM) is configured to allow the capturing of Table B5 information. Departments are required to capture project/programme information on the Table B5 report of the IRM and only capture the summary of the financials per nature of investment on the MTEF database. The departments will further be able to export the information from the IRM for EPRE publication.

6. DATA SUBMISSIONS AND COSTING ASSUMPTIONS

- 6.1. Information contained in the department's budget explanatory narrative report in the section, must be supported by relevant **National Treasury 2022 MTEF Databases** including **any other relevant workbooks** that would be issued to provinces.
- 6.2. When working with the 2022 MTEF Database, note that:
- The MTEF database has incorporated the impact of the efficiency gains on future budgets. As far as reasonably possibly, this must be done at lowest economic classification.
 - Non-recurrent allocations ending in 2023/24 must be excluded from the 2023/24 baseline, for the purposes of calculating 2024/25. Technical adjustments must be effected, where applicable.
 - In budgeting for non-personnel expenditure items within the department's budget baseline, 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 (CPI)
- 2022/23 financial year: 4.23 per cent;

- 2023/24 financial year: 4.45 per cent;
- 2024/25 financial year: 4.49 per cent;
- In budgeting for **Compensation of Employees** with the department's baselines, the following projections can be utilised over the 2022 MTEF.
 - 2022/23 financial year: 0 per cent (excluding housing allowance and medical contributions);
 - 2023/24 financial year: 0 per cent (excluding housing allowance and medical contributions);
 - 2024/25 financial year: 4.49 per cent (CPI);
 - Provincial departments must also make sure that sufficient provision is made for pay progression of 1.5 per cent in each of the 2022 MTEF financial years. Housing allowance must also be increased by CPI while medical contributions are increased by medical price index which is estimated at CPI plus 4 per cent based on previous trends.
 - National Treasury's **2022 MTEF Guidelines for the Costing and Budgeting for Compensation of Employees** must be consulted for more detailed costing assumptions.
(It is available at: <http://www.treasury.gov.za/publications/guidelines/>)
- Provincial departments and their respective public entities/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.

7. OTHER SUBMISSIONS

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

- 7.1. **Large Infrastructure Projects:** As directed by Cabinet, National Treasury is working with the Presidential Infrastructure Coordinating Commission (PICC) Secretariat and the Department of Planning, Monitoring and Evaluation (DPME) in managing the operations of the Budget Facility for Infrastructure (BFI). This 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/>.

8. BUDGET PROGRAMME STRUCTURE CHANGES

- 8.1. On 30 June 2021, the State President, His Excellency Mr MC Ramaphosa signed a proclamation authorising the transfer of some Early Childhood Development activities from the Minister of Social Development to the Minister of Basic Education with effect from 01 April 2022 (refer to **Proclamation Notice 21 of 2021**). As such the budget and programme structure for the Basic Education sector was revised after the national Department of Basic Education (DBE) consulted both its stakeholders within the sector, and the National Treasury. An additional sub-programme named, **Sub-programme 5.3: Pre-Grade R in Early Childhood Development Centres** was added under programme 5: Early Childhood Development for the 2022 MTEF budget submissions. As such the Provincial Treasuries are expected to facilitate the function shifts process between these departments at provincial level.

9. THE BUDGET PROCESS AND REFORMS

- 9.1. The MTEF details three-year rolling expenditure and revenue plans for provincial departments and public entities.
- 9.2. The MTEF budget process is designed to match the overall resource envelope, estimated through 'top-down' macro-economic and fiscal policy processes, with the bottom-up estimation of the current and medium-term cost of existing departmental plans and expenditure programmes.
- 9.3. The budget process ensures that resources are allocated to meet South Africa's developmental needs and priorities, and to improve the quality and effectiveness of spending within sustainable fiscal limits.
- 9.4. Draft annual performance plans must be submitted to Offices of the Premier on the **31st of October 2021** and National Treasury requires Provincial Treasuries to submit a second budget submission and Estimates of Provincial Revenue and Expenditure (EPRE) on **19 November 2021** in line with the issued preliminary budget process for 2022 MTEF.

