

# BUDGET CALENDAR AND PROCESS



**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**
  - State owned enterprises
  - Public entities and agencies
  - Donor receipts (both cash and in-kind)

# INTER-GOVERNMENTAL CONTEXT



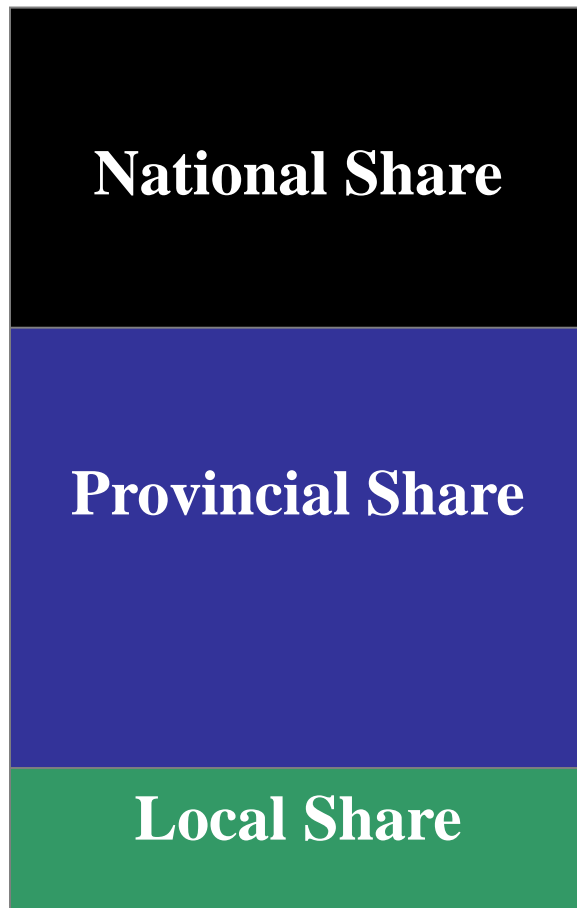
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# Spheres of government

- **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



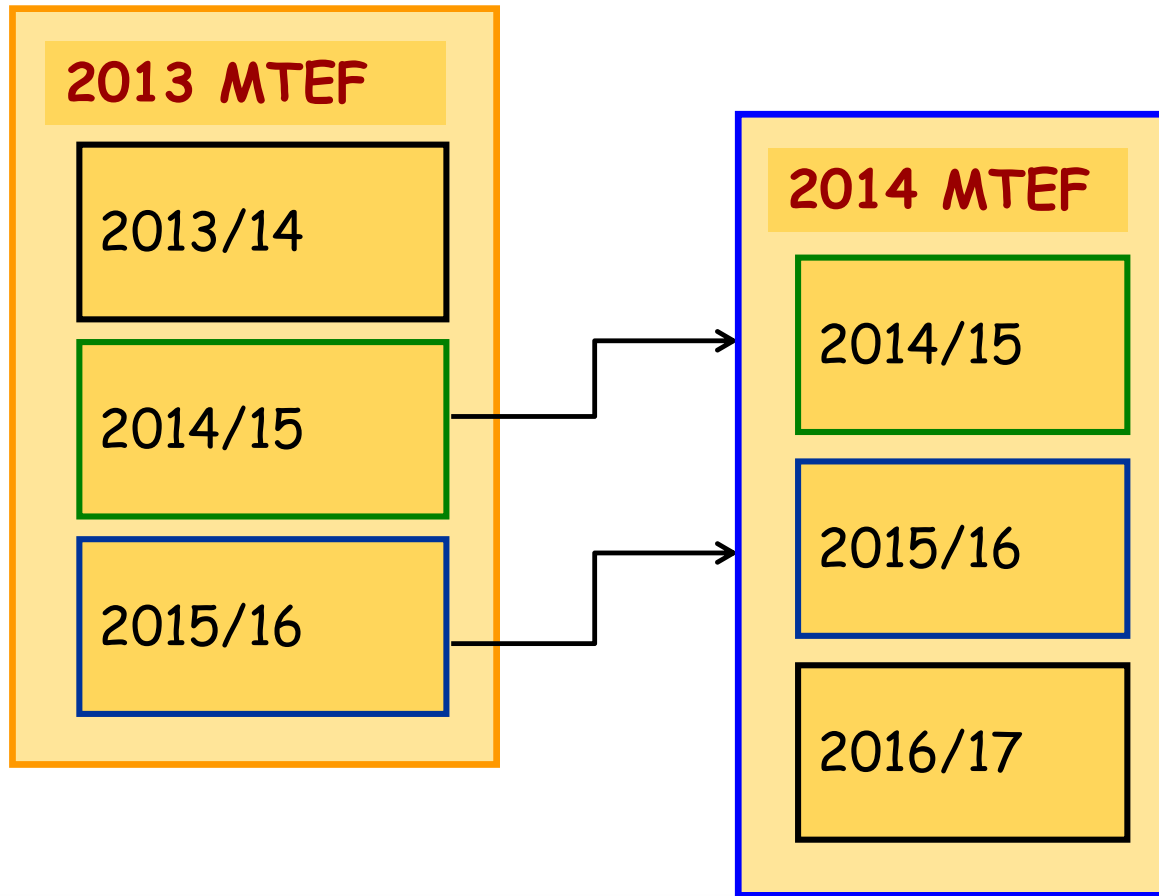
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# Role-players in the budget process

