

BUDGET PROCESS AND DOCUMENTATION

Pempal study tour to the National Treasury

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Purpose of the budget

The budget is a key statement of policy of the government. It is the process through which choices have to be made about competing priorities

- **The budget must meet 3 functions**
 - Spending, taxation and borrowing must support economic objectives
 - Resources must be allocated to where political priorities are
 - Budget and budget information must be tools to improve quality and effectiveness of spending
- **The budget must be comprehensive in covering the public sector; must include**
 - Public entities and agencies
 - Donor receipts (both cash and in-kind)

INTER-GOVERNMENTAL CONTEXT

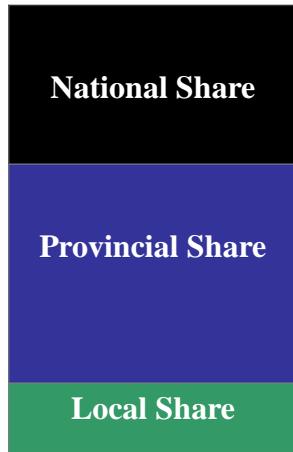


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Spheres of government

- **Constitution**
 - Establishes three distinct but interrelated spheres of government, each with an elected executive
 - Assigns powers and functions to each of the three spheres
 - Forces spheres to cooperate in the delivery of concurrent functions
 - Assigns revenue sources by sphere
- 1 national budget, 9 provincial budgets and almost 300 municipal budgets
- Executives decide on where to allocate resources

Functions of the spheres



National government:

- Delivers policing, foreign affairs, defence, higher education
- Makes policy
- Sets priorities through legislation, norms and standards or political statements

Provinces:

- Deliver school education, health, social welfare
- Generally fund national priorities

Municipalities:

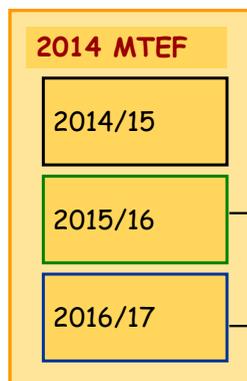
- Deliver water, sanitation, refuse removal
- Have more autonomy on what their resources are spent on

NATIONAL BUDGET PROCESS

Role-players in the budget process

- Role-players in the Executive
 - Medium Term Expenditure Committee (MTEC)
 - Minister's Committee on the Budget
 - Cabinet
 - Extended Cabinet
- Departments
- Required by the Constitution and Intergovernmental Fiscal Relations Act:
 - Financial and Fiscal Commission (FFC)
 - Provincial governments - the Budget Council
 - Organised local government - the Budget Forum
 - Various intergovernmental forums exist at both the executive and official level to give effect to the constitutional imperative for cooperative governance
- Relevant entities and donors
- Legislatures
 - Portfolio Committees, Finance Committees, Appropriations Committees
 - National Assembly
 - National Council of Provinces
- Provincial Legislatures

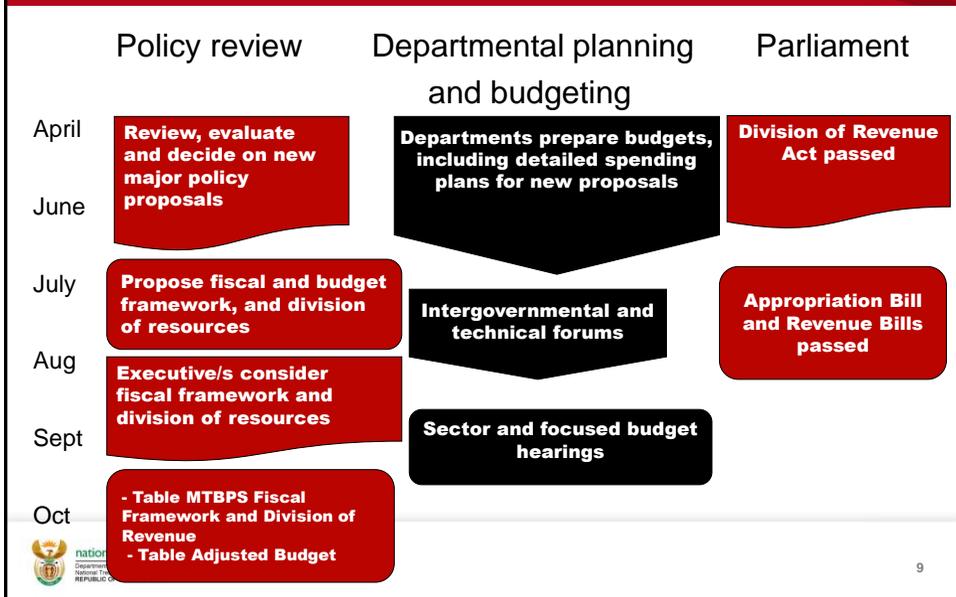
Budget is compiled for three years but revised annually



