Medium Term Expenditure Framework

Treasury Guidelines:

Preparing budget proposals for the 2005 MTEF

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National Treasury

Republic of South Africa

2004

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FOREWORD

This year we prepare the eighth rolling spending plan – the MTEF, that coincides with ten years of democracy and the election of a new government that will serve for the next five years. This is naturally a time when the challenges articulated in the Ten Year Review will receive an enthusiastic response, and I have no doubt that the call for accelerated service delivery will take shape in the budget proposals that departments are busy preparing.

At the same time, we need to ensure that good planning and budgeting principles established through recent reforms are not forgotten. When we set out our plans for the next five-year period, including our budget proposals, we need to keep in mind the three main objectives of our public expenditure management system.

First, the budget that we prepare should fit the macroeconomic and fiscal framework. Second, the process should allocate resources in line with government policies, and third that the process provides the conditions for increased service delivery. These objectives will mean that all of us will need to make hard choices and trade-offs. Naturally, this may result in certain programmes receiving additional funding, while others will be required to accelerate delivery within baseline budgets. In certain cases, the budget allocation process may result in programmes having to release funding that can be used for new priorities.

As we plan for the next five to ten year period, we should ensure that the budgets that we formulate stand out as financial mirrors of the economic and social choices that we have made; these budgets should contribute directly to a *higher trajectory of development,* as articulated by the Ten Year Review.

Achieving these goals will require a team effort, and it is for this purpose that the enclosed *Treasury Guidelines* have been prepared. They serve to strengthen the working partnerships between the Treasury budget teams and departments, so that together we can tackle the formulation of a Budget that embodies a five to ten year outlook, is reflective of Government's commitment to its social and economic goals, and is the outcome of rigorous debate and analysis.

We look forward to deepening partnerships, ensuring enhanced accountability in the use of public resources and improving service delivery to communities.

Lesetja Kganyago
Director-General: National Treasury

ABBREVIATIONS

FFC	Financial and Fiscal Commission
FOSAD	Forum of South African Directors-General
GFS	Government Financial Statistics
GDS	Growth and Development Strategy
MEC	Member of the Executive Council (of a province)
MINMEC	Ministerial and Member of Executive Council meeting
MinComBud	Ministers Committee on the Budget
MTBPS	Medium Term Budget Policy Statement
MTEC	Medium Term Expenditure Committee
MTEF	Medium-term Expenditure Framework
MTSF	Medium-term Strategic Framework
PFMA	Public Finance Management Act, 1999
PPP	Public Private-Partnership
SALGA	South African Local Government Association
SCOPA	Select Committee on Public Accounts

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1

Introduction

The appointment of a new Government in April provides a unique opportunity to review Government's past performance and to map out a new course for the next five to ten years. The Ten Year Review study undertaken by the Presidency certainly underlines the need to consolidate past gains and accelerate delivery in key social and economic areas. The ten year anniversary of freedom also provides an opportunity to review government's planning and budgeting cycle with a view to improve the quality and pattern of spending.

Building on the improvements to the allocation process and better alignment between planning and budgeting, the current phase of the reform programme centres on strengthening service delivery performance information and on reporting of achievements. For the past few years, departments have been requested to present their budget proposals in the context of past performance so that there is a clear link between performance and further budget allocations. The 2005 budget process aims to consolidate this approach by undertaking a thorough examination of service delivery performance and by explicitly linking requests for additional resources with policy priorities and planned outputs. The department's measurable objectives become a useful tool in this regard.

Given the opportunity presented by the new term of Government, key enhancements are introduced in the planning and budgeting cycle of national and provincial governments. The main reform is to align the planning and budgeting cycle with the election cycle. This means that key policy priorities that the new Government will tackle in the next five years should form the basis of departmental planning and budgeting. Departments are therefore requested to prepare five-year strategic plans that will be formally presented to Parliament in February 2005, covering the period until 2009/10.

The budget proposals for the 2005 MTEF should be informed by the strategic planning process, particularly in terms of objectives, outputs and targets envisioned for the next five to ten years. In this way, budget proposals and strategic plans will speak directly to each other. The new strategic plan will stand for a five-year period but can be updated when needed. Strategic plans will not be required in following years, but progress will be reported and material changes to targets noted in subsequent annual reports.

The *Treasury Guidelines* are issued to national and provincial departments and government institutions for the preparation of their 2005 MTEF budget proposals. The *guidelines* place emphasis on:

- Reprioritisation as an important budgeting principle that identifies savings that can be reallocated to priority programmes. In particular, the administration budget should show a clear saving of about 2 per cent over the three year period.
- Full disclosure of any fiscal risks and contingent liabilities that may not be directly reflected in the three year MTEF figures. Any significant fiscal risks that fall within the next five years should be clearly spelt out to allow Government to take necessary steps to mitigate potential costs. Similarly, any outstanding historical issues that are likely to require funding in the resolution process should be brought to the attention of the relevant Treasury.
- Budgeting for large capital projects and other non-recurrent costs will require furnishing additional information. Any non-recurrent costs that are expected to impact on baseline budgets during the next five years should also be presented. The Treasury should be informed when such projects are likely to come on stream and when they are expected to come off the budget.
- Clearer distinction should be made between technical adjustments to baseline budgets and new policy proposals that require significant funding above the baseline. This year, the Medium Term Expenditure Committee (MTEC) will focus on reviewing baseline budgets while the larger policy options will be

presented to the Minister's Committee on the Budget (MinComBud). Although MTEC will provide guidance on the policy options, recommendations on which options get funded will be made by the Ministers Committee on the Budget.

- Highlighting key issues arising from the budget proposals of public entities.

The requirements listed above are discussed in much fuller detail in the ensuing chapters of the Treasury Guidelines. Chapter 2 describe the 2005 budget process. It details the role of Cabinet and provincial executive committees, the National Treasury and its nine provincial counterparts, government departments and entities, and other role players. In this chapter, the practical implications of adopting a new five-year horizon for planning processes is discussed. In particular, the alignment between five-year strategic plans and three-year budgets is explained.

Chapter 3 describes the process and format that departments are required to follow when compiling their 2005 MTEF budget proposals. Although the format is largely based on what was prescribed last year, departments will be expected to give a much clearer motivation for proposals that call for additional resources above baseline. Besides presenting the costs associated with the policy options, departments should explain how the new proposals fit in with Government's broad policy priorities as discussed at the May 2004 Cabinet Lekgotla. New proposals should demonstrate a clear link between their expected outputs and key Government objectives including the following:

- Increasing investment in infrastructure
- Improving education, training and skills development to raise productivity
- Fighting poverty and inequality through work opportunities, income support and empowerment
- Improved regulation of markets and public entities, and efficient public service delivery

To assist departments in the formulation of performance measures, chapter 4 presents a practical, step-by-step guide for the formulation of good measurable objectives and outputs. This chapter should be read as a reference source on how to develop good indicators for monitoring progress. Indeed, the new Parliament has been briefed on the evolving performance-based budgeting framework and will expect departments to set clear objectives and targets for their programmes.

The *Treasury Guidelines* also make provision for the inclusion of a chapter that describes the format for the 2005 Budget, the *Estimates of National Expenditure* for national departments, as well as the budget format for provincial departments. These formats will be distributed to departments in August/September.

In preparing the 2005 Budget, the National Treasury requests that national departments:

- Advise their Ministers of key policy priorities and their financial implications in time for the submission of the Ministerial letter by **7 July 2004**
- Submit copies of draft annual reports and draft financial statements for 2003/04 by **26 July 2004**
- Submit their 2005 MTEF budget proposals to the National Treasury by **2 August 2004**
- Sector specific strategic plans together with the budget submission must be submitted to the respective provincial treasuries not later than **15 December 2004**.
- Present the strategic plans and 3-year budgets of Section 3A public entities for which they are responsible to the National Treasury by **8 October 2004**, in terms of sections 53 of the PFMA and Treasury Regulation 30.1.