- 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

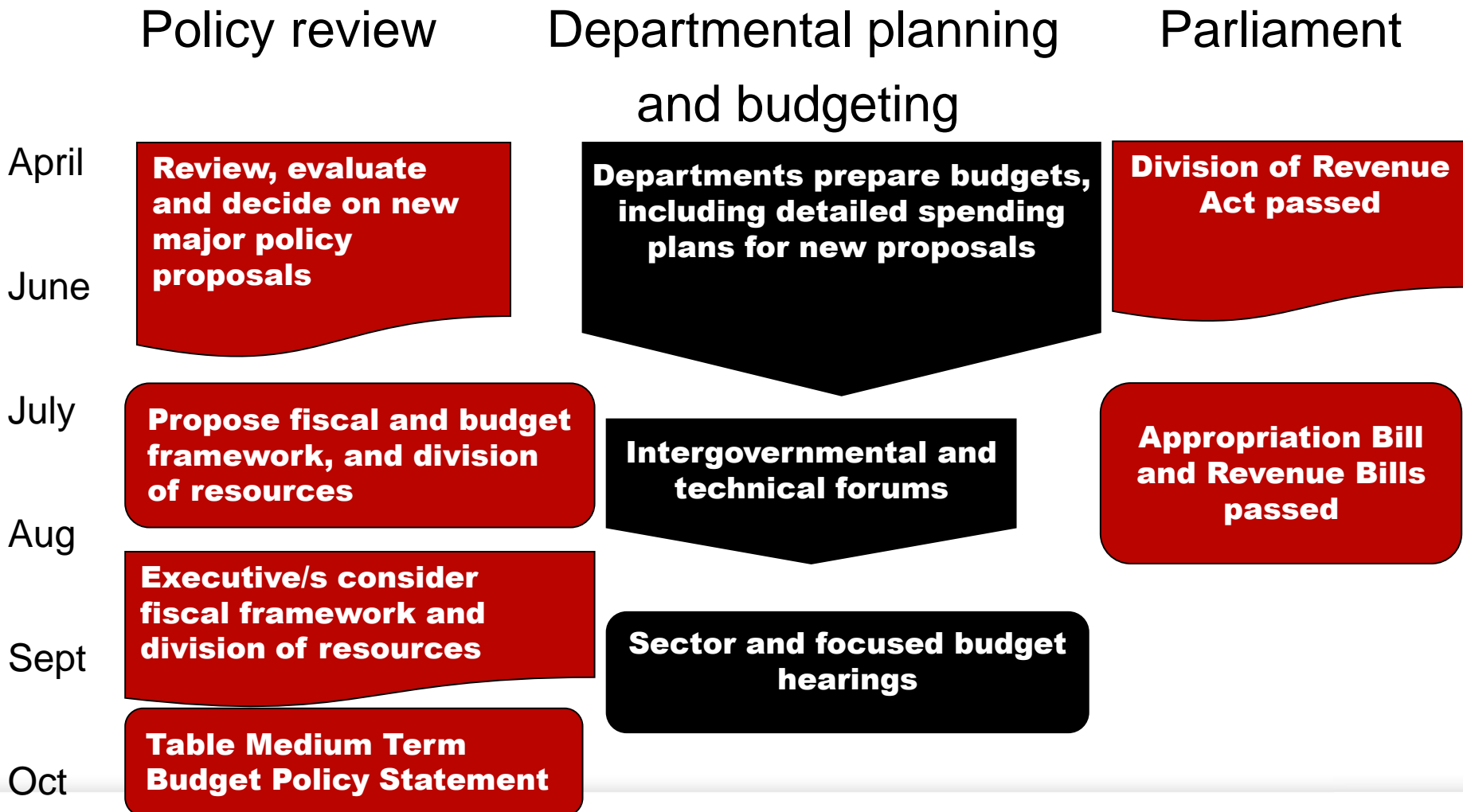


## Changes to baseline

- Revised macroeconomic and fiscal framework
- 3<sup>rd</sup> year = forecast inflationary increase on 2<sup>nd</sup> year
- Budget cuts
- Technical adjustments