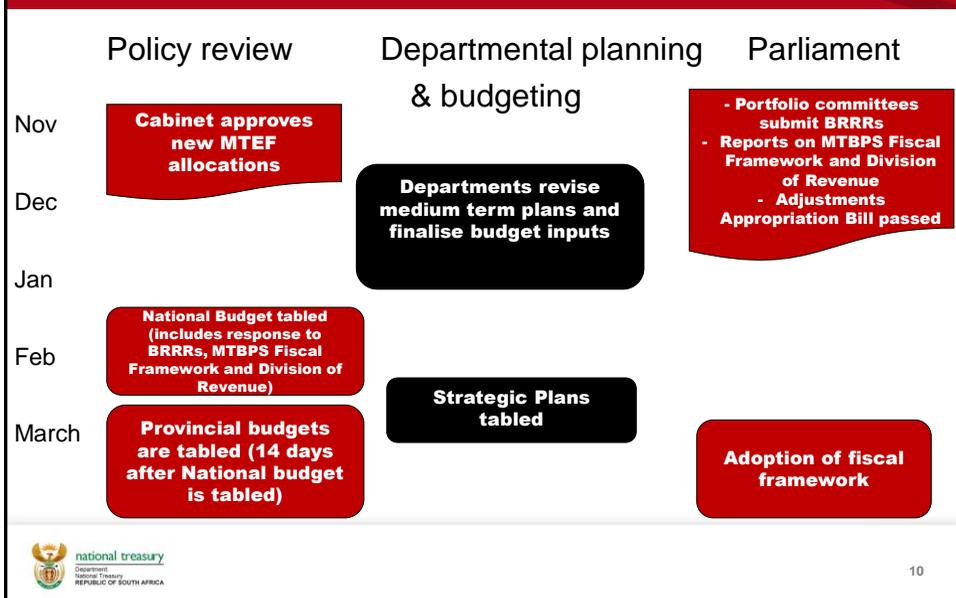
Changes to baseline

- Revised macroeconomic and fiscal framework
- 3rd year = forecast inflationary increase on 2nd year
- Budget reductions or additions
- Technical adjustments

Budget cycle key milestones



Budget cycle key milestones cont.



Budget preparation summary

- Departments submit their estimates of expenditure for the MTEF based on their strategic plans and other plans
- Performance indicators contained in submissions are aligned to those reflected in strategic and annual performance plans as informed by the Medium Term Strategic Framework and the National Development Plan
- The MTEC, an interdepartmental committee - comprising of representatives from National Treasury, Departments of Public Service and Administration, Planning, Monitoring and Evaluation, and Cooperative Governance - considers the allocation of funds in respect of each function in line with the outcomes approach
- MTEC makes recommendations to Ministers' Committee on the Budget
- Recommendations are then taken to Cabinet
- Medium Term Budget Policy Statement tabled – highlighting key government priorities, fiscal framework and division of revenue
- Allocation letters are sent out, including the provision for earmarking certain amounts or set conditions
- Budget documents are then prepared

 Adjustments estimates process is based on Sec 30 (1) and (2) of PFMA culminating in tabling of the Adjustment Budget

Adjustments Budget

- Public Finance Management Act, Act 1 of 1999 (PFMA), section 30(2), states that the adjustments budget may provide for:
 - Significant and unforeseeable economic and financial events affecting the fiscal targets
 - Unforeseeable and unavoidable expenditure recommended by a committee of Cabinet
 - Any expenditure in terms of section 16, which governs the use of funds in emergency situations
 - Money to be appropriated for expenditure already announced by the Minister during the tabling of the annual budget. In certain instances, an amount to be allocated for the three years of the MTEF period for a specific purpose will be announced by the Minister when the main budget is tabled, but the details of the annual allocations are only decided on later
 - The shifting of funds between and within votes
 - Utilisation of savings under a main division of a vote to defray over-expenditure on another main division in terms of section 43, which governs the use of virements
 - The roll-over of unspent funds from the preceding financial year

Budget documents – tabled in February

- **Budget Review**
 - Economic outlook
 - Fiscal framework
 - Tax policy
 - Assets and liabilities
 - Summary of medium term expenditure and division of resources
- **Division of Revenue Bill**
 - Division of revenue among the 3 spheres of government for first year of MTEF cycle
 - Conditions on certain types of expenditure
- **Appropriation Bill**
 - Appropriation for first year of MTEF cycle by vote and economic classification
 - Amounts exclusively appropriated
 - Only Parliament may approve virements in this regard
- **Estimates of National Expenditure**
 - Explanatory memoranda to the Appropriation Bill
 - Policy developments and service delivery achievements and commitments alongside 7 year numbers. Includes information on public entities
- **Peoples' Guide**
 - A popular version of the main points in the budget
- **Revenue Bills**