During June to August, budget analysts from the National Treasury will be available to work closely with departments in preparing their budget proposals and preparing for the MTEC hearings. This year's budget discussion will focus on reviewing service delivery performance, proposals for additional resources, outputs and measurable objectives, and the link with Government's broad policy objectives.

2

The budget process

The Medium Term Expenditure Framework (MTEF) details 3-year rolling expenditure and revenue plans for national and provincial departments. The MTEF budget process is designed to match the overall resource envelope, estimated through 'top-down' macroeconomic and fiscal policy processes, with the bottom-up estimation of the current and medium-term cost of existing departmental plans and expenditure programmes

The budget process allows Government to:

- *Strengthen and evaluate the alignment between medium and long-term plans and funding proposals*
- *Revise its policy priorities, macroeconomic framework and resource envelope*
- *Evaluate departmental plans and allocate available resources in line with policy priorities*
- *Involve various role-players that provide political and technical advice when faced with trade-offs between competing spending priorities*
- *Obtain the required authority from Parliament and provincial legislatures to spend.*

The purpose of the 2005 budget process will be the completion of a medium-term expenditure framework that apportions resources in line with Government's policy priorities for the next five years. How this will be achieved is described in the chapter.

Matching policy priorities and resources

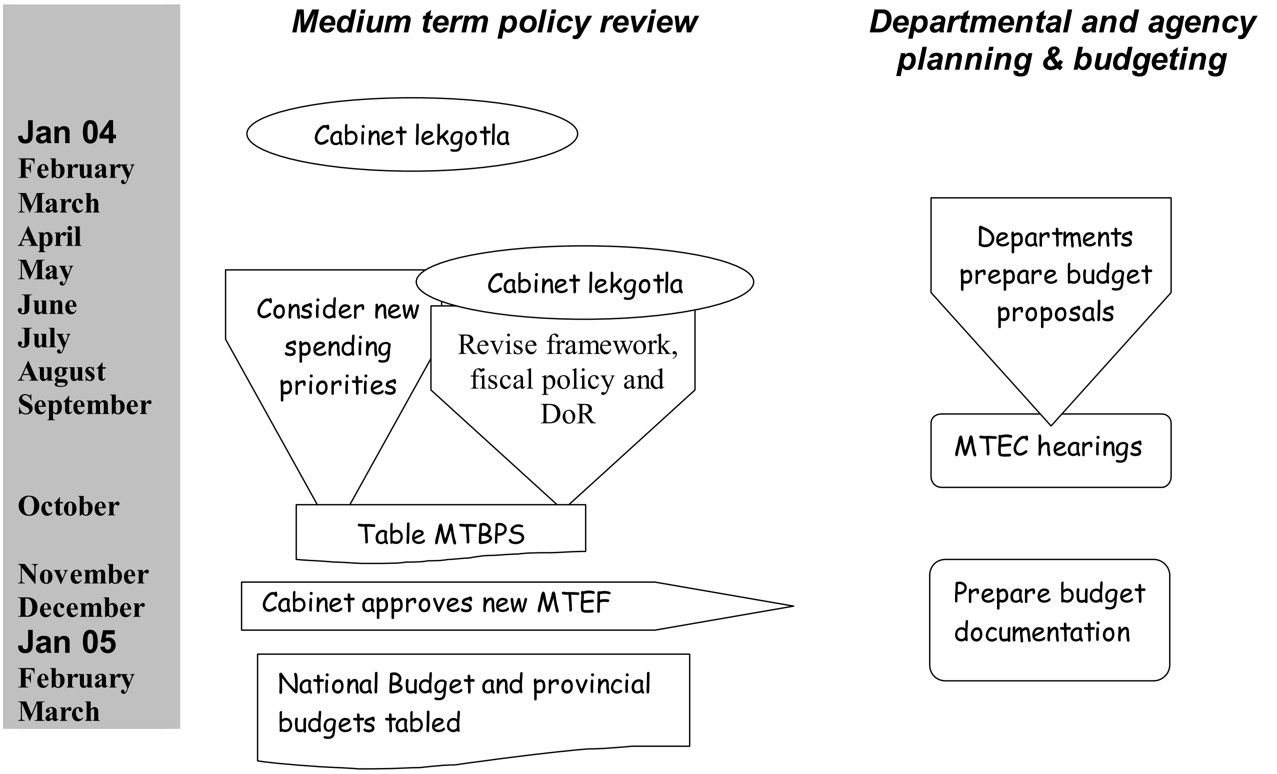
Deciding and agreeing on the best allocation of scarce resources to fund Government's many social, economic and political goals is the main purpose of the budget process.

The appointment of a new Government this year provides a unique opportunity for departments to formulate strategic plans that align with the five-year period of the newly elected Government. Drafting these five-year plans will guide the policy prioritisation and budgeting process for the 2005 MTEF. Although the MTEF currently covers a three-year period, the format that is described in chapter 3 allows departments to include the fiscal implications of large non-recurrent projects in the 4th and 5th years. This provides a perspective of Government's spending commitments over a five-year period and will eventually lead to an extension of the MTEF period.

> Formulating an MTEF differs from annual budgeting. In annual budgeting, the amount allocated to spending programmes is adjusted incrementally, with hardly any alignment to policy priorities. An MTEF provides the "linking framework" that allows expenditures to be "driven by policy priorities and disciplined by budget realities".

Formulating an MTEF that has a five-year outlook will be put together by various role-players who interact at various stages of the budget process that is illustrated in diagram 1:

Diagram 1: Outline of budget process



This year, the policy review process includes a Cabinet lekgotla in May to usher in the new Executive. The 2005 Budget process will set the scene for the next five years and will form the basis for the five year strategic plans to be tabled by departments in February 2005 following the presentation of the Budget.

Medium term policy review

The budget process starts early in the year with Executive consideration of the policy priorities that guide the preparation of a spending priorities memorandum. The memorandum outlines the broad priorities of government and links these to several choices and trade-offs that Government is likely to make in deciding how to meet its stated goals. This year, the priorities memo will be based on the Ten Year Review, GDS commitments and FOSAD Cluster priorities, as agreed by Cabinet.

> The resource envelope that funds the new priorities consists of the two outer forecast years of the 2004 MTEF. This is the starting point for the new budget and planning process and is used as a basis to determine the MTEF allocation for the period 2005/06 to 2007/08.

Additional resources for funding new priorities arise from a review of the overall budget framework, including fiscal policy considerations, overall spending growth, inflation assumptions, and debt interest projections.

The allocation of new resources to the different spheres of government will be largely determined by their respective responsibilities for service delivery. The provincial sphere receives the largest share as provinces are responsible for social services delivery.

Where critical spending pressures and major policy considerations exist, the National Treasury will initiate bilateral discussions with departments in order to undertake a more rigorous examination of the economic and fiscal implications over the medium to long-term period. Where it is known that the programme will impact on provincial and/or local expenditure, the fiscal implications of the policy will also be discussed at joint forums consisting of national and provincial departments, the National Treasury, its provincial counterparts and SALGA. These high-level policy engagements with line departments will occur in **June** and **July 2004.**

The tabling of the Medium Term Budget Policy Statement (MTBPS) is the outcome of the review or 'top-down' stage of the budget process. The Minister of Finance tables the MTBPS at the end of October or early November in Parliament. The statement signals Government's tax, fiscal and budget intentions at least four months before the actual budget is tabled.

The timeline for critical budget decisions in the policy review stage of the process is outlined in table 1.

Table 1: Policy review timeline

May – September	Propose spending priorities
May	Cabinet considers spending priorities
June – July	National, provincial and local government technical committees consider key spending pressures in the three spheres Policy discussions with line departments
July – September	Revise macroeconomic framework, fiscal policy and DoR
September	Extended Cabinet considers fiscal framework and DoR
October	MTBPS tabled in Parliament

The policy review part of the process is designed so that it informs departmental and agency planning and budgeting, and guides the National Treasury in the evaluation of budget proposals.