# Budget cycle key milestones

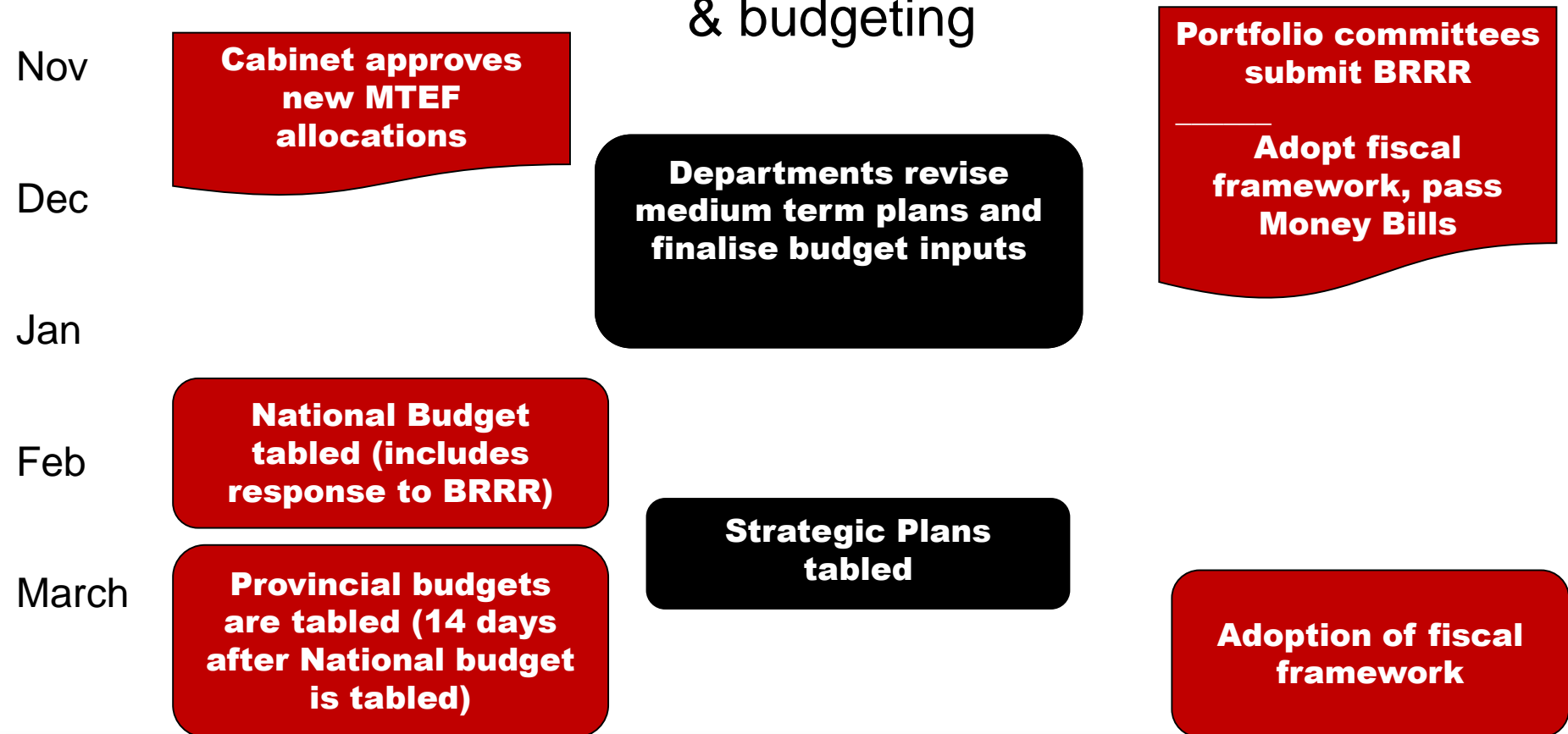


# Budget cycle key milestones cont.

## Policy review

## Departmental planning & budgeting

## Parliament



# Budget cycle summary

- Departments submit their estimates of expenditure for the MTEF based on their strategic plans and other plans
- The MTEC, an interdepartmental committee - comprising of representatives from National Treasury, National Planning Commission, Departments of Public Service and Administration, Performance Monitoring and Evaluation, Economic Development and Cooperative Governance - considers the allocation of funds in respect of each function group 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, size of spending envelope, 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

# Parliamentary process

- The medium term budget policy statement, is discussed in **parliament**
  - Report issued before executive finalises the budget
- The budget is dealt with by **standing committees on finance and appropriations** comprising members of both houses
- Individual **portfolio committees** dissect budget and strategic plan for each department
- **Parliament** votes first on the Fiscal Framework, then Division of Revenue and then Appropriation Bill
- **Public accounts committee** deals with post-facto issues raised by auditor general
- Money Bills Amendments Procedure and Related Matters Act enhances Parliament's participation in the budget process and enhances stakeholder participation and coordination