Budget documents – tabled in October

- **Medium Term Budget Policy Statement**
 - Key priorities
 - Economic outlook and fiscal framework
 - Medium term expenditure framework
 - Division of revenue between the three spheres, including the allocation to conditional allocations
- **Division of Revenue Amendment Bill**
 - Amends current year allocations to provinces and municipalities
- **Adjustments Appropriation bill**
 - Adjustments to current year appropriations originally tabled in February by vote and economic classification
- **Adjusted Estimates of National Expenditure**
 - Explanatory memoranda to the Adjustments Appropriation Bill
 - Specifies adjustments in respect of each category of expenditure adjustment permitted in terms of s30(2) of the PFMA (See slide 12)
- **All budget documentation is available on www.treasury.gov.za. Additional information is also available on the internet such as the Estimates of National Expenditure e-publications per vote and detailed Microsoft excel files.**

Parliamentary process

- Individual **portfolio committees** consider the budget and strategic plan for each department
- The budget is considered by **standing committees on finance and appropriations** comprising members of both houses
 - Fiscal Framework approved/amended, then Division of Revenue and then Appropriation Bill
- In respect of the MTBPS, reports are issued by **Parliament** on the medium term expenditure framework's fiscal framework and division of revenue, before the executive finalises the budget
- Parliamentary Committees table **Budgetary Review and Recommendation Reports**
- National Budget tabled includes response to BRRRs, MTBPS Fiscal Framework and Division of Revenue
- **National Treasury** briefs Parliamentary Committees on the documents/ bills tabled at different points in the Budget cycle
- National Treasury provides **quarterly expenditure reports** to Parliamentary Committees
- **Public accounts committee** deals with post-facto issues raised by auditor general

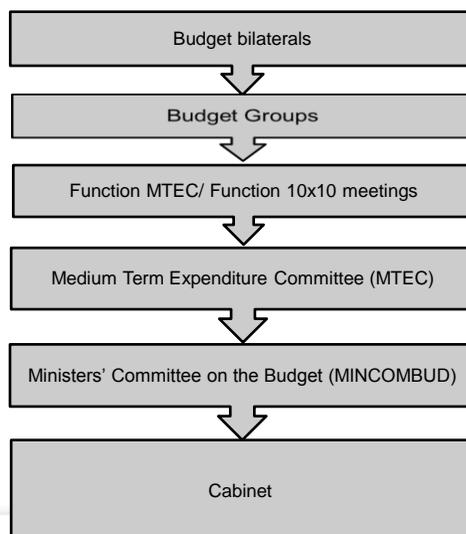
Function approach to budgeting

- The Budget is designed around the framework of function budgeting, which categorises expenditure based on the policy objectives which the expenditure is intended to achieve
- Function groups contain all government institutions that contribute to achieving a particular function - national, provincial departments and respective entities
 - Generally function groups are subdivided into Budget groups for purposes of discussion and engagement during the technical phase of the budget process
 - Budget groups are aligned with particular outcomes specified in the Medium Term Strategic Framework
- Implies a discussion of the relationship between budget allocations and the design of policy frameworks, institutional arrangements and delivery models that seek to achieve a particular outcome
- Budget process must also consider:
 - Each of the three spheres of government, particularly whether the division of revenue proposed between the three spheres is equitable
 - Public entities and state owned companies; and risks and opportunities on the broader public sector balance sheets