Departmental and agency planning and budgeting

Planning and budgeting are closely related processes. Planning guides preparation of the MTEF budget proposals that are submitted to the relevant treasury. These proposals are evaluated against Government's priorities and recommendations on medium-term allocations made to Cabinet, or the relevant provincial executive council.

Preparing five-year strategic plans and budgets

This year, departments are required to develop a five-year strategic plan to be tabled in Parliament soon after the tabling of the 2005 Budget in February next year. How this five-year plan will impact on the budget and other processes, is outlined below:

1. Departments and agencies prepare a draft five-year strategic plan that informs their 2005 MTEF budget proposals
2. New funding proposals are drafted in accordance with the format prescribed in chapter 3. The proposals will have a five-year outlook that includes detailed numbers for the first three-years (the MTEF budget) and proposed non-recurrent expenditure for years 4 and 5.
3. The budget process will facilitate discussion and agreement between the NT and line departments on revisions to the 2004 MTEF baseline (2004/05 and 2005/06).
4. Cabinet's approval of the 2005 MTEF will indicate to departments which of their new policy proposals will be funded and can be incorporated into their five-year plan.
5. Appropriations to spending programmes are voted by legislatures, followed by the tabling of five-year departmental strategic plans in February/March 2005.

This means that departments will no longer be required to produce a strategic plan every year. Instead, the preparation of Annual Reports will be used to inform the budget process and also revise the five-year strategic targets if necessary.

Annual Reports

In preparing annual reports, departments will need to review performance or service delivery results of the previous period. Undertaking an assessment of service delivery performance targets and examining departmental strategic objectives against broader Government priorities, will lead to the following queries:

- Are departmental strategic objectives and planned outputs aligned with the core functions and mandates of the department?
- Are planned outputs and deliverables still relevant?
- Have service delivery commitments and targets been met?

If there is a high degree of alignment between:

- Government priorities and departmental objectives and outputs
- Service delivery performance against targets

Then the department should propose revisions to those aspects of their strategic plan and objectives that will improve service delivery and better achieve the desired results over the next five years.

On the other hand, *if* there is a low degree of alignment, *then* the department will have to take a much more extensive review of its delivery plans in relation to Government's medium-term policy and spending priorities. The 2005 Annual Report will therefore serve as a key input for the 2006 budget process by reporting on what has been achieved in 2004/05 and what outputs are foreseen in 2005/06.

For the 2005 Budget, departments are expected to prepare their new spending proposals by **2 August 2004** in accordance with the format that is prescribed in chapter 3 of these *guidelines*. Where possible, departments are requested to indicate five year spending projections. The 4th and 5th years need not be in as much detail as the MTEF budget figures, and will only cover estimated non-recurrent expenditure.

Additional supporting documents that departments are required to submit to the National Treasury are listed in table 2, including the due dates and number of copies.

Table 2: Budget documents

	Submitted to National Treasury on:	**Number of copies to be submitted:**
Annual Financial Statements (unaudited)	28 June 2004	Ten copies, excluding the copy submitted to the Accountant General
Annual Report (draft unaudited)	26 July 2004	Five copies
MTEF budget proposals	2 August 2004	Three copies

The documents listed in the table, except for the Accountant General's copy of the Annual Financial Statements must be submitted to:

Anita Viljoen
Room HB-03.42
40 Church Square, Pretoria

MTEC

The documents listed in table 2 will be used by the budget analyst from the National Treasury when preparing for the MTEC hearings in September. MTEC will focus on the following aspects of the department's budget proposals:

- The proposed revisions to the department's medium-term plans and the link to Government's broad policy priorities and key challenges identified for each of the sectors
- The credibility of the costing and affordability of the new proposals
- The department's ability to implement their new proposals over the MTEF period based on past performance and expenditure trends

In preparing for MTEC, the National Treasury will invite certain departments to bilateral discussions on critical policy issues. This will contribute to a more informed and focused discussion at MTEC, and also assist the National Treasury in presenting MinComBud and Cabinet with a clear description of the impact of new funding.

- The outputs to be achieved in support of measurable objectives.

It is the purpose of MTEC to discuss each of the above areas and formulate a report, in consultation with the relevant department, to the Ministers Committee on the Budget and Cabinet. MinComBud will consider each of the new policy proposals and their funding implications, in conjunction with the Treasury's analysis. To assist MinComBud in this regard, departments are requested to prepare their new funding proposals in accordance with the format described in chapter 3.

Cabinet's decision on changes to the MTEF programme allocations to national votes, and provincial and local government conditional grants, will be communicated through Treasury allocation letters to departments and provincial treasuries in mid November. However, the equitable share allocations are communicated earlier. These detail the rationale and conditions of the final allocations to national votes and provinces for the new MTEF period. Once final allocations letters have been received, departments are required to revise their plans for the 2005 - 2010 period, and to pay particular attention to priority policies and strategies and to the affordability of their planned outputs.

Table 3 summarises the main stages and critical dates for departmental and agency planning and budgeting:

Table 3: Departmental and agency planning and budgeting

May – August	Departments prepare 2005 MTEF budget proposals
August - September	MTEC hearing
November	Cabinet approves 2005 MTEF
November	Allocation Letters to departments
November	Departments submit first draft of budget estimates
February 2005	2005 Budget is tabled
February/March	Tabling of provincial budgets

3

Compiling MTEF budget proposals

The purpose of the MTEF budget process is to allow departments to present the fiscal implications of new policy proposals, link these to the strategic priorities of Government and provide the necessary motivation for proposed changes to their baseline. For the 2005 MTEF, budget proposals should include a five-year outlook and detail the outputs that will arise from additional resources, clearly showing the expected impact of increased funding.

This year's format for the new spending proposals for the 2005 MTEF will require that departments:

- *Show a saving of about 2 percent of the total administration budget over the three year period*
- *Include non-recurrent expenditure that will be incurred in years 4 and 5 of the new MTEF, if known*
- *Inform the National Treasury of significant fiscal risk and contingent liabilities for the next five to ten years*
- *Also include the outputs that will be achieved if additional funding is allocated to new policy options*

Departments are requested to follow closely the instructions and principles outlined in this chapter so as to facilitate the allocation process and to provide adequate information for decisions to be made on a sound basis.

Budget Principles

Budgeting within the Medium Term Expenditure Framework is based on a set of core principles that relate to:

- Fiscal policy and the budget framework
- Policy priorities and public expenditure
- Political oversight of the budget process
- Budgeting for service delivery

Fiscal policy and the budget framework

Medium-term spending plans of national and provincial departments for the period 2005/06 to 2007/08 will be prepared within the context of Government's macroeconomic and fiscal framework which is presented in the 2004 budget and will be updated in the months ahead.

As part of a three-year rolling budget process, the budget framework is revised each year. Additional resources for new expenditure come from the draw down of the contingency reserve and changes to the macroeconomic forecast. However, the latter is not likely to yield large resources this year given the muted economic environment. If anything, the previous budget has seen a significant decline in new funding.