Provincial budget process

- 9.5. In order to enhance the integration of policy alignment, planning, budgeting and implementation, provincial MTECs should be used as one of the platforms that encourage joint planning between departments, municipalities and public entities. This will further promote the alignment of provincial budgets with strategic planning documents such as the provincial and local government economic development strategies, the National Development Plan (NDP), 2019-24 MTSF, IDPs and the District Development Model approaches in support of inclusive growth and transformation.

- 9.6. Provincial MTEC committees should make recommendations to provincial MINCOMBUD equivalent, Premiers' Budget Committees, Provincial Executive Councils and other political structures tasked with taking final decisions on the budget proposals. Discussions at provincial MTECs should be led and chaired by Provincial Treasuries, which also assess the allocative efficiencies of provincial budgets, taking into account the current fiscal climate affecting the provincial fiscal framework. However, it is highly recommended that the MTEC committees in provinces also be inclusive of other stakeholders in provinces such as:
- *Head of Provincial Planning Unit*, who is working in the Offices of the Premier in most cases. This is to ensure that budget proposals presented by provincial departments align to the strategic direction of both the province and the national government. Departments will have to demonstrate the responsiveness of their budget to the policy and delivery context envisaged by government.
 - *Head of Provincial Spatial Planning Unit*. This should aim to ensure that departments' plans and budgets transversally align to and support one another in a space and jointly with other spheres of government target the predetermined spatial locations for maximum impact. Some of the spatial challenges that the country face, include the highly fragmented spatial development, dispersed developments, and socioeconomic fragmentation and polarisation, with the poorest communities often located far from economic and social opportunities. Therefore, the integration and alignment of planning and budgeting should seek to promote local economic development while improving the quality of life.
 - *Senior officials from the Department of Cooperative Governance/Local Government* responsible for the assessment of municipal IDPs and implementation of the **District Development Model**. This should aim to promote a better coordinated approach to integrated planning between national, provincial and local government. Both provincial departments and municipalities should be encouraged to respond on the extent to which government priorities have been integrated into their various planning processes as well as policy and budget documents.
 - Any other relevant officials from provincial departments responsible for transversal functions.

Benchmark Process

- 9.7. National Treasury's led benchmark exercise has evolved since the 2002 MTEF. The main objectives of the Benchmark exercises are to assess to what extent provincial MTEF draft budgets give effect to the agreed sector priorities. These deliberations also highlight possible risks in the budgets and propose measures to manage these risks
- 9.8. The main objectives of the Benchmark exercise meetings to be held in between December 2021 and January 2022 are to:
- Assess provincial MTEF draft budget including the extent to which the province's budget gives effect to the agreed social sector priorities.

- Highlight possible risks in the budgets and propose measures to manage these risks;
- Give a critical view of the draft provincial budget as per the November submissions;
- Highlight key issues and challenges from National Treasury’s perspective; and reach an agreement on key aspects affecting the provincial budget;
- In addition to budget assessment, focus is on improving efficiencies:
 - Participation in the transversal contracts and the efficiencies gained;
 - Impact of the implementation of personnel headcount and personnel expenditure control measures;
 - PFMA compliance – Irregular, fruitless and wasteful expenditure, and unauthorised expenditure;
 - Management of accruals and how cash management strategies could be used to address accruals and payables not recognised;
 - Debt owed by provincial departments and the strategy to address it.
- The focus is also public entities finances, investments in provincial economies, infrastructure, and procurement reforms

9.9. Critical dates for the provincial budget process are provided in the table below. Provincial departments and public entities follow the specific requirements of their own treasuries and provincial budget processes. These guidelines should thus be read together with the Provincial Budget Process Calendar and Guide for Provincial Budget Formats.

| | DATE |
|--|---------------------------------|
| Provincial MTEF technical guidelines issued | 16 July 2021 |
| Technical Committee on Finance Lekgotla (Strategic Discussion on Economic Recovery) | 16 July 2021 |
| Provincial treasuries submit first draft 2021 Budgets to National Treasury: database and narratives | 20 August 2021 |
| Technical Committee on Finance meetings | Occurs every two weeks |
| Budget Council and Budget Forum meetings | TBC |
| Tabling of Medium-Term Budget Policy Statement | November 2021 |
| Preliminary allocation letters issued to provinces – equitable share allocations (2 days after MTBPS) | November 2021 |
| Provincial treasuries submit 2nd draft 2021 Budgets to National Treasury: database and Estimates of Provincial Revenue and Expenditure | 19 November 2021 |
| Final conditional grant frameworks submitted to National Treasury by national departments | 02 December 2021 |
| Provincial benchmark exercise for 2021 Budget | 1 – 10 December 2021 |
| Preliminary conditional grants allocation letters issued to provinces | December 2021 |
| Final PES allocation letters issued to provinces (Mid-February, after Cabinet sitting) | February 2022 |
| Provincial 2021 Budgets tabled at provincial legislatures | End February / Early March 2022 |