Functions and budget groups

FUNCTION MTEC	BUDGET GROUP	MTEC OUTCOME	NDP
1. BASIC EDUCATION	A: Basic Education	[1] Quality basic education	Chapter 9
2. HEALTH	B: Health	[2] A long and healthy lifestyle	Chapter 10
3. DEFENCE, PUBLIC ORDER AND SAFETY	C: Defence and State Security	[3] All people in South Africa are and feel safe	Chapters 12 & 14
	D: Police Services		
4. POST SCHOOL EDUCATION & TRAINING	E: Law Courts and Prisons	[5] A skilled and capable workforce	Chapter 9
	F: Post School Education and Training		
5. ECONOMIC AFFAIRS	G: Industrial Development, Trade and Innovation	[4] Decent employment through inclusive economic growth	Chapters 3 & 5
	H: Employment, Labour Affairs and Social Security Funds	[10] Protect and enhance our environmental assets and natural resources	
	I: Economic Infrastructure and Network Regulation	[6] An efficient, competitive and responsive economic infrastructure network	Chapter 4
6. LOCAL ECONOMIC DEVELOPMENT & SOCIAL INFRASTRUCTURE	J: Housing Development and Social Infrastructure	[8] Sustainable human settlements and improved quality of household life	Chapter 8
	K: Rural Development and Land Reform	[9] Responsive, accountable, effective and efficient local government	Chapter 13
	L: Arts, Sport, Recreation and Culture	[7] Vibrant, equitable, sustainable rural communities contributing towards food security for all	Chapter 6
	M: Executive and Legislative Organs	[14] Nation building and social cohesion	Chapter 15
7. GENERAL PUBLIC SERVICES	N: General Public Administration and Fiscal Affairs	[12] An efficient, effective and development oriented public service	Chapter 13
	O: Home Affairs		
	P: External Affairs and Foreign Aid	[11] Create a better South Africa, a better Africa and a better world	Chapter 7
8. SOCIAL PROTECTION	Q: Social Development and Welfare Services	[13] Social protection	Chapter 11

Technical structure of the 2015 MTEC process



Technical structures

- **Budget bilaterals** are meetings convened between National Treasury and senior finance and programme officials in each institution
- **Budget groups** consider submissions by institutions and make recommendations on the budget allocations in the medium term expenditure framework (MTEF) to Function MTEC/ Function 10x10, Technical Committee on Finance as well as MTEC meetings
- **Function MTEC** considers the report of the Budget group leader
 - Composed of DGs and other senior policy makers from the institutions responsible for the outcomes of a particular function
 - Assesses broad alignment of resources behind government's policy objectives
- **Function 10x10** may substitute, or complement, the role of a Function MTEC in function areas with a large degree of concurrent powers, e.g. health, basic education, local economic development and social infrastructure
 - Composed of heads of department of the nine provincial and one national lead department in the function together with their finance counterparts
- **MTEC** considers the report of the Budget group leader and make recommendations on the budget allocations in the MTEF to MINCOMBUD

National Treasury's technical role

- Provide the overall Fiscal Framework based on the macroeconomic forecast
- Propose the Division of Revenue between the 3 spheres based on above, and decisions made at a political level on priorities
- Provide technical guidelines for budget submissions
- Evaluate budget submissions and ensure that they reflect key government priorities
- Maintain on going communication with other central government departments
- Make recommendations to MTEC, Budget Council and Ministers' Committee on the Budget (who in turn make recommendations to Cabinet and Extended Cabinet)
- Prepare and table budget documentation
- Brief Parliamentary Committees in respect of budget documentation tabled

Medium Term Expenditure Guidelines

- Annual guidelines are prepared by the National Treasury
- Typically released to departments in June
- Apply to national and provincial departments and entities, including constitutional institutions
- Contain essential information for institutions' preparation of expenditure estimates for the medium term expenditure framework by providing, inter alia:
 - Providing an indication of government's priorities over the medium term
 - Noting how to examine baselines and reprioritise expenditure
 - Requiring a discussion of performance against targets, including projected outputs
 - Requiring details of all information to be provided when submitting expenditure estimates
 - Providing specific additional instructions to public entities and provincial departments
 - Providing guidance on budget submissions that relate to infrastructure, capital projects, donor funding, own sources of revenue and co-funding

How line ministries prepare their budgets

- National and provincial departments and entities run their own internal processes to prepare expenditure estimate submissions in line with the requirements outlined in the budget guidelines
- Typically the chief financial officer in each line department outlines a process whereby programme and subprogramme managers provide financial and non-financial information pertaining to the particular programme/ subprogramme that they are responsible for
- The chief financial officer's office then considers all the inputs and utilises them to formulate expenditure estimates information for the institution as a whole
- Whilst undertaking this process, the line department typically interacts with National Treasury budget analysts and other departments in the function group to get advice and guidance

Analysis of expenditure estimates for the MTEF

- Financial and non-financial information which best describes the policy objectives and spending plans
- An assessment of whether the objectives and targets have been achieved in the past financial years
- Information from budget submissions should illustrate progress made in terms of policy priorities that departments are responsible for, and outputs that will be achieved if new proposed priorities are funded
- Other factors considered:
 - research on policy options
 - funding provided in previous MTEF periods
 - evidence of under-spending and/or unwise spending
 - link of budget submission proposal to broad government priorities
 - proper plans and proper costing
 - appropriately aligned implementation and spending plans
 - whether policy could be modified to attain better service delivery, through reforms to delivery models, institutional arrangements or policy frameworks



Thank you