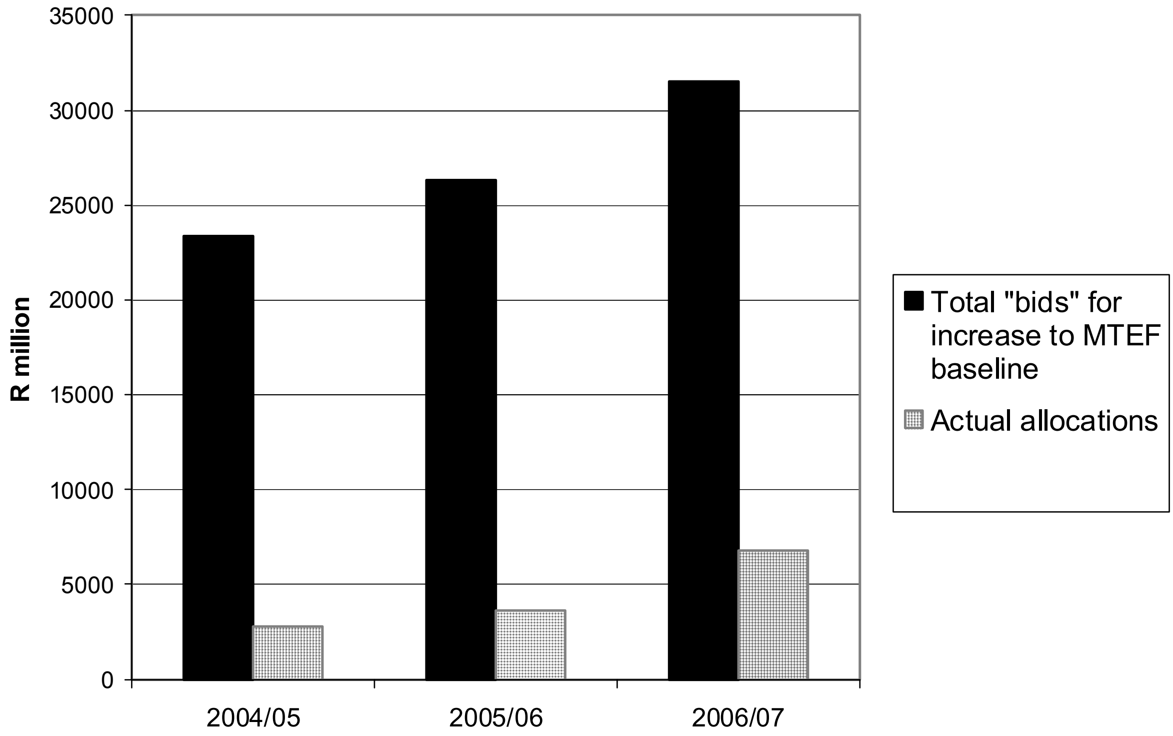
The MTEF set out in the 2004 budget will define the budget baseline for the 2005 MTEF. The various role-players will have to examine the fiscal implications of new spending pressures and match them to available resources.

The following are possible reasons that may require a department to propose changes to their 2004 MTEF baseline allocations:

- Increasing the priority status of a particular objective that cannot be accommodated within the baseline allocation, such as a higher than anticipated acceleration in the delivery of an existing service
- New policies that the department plans to implement within the new MTEF period

Figure 1 summarises the additional amounts allocated to departments over the 2004 MTEF. These amounts represent the actual increase to the 2003 MTEF approved by Cabinet for the 2004/05 – 2006/07 period, compared to the total requests for increases to the baseline from national departments.

Figure 1: Additional allocations over the 2004 MTEF compared with requests



The difference between 'bids' and actual allocations in the 2004 Budget illustrated in figure 1 suggests that new funding proposals should be more closely aligned with the trend in baseline increase. A major increase to baseline is therefore unlikely to be supported unless the step-change arises from Government's stated priorities. More realistic budget proposals are more likely to be funded.

Improved analysis of the cost implications of new policies combined with rigorous reprioritisation are likely to result in more realistic bids that are more closely aligned with the average increase in the baseline. In addition, when preparing a three-year budget framework that is revised in support of changing policy priorities and economic factors, it is more sensible to fund new programmes through a gradual increase in funding in keeping with the pace of capacity expansion. Therefore, departments should not budget for a sharp increase in funding unless there is a very good case to be made.

Gradual increases in funding over the three-year period is also in keeping with the logic of the MTEF. During the first year of the MTEF only minor adjustments to baseline are expected. The bulk of the adjustments should occur in the 2^{nd} and 3^{rd} years. This year, departments are also requested to inform the Treasury of any non-recurrent expenditure for years 4 and 5 of the new MTEF period that cannot be accommodated in the baseline.

Policy priorities and public expenditure

Strengthening the link between policy priorities and public expenditure is at the core of medium-term budgeting. Public expenditure translates policy priorities into the delivery of services to communities, and is therefore a key tool for accomplishing public goals.

Departmental strategic planning and costing of activities should therefore be prepared in line with Government's five to ten year policy priorities. Departmental budget submissions should be based on these broad priorities.

When preparing the 2004 budget, Government sought to balance numerous policy considerations – investment and job creation, poverty relief and social development, upgrading residential neighbourhoods, promoting the rule of law, regional development and peace in the African continent. For the decade ahead, Government will build on the foundations laid in the implementation of the Reconstruction and Development Programme, while setting a course for accelerated growth and broad-based development. A more detailed outline of the key priorities that pose a challenge for each of the sectors is outlined in chapter one the *2004 Budget Review*. Sector priorities also are presented in several documents including Cabinet Lekgotla resolutions and the Ten Year Review.

Government's broad policy priorities will set the context for evaluating budget proposals. Those bids which directly support the fulfilment of Government's policy objectives will be viewed more favourably. Budget plans should be presented either as *policy options* or *structural adjustments*. Structural changes to baseline are typically moderate adjustments for service delivery trends, higher salary increases and for specific scarce skills. *Policy options* involve much bigger amounts that require careful examination to determine affordability and alignment with Government's priorities.

When evaluating *policy options* that departments propose, the National Treasury will apply the following criteria:

- Is there a clear link between the department's budget proposals and Government's broad policy priorities and key challenges identified for each of the sectors?
- Is new funding required or can the proposal be accommodated in the baseline through reprioritisation?
- Does the proposal demonstrate clearly an ability to implement the plan over the new MTEF period?
- Is the proposal prepared according to the format that has been prescribed?
- Have the expected outputs been clearly defined?

Political oversight of the Budget Process

The key to strengthening the link between priorities and spending plans lies in enhancing political oversight of the budget process. Cabinet, supported by the Ministers' Committee on the Budget and the Budget Council, plays a leading role in guiding the alignment of resource allocation with national priorities. At the provincial level, the MECs for Finance and the Executive Committees play a parallel role in guiding the alignment of resource allocation with provincial priorities. The Budget Forum also plays a role in advising Cabinet on the resource allocation for the local sphere.

Political oversight of the budget process is essential to ensure that:

- The political executive is responsible for policy and prioritisation
- Policy priorities are linked to departmental spending plans and the delivery of quality services

The Budget process commences with Ministerial letters advising on policy priorities. The Ministers' Committee on the Budget, the Budget Council, Budget Forum and Cabinet further considers the broad priorities for the new medium-term expenditure period.

Budgeting is primarily about the choices and trade-offs that Government has to make in deciding how to meet the agreed set of policy objectives through better service delivery. Political oversight of the budget process allows Government to manage the tension between competing policy priorities and fiscal realities.

Budgeting for service delivery

Strengthening the link between Government's priorities and spending plans is not an end in itself. The goal is to improve delivery of services and ultimately the quality of life of people throughout South Africa.

Introduced in 2003, measurable objectives provide a basis for the formulation of sub-programme outputs and service delivery targets. Increasingly, measurable objectives and planned outputs will be used as the basis for budget allocation decisions, monitoring service delivery, and performance reporting on a quarterly and annual basis.

Chapter 4 of the *Treasury Guidelines* describes a clear approach to the formulation of measurable objectives and outputs that departments should follow when preparing budget proposals.

> *Measurable objectives* are defined as specific, quantifiable results or outcomes that can be achieved within a foreseeable time period. They serve as a roadmap for achieving the department's goals and define the actual impact on the public rather than focussing on the level of effort that is expended. They are tools to assess the effectiveness of an agency's performance and the public benefit that is derived.

In addition, when preparing new MTEF proposals national and provincial departments should pay particular attention to:

- Improving the alignment between Government's priorities, departmental plans, existing medium-term allocations and expected service delivery milestones and targets
- Reviewing the programme structure, purpose and measurable objectives
- Accommodating new priorities within the baseline allocation through reprioritisation
- Considering PPPs as a possible delivery mechanism for infrastructure and other large projects, and where it is found to be the preferred option, to include the relevant payment.