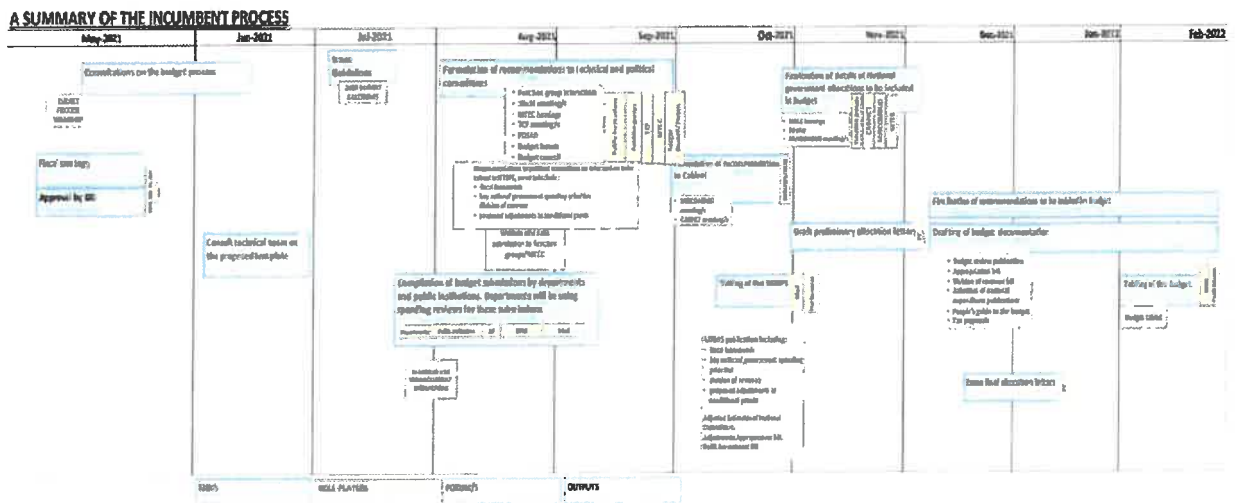
10. CRITICAL NATIONAL DATES

| ITEM | DATE |
|---|---|
| 2022 MTEF guidelines issued (National and Provinces) | 16 June 2021 |
| Information sessions with institutions on MTEF technical guidelines and database | July 2021 |
| 2022 MTEC submission workbooks/ databases issued | 20 July 2021 |
| Institutions submit proposals for budget programme structure revision | 30 July 2021 |
| 2022 MTEF Submission from institutions | 12 August 2021 (National) 20 August 2021 (Provinces) |
| 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 |

11. 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 and Fisheries, 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, Employment Creation Facilitation Fund and National Treasury (Programme 7) |
| | Economic regulation and infrastructure | Mineral Resources and Energy (remaining Energy functions), Transport, Environment, Forestry and Fisheries (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 |
| | External affairs | International Relations and Cooperation, National Treasury |

12. SUMMARY OF THE NATIONAL BUDGET PROCESS



13. 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 that 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 that fruitful, therefore, the National Treasury is undertaking a process to refine the objectives, assess capacity needs and raise awareness within government departments and entities 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.

Human Resource Budget Planning (HRBP): National Treasury will be piloting the Human Resource Budget Planning (HRBP) tool in selected provinces during the 2022 MTEF budget process with anticipated full roll out across provinces in the 2023 MTEF. The tool which is currently used by national departments will also assist provincial departments to compile more accurate personnel budgets. Compensation of employees is ordinarily a major component of each department's budget and if budgeted for more accurately, the budget on the whole should be more precise.

**MEDIUM TERM
EXPENDITURE FRAMEWORK**

**TECHNICAL
GUIDELINES | 2022**

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