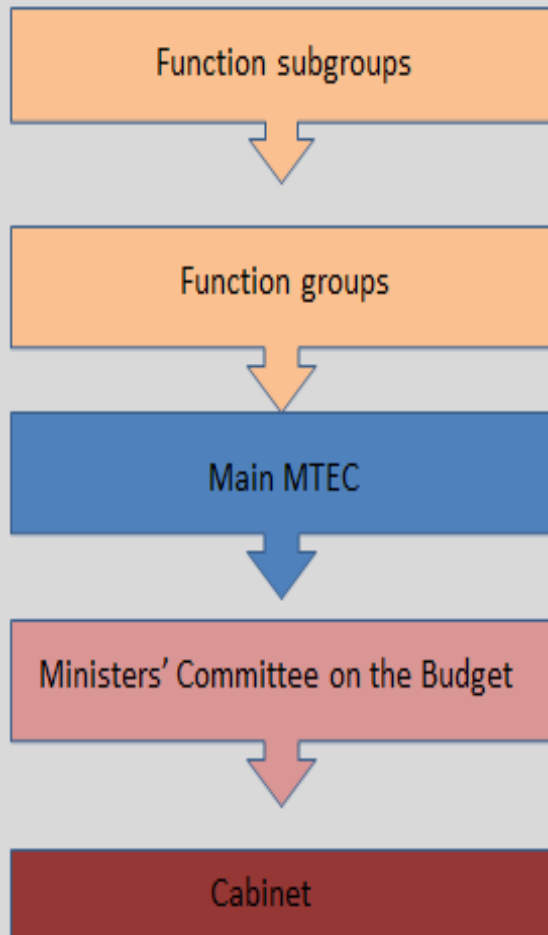
# A functional approach to budgeting

- Adopted since the 2011 MTEF Budget process
- Government (sub)programmes and activities are grouped according to broad policy purposes or type of expenditure: “functions”
- All government institutions that contribute to achieving a particular function are grouped together in a function workgroup
- Meetings/ workshops are held with representatives in a function
- Each function is given a budgetary envelope to work towards
- Institutions then negotiate amongst themselves on budgetary matters (i.e. baseline assessment, allocations and priorities) in order to reach a common understanding and agreement around the work of the function focusing on service delivery
- These agreements and negotiations are then reflected in the budget submissions put forward by the different institutions, and also characterise collective budget analysis of the institutional budget submissions

# Advantages of budgeting by function

- Functional budgeting promotes transparency and better coordination in the budgeting process, and provides an opportunity for improving collaboration between associated departments, programme managers and public entities
- This approach facilitates discussions that go beyond the narrow focus of individual administrative units working in isolation, recognising that policy outcomes require cooperation between complementary role-players
- Decisions on reprioritisation and spending in relation to each function are reached as part of a broad consultative process between different stakeholders in the sector
- Allocations support the reprioritisation of funds in line with outcomes, as there is a more effective comparison of allocations with service delivery trends, and the assessment of baseline spending proposed include trade-offs being realised between different institutions

# 2014 Budget function groups



1. General Public Services
2. Science and Technology and Environmental Affairs
3. Defence, Public Order and Safety
4. Economic Services
5. Economic Infrastructure
6. Local Government, Housing and Community Amenities
7. Education and Related Functions
8. Employment and Social Security
9. Health and Social Protection



# National Treasury's role

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

# 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:
  - An indication of government's priorities over the medium term
  - How to examine baselines and reprioritise expenditure
  - A discussion of performance against targets, including projected outputs
  - Details of all information to be provided when submitting expenditure estimates
  - Specific additional instructions to public entities and provincial departments
  - 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 for delivering
  - funding 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



# Budget documents

- **Appropriation Bills**
  - Current, capital and transfers
  - Amounts exclusively appropriated
  - Adjustments appropriation bills
- **Estimates of National Expenditure**
  - All national departments and agencies
  - Policy developments and service delivery achievements and commitments alongside 7 year numbers
  - Includes information on public entities
  - Adjusted Estimates of National Expenditure
- **Peoples' Guide**
  - A popular version of the main points in the budget
- **Division of Revenue Bills**
  - How national raised revenue is divided between levels of government
  - Conditions of certain types of expenditure
  - Adjustments division of revenue bills
- **Budget Review**
  - Economic outlook
  - Fiscal Policy
  - Tax policy
  - Assets and liabilities
  - Medium term expenditure and division of resources
- **Medium Term Budget Policy Statement**
  - Key priorities
  - Economic outlook
  - Fiscal policy and trends
  - Medium-term expenditure framework
  - Division of revenue between the three spheres
  - Allocation to major conditional grants

# Thank you