Format of the 2005 MTEF budget proposals

The proposals for increased funding of baseline allocations should follow the format described in this section. Funding proposals should be accompanied by the accounting officer's covering letter, and should include separate sections on:

- Baseline medium-term allocation
- Programme expenditure and performance trends and first quarter reports
- Identified savings and reprioritisation
- Proposed policy options, including
  - Non-recurrent estimates proposed for years 4 and 5
- Risks and contingent liabilities
- Annexure to the vote submission
  - Annexure 1: Proposed MTEF allocations
  - Annexure 2: Changes to programme structure, purpose and measurable objectives
  - Annexure 3: Summary of expenditure per programme and proposed changes to baseline
  - Annexure 4: Personnel numbers and compensation of employees
  - Annexure 5: Information and communications technology expenditure
  - Annexure 6: Summary of official development assistance
  - Annexure 7: Infrastructure Expenditure

Accounting Officer's covering letter

The accounting officer's covering letter should report on the departmental planning process that led to the formulation of the new spending proposals for the 2005 MTEF. More precisely, it should provide a concise summary of:

- Progress made in the implementation of *policy options* that were funded in the 2004 Budget
- Highlight programmes that have experienced a rapid increase in outputs, where the resultant costs cannot be accommodated within the baseline
- Changes to the department's 2004 strategic plans that have fiscal implications for the next 3-year period
- Steps taken by the department to fund new priorities within existing baseline allocations

If necessary, the National Treasury may request additional information in support of the department's proposals.

Baseline medium-term allocation

The baseline medium-term allocation for the 2005 MTEF budget proposal consists of the baseline allocation for each year of the new medium-term period, 2005/06 to 2007/08. Departments should insert their 2005 baseline medium-term allocation (in rand thousands) in the table below. When completing the table, departments should ensure that all non-recurrent expenditure is excluded.

Table 1: Vote [number]: [name]: 2005 medium-term baseline allocation

2005/06 R'000s	2006/07 R'000s	2007/08 R'000s
0	0	0

The baseline estimates for 2005/06 and 2006/07 are the forward estimates for these years published in the *2004 Estimates of National Expenditure*. The baseline for total recurrent expenditure in the third year of the medium-term expenditure period, 2007/08, is a **5** per cent increase over the 2006/07 baseline.

It is important that departments budget for salary increases of **5** per cent for 2005/06 and **5** per cent for 2006/07, as shown below. These salary increases come into effect on 1 July of each year for salary levels 1-12, or 1 January in respect of senior management staff.

Inflation projections, 2004/05 to 2007/08

	2005/06	2006/07	2007/08
GDP inflation	5.0	5.0	5.0

Programme expenditure and performance trends and 1st quarter reports

The expenditure trends for each programme should be discussed separately for the period 2002/03 to 2003/04, including 1st quarter expenditure for 2004/05 (year 0 of the new MTEF period). Although the report on first quarter expenditure should cover all programmes, particular attention should be given to those programmes where new *policy options* are located.

Reporting on expenditure trends should be done within the context of policy developments and legislative changes that have had a significant influence on expenditure. In particular, the following should be covered:

- Significant increases or decreases in expenditure for each of the programmes over the stated period
- Policy developments and legislative changes that relate to the increase or decrease in expenditure

Identified savings and reprioritisation

The extent of savings within medium-term baseline allocations should be presented under the respective programme headings. Where the department has identified savings, the source of such savings should be clearly explained.

This year, departments are required to show a savings of 2 percent on their administration budgets over the three years. Where appropriate, savings under the relevant programme should be listed in table 2. In each case, the source of the savings should be specified. These can either result from:

- The implementation of cost-saving strategies
- Eliminating activities or outputs that are no longer needed
- Cutting back on low priority outputs in anticipation of reallocating the funds to new priorities.

Table 2 : Savings for 2005/06 – 2007/08

Programme	2005/06 R'000	2006/07 R'000	2007/08 R'000
1. Administration			
Treasury's recommended saving			
2. Programme			
- specify source			
3. Programme			
- specify source			
TOTAL			

The above table should only indicate savings that have been identified within the baseline. The next section deals with the reallocation of these savings.

Savings can be reallocated in one or more of the following ways:

- Shifted to another programme to defray the higher than anticipated costs associated with an increase in service delivery
- Allocated to reduce the costs of a new spending proposal
- Declared as a saving and returned to the fiscus

In the next section departments should not only describe their *policy options*, but also show how savings have been reprioritised in order to reduce the costs of new funding proposals.

Policy Options

An option proposes changes to a department's medium-term baseline allocation that are related to strategic priorities of the department.

Before submitting an option, departments should carefully examine their existing baseline allocations and priorities to determine whether the option can be accommodated through reprioritisation of existing resources. For example, an option may be:

- A proposal for a new policy that cannot be accommodated within the baseline
- A proposal for a change in the level of output associated with an existing programme or subprogramme
- A change in implementation plans of a programme or a project, which results in an increase in the baseline in some years and a reduction in others

A department can submit a maximum of four options that are consistent with the content of the Accounting Officer's covering letter. The description of each policy option should not be longer than three pages and should comprise the following:

- One page summary
- An outline of the implementation plan
- Brief description of the method used to cost the *policy option*
- Alternative strategies that can achieve the same results.

In addition, *policy options* should be summarised in tables 3 and 4.

Table 3: Options, 2005/06 – 2007/08

Programme	**2005/06 R'000**	**2006/07 R'000**	**2007/08 R'000**
1. Administration			
- specify option			
Savings:			
Sub-total			
2. Programme			
- specify option			
Savings:			
Sub-total			
3. Programme			
- specify option			
Savings:			
Sub-total			
4. Programme			
- specify option			
Savings:			
Sub-total			
TOTAL			

The following steps should be followed when completing table 3:

- The name of the policy option should be listed under the relevant programme together with the fiscal implications for each of the three years.
- Reprioritised savings that will be used to reduce the costs of new policy options should be inserted in the relevant year and the balance calculated in the sub-total row
- The fiscal implications of all policy options that are proposed for the 2005 MTEF should be calculated for the respective years.

To facilitate the evaluation of new funding proposals by MTEC and the Ministers Committee on the Budget, *policy options* must also specify the planned outputs to be achieved if additional funding is approved, and outline the implications if no further funding is allocated. The planned outputs for each of the policy options should be summarised in table 4:

Table 4: Planned Outputs

Policy Options	Planned Outputs	Implications for no funding
Example: Programme 2: Comprehensive Farmer Support Programme	Training in crop and cattle farming provided to 52 land reform and land restitution beneficiaries.	Loss in productivity of transferred farms.
Programme 3:		
Programme 4:		
Programme 5:		
Programme 6:		

Non-recurrent estimates proposed for years 4 and 5

In developing a five-year outlook for the 2005 MTEF, the National Treasury will treat years 4 and 5 similar to the year 3 projections. This means that the initial estimates of recurrent expenditure in years 4 and 5 will be an increase of 5% over the previous year. However, departments are required to provide the Treasury with proposed estimates for non-recurrent expenditure for these two years.

Non-recurrent expenditure is defined as either once-off spending or spending that takes place over a defined period, such as two or three years of an MTEF. Examples of non-recurrent expenditure include:

- The costs of national, provincial and local elections every five years
- Once-off capital projects, such as the building of a dam over a two-year period
- The installation of a new computer system
- The purchase of military equipment that is paid over a defined period
- The costs of conducting a Census every ten years

Where non-recurrent expenditure for years 4 and 5 is included in the submission, a brief description (not more than half a page) of the nature of spending must be provided alongside its estimated costs.

Contingent Liabilities

Government could face serious fiscal instabilities as a result of increasing contingent liabilities. Whether direct or contingent, they are either explicit (recognised as a government liability by law or by contract) or implicit (a "moral" obligation reflecting public expectations and pressure from civil society groupings).

Fiscal risks and uncertainties can result from instances where Government faces possible fiscal costs arising from an event or action that could materialise in the foreseeable future. Sources of fiscal risk may be direct or contingent (a liability only if a particular event occurs).

Departments are required to alert the Treasury of all fiscal risks and contingent liabilities that may fall due over the next five to ten years. This will enable the Treasury to include these risks in our analysis of budgets and to take appropriate mitigating measures.

Annexure to the Vote submission

- Annexure 1: Proposed MTEF allocations
- Annexure 2: Changes to programme structure, purpose and measurable objectives
- Annexure 3: Summary of expenditure per programme and proposed changes to baseline
- Annexure 4: Personnel number and compensation of employees
- Annexure 5: Information and communications technology expenditure
- Annexure 6: Summary of official development assistance
- Annexure 7: Infrastructure Expenditure

Annexure 1: Proposed MTEF allocations

Information contained in the 2004 Appropriation Bill is included in schedule 1, with programme measurable objective and the new MTEF baseline added. Column 1 shows the:

- Departmental aim
- Programme name, purpose, and measurable objectives
- Earmarked funds, including transfers to provinces, government agencies and other extra-budgetary agencies. When inserting the information on transfers, departments should note sections 38 (i), (j), (k), (l), (m) and (n) of the PFMA for future compliance over the new MTEF period, and also comply with the early instruction from the National Treasury that all transfers display the name of the recipient entity.

Departments should complete columns 3, 4 and 5 by inserting the MTEF baseline amounts split over current, capital, transfers and total allocation for each of the three years. Expenditure estimates for the third year of the medium-term period, 2007/08, is a 5 per cent increase over the 2006/07 baseline, and should also be disaggregated into capital and current payments and transfers.

Annexure 2: Changes to programme structure, purpose and measurable objectives

Any changes to the programme structure, purpose and measurable objectives contained in the 2004 ENE should be reflected in schedule 2

Annexure 3: Summary of expenditure per programme and proposed changes to baseline (2004/05 – 2007/08)

In Annexure 3 departments are required to show changes to baseline per programme, recurrent, non-recurrent and expenditure items under the new economic classification introduced in the 2004 budget. The schedule consist of four parts:

- Expenditure estimates per programme
- Recurrent expenditure
- Non-recurrent expenditure
- Economic classification

MTEF baseline allocations for the period 2004/05 to 2007/08 will be included in the relevant columns per programme. Departments should insert their changes to baseline and reprioritized baseline in each of the three-years of the new MTEF.

When separating non-recurrent from recurrent estimates, departments should work closely with Budget Analysis from the National Treasury and refer to the explanation provided on page 17.

In the last part of Annexure 3, departments are required to show the changes to baseline for each of the expenditure items in the new economic reporting format introduced in the 2004 Budget. Departments should also provide as much detail as possible on the nature of the Goods and Services item in the table.

Annexure 4: Personnel numbers and compensation of employees

Actual total staff numbers for 2001/02 to 2004/05 and the projected personnel establishment for the 2005/06 to 2007/08 period should be inserted per programme for each of the years.

The total costs for the compensation of employees should be inserted for each of the years.

Departments should take into account the following elements in determining their personnel budgets for the new MTEF:

- Numbers of staff and possible changes over the MTEF
- Basic salary costs, which should accommodate an increase equivalent to inflation from 1 July each year
- Salary increases for people with scarce skills
- Grades and level of each staff

- Increased take up of benefits such as medical aid, homeowners allowance, etc.
- Contract employees
- Overtime pay
- Merit bonuses
- Pension fund contributions, thirteenth cheque and overtime all linked to the basic salary cost (increases at the same rate).
- Medical aid contributions, which tend to increase more rapidly than inflation.
- Homeowners allowance, which changes with the interest rate

When preparing the budget estimates for personnel expenditure, departments should also note the Skills Development Act (No. 97 of 1998). It states that each public service employer in the national and provincial spheres of government must budget for at least one percent of its payroll for the training and education of their employees and may contribute funds to a SETA. Cabinet has subsequently agreed that each department should contribute 10% of the 1% of its payroll to their line-function aligned SETA. The Skills Development Act requires private sector firms to prepare and report on Workplace Skills Plans as a precondition for accessing certain grants. The public service, whilst not eligible for these grants (because it pays no levy) is nevertheless also required to prepare and report on Workplace Skills Plans. In addition to responding to the direct service delivery priorities of each department, these plans should also contribute to the overall national skills priorities of government. These are contained in a document known as the National Skills Development Strategy (NSDS). The current NSDS will end in March 2005 and a new strategy for 2005-9 under discussion. Copies of the Consultation Draft of the new NSDS are available from the Department of Labour and will be forwarded to your department for your comment. The 2005-9 Strategy will only be launched in October 2004, however departments should in the interim make reference to the Consultation Draft when preparing their Workplace Skills Plans.

As part of the Budget submission, departments are asked to indicate their skills development plans for 2005/6 as derived from their strategic priorities and programmes. They are further requested to map these to the relevant 'vehicles' for skills development as outlined in the Consultation Draft of the NSDS i.e. will training be in the form of bursary programmes, learnerships for current staff or unemployed learners, graduates on internship programmes etc. A breakdown of the how the requested training budget will be broken down against each of these programmes should also be estimated. The following format that has been recommended by the Department of Labour may be used for this purpose.

Departmental Strategic Priorities	**Departmental Strategic Programmes**	**Skills development initiatives required to underpin the successful implementation of Strategic Programmes**		
		Type and quantum of skills intervention required to underpin programme	**Map to NSDS Success Indicator (NSDS lists– depts indicate success indicator no.)**	**Budget and funding source: Department training fund;**
Strategic priority 1	Programme 1.1	*e.g. 1000 learnerships*	*e.g. Success Indicator 4.2*	Departmental training funds and SETA funds
	Programme 1.2	*e.g. 500 internships*	*e.g. Success Indicator 4.3*	Virement from unspent personnel funds etc.

Departments should in general budget up to 50% of their training funds for their own direct staff and allocate the remainder of their training funds to other interventions which support the national effort. However, this may prove to be insufficient funding given the range of work to be done. The excess may be funded from unspent personnel costs, virement from other standard items which show under-expenditure, SETAs, and, for certain success indicators, from transfers from the National Skills Fund.

Annexure 5: Information and communications technology expenditure

The schedule should be completed for all ICT expenditure. Large ICT projects over the next five years that are non-recurrent should be reported separately, as an annexure to the table. The description for each project should not be longer than half a page.

Column 1 of schedule 5 shows the name of each programme and the category under which ICT expenditure should be reported.

ICT expenditure for the period 2001/02 to 2003/04 is reported in the column *expenditure outcome*.

Projected ICT expenditure for the 2005 MTEF is reported in the column *medium-term expenditure estimates*

Annexure 6: Summary of official development assistance

Departments are requested to complete schedule 7, showing information on all existing donor grant funding and projects under consideration. Transfer of a donor grant to provinces should be indicated as a footnote to the name of the grant.

This information will be used to provide perspective on the use made of donor funding, and to prepare budgetary data.

Some donor grant funding is received as cash to departments. But other donor grant funding does not involve actual payment of cash from the donor to departments, but is provided "in kind" – for example, through the donor directly funding a project in support of the department or the donor paying a consultant. The estimated cost to the donor of such support should be inserted.

Annexure 7: Infrastructure Expenditure

As of this year, all NEW infrastructure funding requests are to be motivated separately and listed by project as per Annexure 7, under the relevant category headings, with the anticipated expenditure in the year columns provided. The first column shows information on infrastructure projects for the categories that are described here:

Large infrastructure projects refer to projects with an overall value of over R20 million (constructed or contracted directly by the department).

Small project groups are a number of similar small projects (each project with an overall value of less than R20 million), constructed or contracted directly by the department.

Infrastructure transfers to spheres and agencies refer to departmental transfers for infrastructure to other spheres eg. local government, waterboards, the Roads Agency and other parastatals. These should be listed by project in the case of large projects, or by project group in the case of small projects under R20 million.

Projects which involve the construction of infrastructure which will be 'owned by', and for the exclusive use of individuals, rather than the community at large, should be inserted under, *fixed installations transferred to households*. Examples of these are housing top-structures and VIP toilets.

Maintenance includes proposals for 'own' department expenditure on the upkeep and repair of buildings and infrastructure facilities. Major rehabilitation and upgrades, which add value to the capital asset, should be listed under small or large projects as the case may be.

The projected fiscal implications for the 2005 MTEF is inserted in the column, *medium-term expenditure estimates*.

The projected fiscal implications for projects that extend beyond the new MTEF period are inserted under the column heading, *long-term planning*, for the period 2008/09 to 2010/11

In addition to the schedule, a separate motivation must be included for all new *large infrastructure* project proposals. The motivation that is furnished for each project should cover areas such as the following:

Basic Information:

- Project name,
- Brief description,
- Location,
- Present stage of project (identification, feasibility, design, tendering, implementation etc).

- Why is the project needed (a brief situational analysis)?
- What are the key indicators that point out the need for the infrastructure, if applicable?
- Why was the location/s chosen (where relevant)

Project evaluation

- Feasibility/Cost Benefit Analysis assessment
- Cost projections
- Implementation plan

Budget Considerations:

- Has this project been motivated at MTEC before? Why was it rejected?
- Have the ongoing operating and maintenance costs of the infrastructure been taken into account?
- What if any, is the impact on other spheres of government, and have they been consulted?
- Does this type of infrastructure generate ongoing user revenue? Does a trading account exist for this purpose?
- Are donor funds available?
- Does the project delivery schedule extend beyond the MTEF period?

Annexure 1: Proposed MTEF Allocations

VOTE :													
1	2	3				4				5			
	2004/05	2005/06				2006/07				2007/08			
Descriptions	Appropriation	Current Payments	Transfers	Capital Payments	Total	Current Payments	Transfers	Capital Payments	Total	Current Payments	Transfers	Capital Payments	Total
	R'000	R'000		R'000	R'000	R'000		R'000	R'000	R'000		R'000	R'000
Total appropriation *Aim:*													
1 Administration *Purpose:*													
2 Programme name *Purpose:* *Measurable objective:* *Including* Earmarked Funds Infrastructure													

Annexure 2: Changes to programme structure, purpose and measurable objectives

Changes to programme structure, purpose and measurable objectives **VOTE :**	
Current Descriptions	Proposed Descriptions
Aim:	*Aim:*
1 Administration *Purpose:* *Subprogramme*	**1 Administration** *Purpose:* *Subprogramme*
2 (Programme name) *Purpose:* *Measurable Objective:* *Subprogramme*	**2 (Programme name)** *Purpose:* *Measurable objective:* *Subprogramme*

Annexure 3: Summary of expenditure per programme and proposed changes to baseline (2004/05 - 2007/08)

Programme	Medium-term expenditure estimates									
SUMMARY	MTEF Baseline (ENE)	MTEF Baseline (ENE)	Change to Baseline	Reprio-Ritised Baseline	MTEF Baseline (ENE)	Change to Baseline	Reprio-ritised Baseline	MTEF Baseline (06/07 + 5,0%)	Change to Baseline	Reprio-ritised Baseline
R thousand	2004/05	2005/06	2005/06	2005/06	2006/07	2006/07	2006/07	2007/08	2007/08	2007/08
1 Administration	–	–	–	–	–	–	–	–	–	–
2	–	–	–	–	–	–	–	–	–	–
3	–	–	–	–	–	–	–	–	–	–
4	–	–	–	–	–	–	–	–	–	–
5	–	–	–	–	–	–	–	–	–	–
6	–	–	–	–	–	–	–	–	–	–
7	–	–	–	–	–	–	–	–	–	–
8	–	–	–	–	–	–	–	–	–	–
9	–	–	–	–	–	–	–	–	–	–
Subtotal	–	–	–	–	–	–	–	–	–	–
Direct charge on the National Revenue Fund	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–
Total	–	–	–	–	–	–	–	–	–	–

Programme	Medium-term expenditure estimates									
RECURRENT EXPENDITURE	MTEF (ENE)	MTEF (ENE)	Change to Baseline	Reprio-Ritised Baseline	MTEF Baseline (ENE)	Change to Baseline	Reprio-ritised Baseline	MTEF Baseline (06/07 + 5,0%)	Change to Baseline	Reprio-ritised Baseline
R thousand	2004/05	2005/06	2005/06	2005/06	2006/07	2006/07	2006/07	2007/08	2007/08	2007/08
1 Administration	–	–	–	–	–	–	–	–	–	–
2	–	–	–	–	–	–	–	–	–	–
3	–	–	–	–	–	–	–	–	–	–
4	–	–	–	–	–	–	–	–	–	–
5	–	–	–	–	–	–	–	–	–	–
6	–	–	–	–	–	–	–	–	–	–
7	–	–	–	–	–	–	–	–	–	–
8	–	–	–	–	–	–	–	–	–	–
9	–	–	–	–	–	–	–	–	–	–
Subtotal	–	–	–	–	–	–	–	–	–	–
Direct charge on the National Revenue Fund	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–
Total	–	–	–	–	–	–	–	–	–	–

Programme NON-RECURRENT EXPENDITURE R thousand	MTEF (ENE) 2004/05	MTEF (ENE) 2005/06	Change to Baseline 2005/06	Reprio-ritised Baseline 2005/06	MTEF Baseline (ENE) 2006/07	Change to Baseline 2006/07	Reprio-ritised Baseline 2006/07	MTEF Baseline (06/07 + 5,0%) 2007/08	Change to Baseline 2007/08	Reprio-ritised Baseline 2007/08
	Medium-term expenditure estimates									
1 Administration	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
2	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
3	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
4	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
5	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
6	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
7	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
8	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
9	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
- Specify	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–
Subtotal	–	–	–	–	–	–	–	–	–	–
Direct charge on the National Revenue Fund	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–
Total	–	–	–	–	–	–	–	–	–	–

	Medium-term expenditure estimates									
	MTEF Baseline (ENE)	MTEF Baseline (ENE)	Change to Baseline	Reprio-ritised Baseline	MTEF Baseline (ENE)	Change to Baseline	Reprio-ritised Baseline	MTEF Baseline (06/07 + 5,0%)	Change to Baseline	Reprio-ritised Baseline
R thousand	2004/05	2005/06	2005/06	2005/06	2006/07	2006/07	2006/07	2007/08	2007/08	2007/08
Economic classification										
Current payments	–	–	–	–	–	–	–	–	–	–
Compensation of employees	–	–	–	–	–	–	–	–	–	–
Goods and services	–	–	–	–	–	–	–	–	–	–
Interest and rent on land	–	–	–	–	–	–	–	–	–	–
Financial transactions in assets and liabilities	–	–	–	–	–	–	–	–	–	–
Unauthorised expenditure	–	–	–	–	–	–	–	–	–	–
Transfers and subsidies to:	–	–	–	–	–	–	–	–	–	–
Provinces and municipalities	–	–	–	–	–	–	–	–	–	–
Departmental agencies and accounts	–	–	–	–	–	–	–	–	–	–
Universities and technikons	–	–	–	–	–	–	–	–	–	–
Foreign governments & international organisations	–	–	–	–	–	–	–	–	–	–
Public corporations & private enterprises	–	–	–	–	–	–	–	–	–	–
Non-profit institutions	–	–	–	–	–	–	–	–	–	–
Households	–	–	–	–	–	–	–	–	–	–
Payments for capital assets	–	–	–	–	–	–	–	–	–	–
Buildings and other fixed structures	–	–	–	–	–	–	–	–	–	–
Machinery and equipment	–	–	–	–	–	–	–	–	–	–
Cultivated assets	–	–	–	–	–	–	–	–	–	–
Software and other intangible assets	–	–	–	–	–	–	–	–	–	–
Land and subsoil assets	–	–	–	–	–	–	–	–	–	–
Total	–	–	–	–	–	–	–	–	–	–

Programme	Medium-term expenditure estimates									
	MTEF Baseline (ENE)	MTEF Baseline (ENE)	Change to Baseline	Reprio-ritised Baseline	MTEF Baseline (ENE)	Change to Baseline	Reprio-ritised Baseline	MTEF Baseline (06/07 + 5,0%)	Change to Baseline	Reprio-ritised Baseline
R thousand	2004/05	2005/06	2005/06	2005/06	2006/07	2006/07	2006/07	2007/08	2007/08	2007/08
Transfers and subsidies to: (Current)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Provinces and municipalities	–	–	–	–	–	–	–	–	–	–
Departmental agencies and accounts	–	–	–	–	–	–	–	–	–	–
Universities and technikons	–	–	–	–	–	–	–	–	–	–
Foreign governments & international organisations	–	–	–	–	–	–	–	–	–	–
Public corporations & private enterprises	–	–	–	–	–	–	–	–	–	–
Non-profit institutions	–	–	–	–	–	–	–	–	–	–
Households	–	–	–	–	–	–	–	–	–	–
Transfers and subsidies to: (Capital)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Provinces and municipalities	–	–	–	–	–	–	–	–	–	–
Departmental agencies and accounts	–	–	–	–	–	–	–	–	–	–
Universities and technikons	–	–	–	–	–	–	–	–	–	–
Foreign governments & international organisations	–	–	–	–	–	–	–	–	–	–
Public corporations & private enterprises	–	–	–	–	–	–	–	–	–	–
Non-profit institutions	–	–	–	–	–	–	–	–	–	–
Households	–	–	–	–	–	–	–	–	–	–
Transfers and subsidies to: (Total)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Provinces and municipalities	–	–	–	–	–	–	–	–	–	–
Departmental agencies and accounts	–	–	–	–	–	–	–	–	–	–
Universities and technikons	–	–	–	–	–	–	–	–	–	–
Foreign governments & international organisations	–	–	–	–	–	–	–	–	–	–
Public corporations & private enterprises	–	–	–	–	–	–	–	–	–	–
Non-profit institutions	–	–	–	–	–	–	–	–	–	–
Households	–	–	–	–	–	–	–	–	–	–

Annexure 4: Summary of personnel numbers and compensation of employees[1]

Personnel numbers	Actual			Anticipated posts to be filled[2]			
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
1 Administration	–	–	–	–	–	–	–
2	–	–	–	–	–	–	–
3	–	–	–	–	–	–	–
4	–	–	–	–	–	–	–
5	–	–	–	–	–	–	–
6	–	–	–	–	–	–	–
7	–	–	–	–	–	–	–
8	–	–	–	–	–	–	–
9	–	–	–	–	–	–	–
10	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total compensation of employees (R thousand)	–	–	–	–	-	-	-
Unit cost (R thousand)	–	–	–	–	-	-	-

1 Full-time equivalent
2 Not approved posts

Annexure 5: Summary of information and communications technology expenditure

	Expenditure outcome			Budget	Medium-term expenditure estimates		
	Audited	Audited	Preliminary outcome				
R thousand	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
1 Administration	–	–	–	–	–	–	–
Technology	–	–	–	–	–	–	–
IT services	–	–	–	–	–	–	–
2 Programme xx	–	–	–	–	–	–	–
Technology	–	–	–	–	–	–	–
IT services	–	–	–	–	–	–	–
3 Programme xx	–	–	–	–	–	–	–
Technology	–	–	–	–	–	–	–
IT services	–	–	–	–	–	–	–
4 Programme xx	–	–	–	–	–	–	–
Technology	–	–	–	–	–	–	–
IT services	–	–	–	–	–	–	–
5 Programme xx	–	–	–	–	–	–	–
Technology	–	–	–	–	–	–	–
IT services	–	–	–	–	–	–	–
Total	–	–	–	–	–	–	–

Annexure 6: Summary of official development assistance expenditure

Donor	Overseas Development Assistance Programme / Project name	Cash or	Expenditure Outcome			Budget	Medium-term expenditure estimates		
R thousand		Kind	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-		-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			–	–	–	–	–	–	–

Annexure 7: Summary of infrastructure expenditure

Projects	Budget	Medium-term expenditure estimate			Long-term planning		
R thousand	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Infrastructure programmes or large infrastructure projects[1]	–	–	–	–	–	–	–
Small project groups	–	–	–	–	–	–	–
Infrastructure transfers	–	–	–	–	–	–	–
Sub-total	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Fixed installations transferred to households	–	–	–	–	–	–	–
Maintenance on infrastructure	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**	**–**

1.All large infrastructure projects should be listed

4

Performance Measures

Monitoring and measuring performance enhances better budgeting and service delivery as "what gets measured gets done".

Performance information is not an end in itself - it is intended to ensure transparency and accountability for the use of public funds, help Government to make the correct budget decisions and contribute to service delivery improvement.

The chapter is intended to:

- *Assist departments in specifying appropriate measurable objectives and outputs, developing robust output performance measures or service delivery indicators and setting realistic targets.*
- *Provide departments with examples to assist in developing performance measures; these measures are discussed in the wider context of an improved style of management of public resources.*

Budgeting for better service delivery

Better budgeting enhances service delivery. This is the main message underlying recent reforms in public finance management. In particular, integrated planning, budgeting and monitoring of service delivery performance strengthens the link between the services that departments provide and the benefits and costs of these services. Performance measures give effect to the emphasis on improved transparency and accountability for the management and use of public resources.

Monitoring and measuring service delivery performance is a process of assessing progress towards achieving predetermined goals and is required for each main division of a budget vote in line with section 27(4) of the PFMA. Performance targets are set so as to improve the cost-effectiveness, efficiency and overall effectiveness of service delivery measures. The process of assessing progress may be used as a tool for self-assessment, goal-setting, monitoring progress and to facilitate communication with external customers. Potential benefits include (i) improved quality of service and outputs, (ii) greater accountability and control, (iii) improved management practice, (iv) clearer planning and budgeting, and (v) better communication.

Learning by doing

Better financial management and improved service delivery, however, do not occur simply through the passing of legislation and regulations. Implementation of reforms, such as monitoring and measuring performance requires appropriate training of managers and recruitment of additional management skills into the public service. It can require an overhaul of information systems and information processing. It necessitates building of capacities and understanding new concepts and systems. And it calls for a different style of management across the public service. Successful implementation will take time, effort and a change of mindset within the public service.

The introduction of service delivery and performance information into the budget documentation has meant that public service managers have had to grapple with new concepts and tools for monitoring and measuring performance. These tools require learning-by-doing and practice in 'getting it right'. Experiences from previous years have highlighted difficulties in developing appropriate output performance measures and service delivery indicators. Many of the 'indicators' specified were not related to clear measurable objectives of programmes and did not actually relate to the outputs. They have failed to show whether services contribute towards meeting Government's outcomes. These 'indicators' are therefore of little value to the public, Parliament, the executive and even the department itself.

Getting the terminology right

Monitoring and measuring service delivery and performance presents managers with a wide range of concepts and tools. 'Getting the terminology right' is a first step and will enhance consistency in performance measurement across the public sector.

Performance information in current budget documents focuses on five key terms. These are:

- Outcomes
- Measurable objectives
- Outputs
- Outcome measures and indicators
- Output performance measures and service delivery indicators

A brief description of each term will help clarify how these terms are related and how they together make up a measurement system.

Outcomes

Outcomes are the end social and economic result of public policies or programmes. Outcomes mainly refer to changes in the general state of wellbeing in the community. Examples include a safe and secure environment, healthy citizens, reduction in repeat offenders, reduced poverty levels and stable and self-sufficient families. Outcomes should clearly relate to the government's strategic priorities. At the same time, departments need to ensure that their measurable objectives link to the outcomes that their programmes contribute towards.

Outcomes may be influenced by a wide range of factors and do not fall entirely within the control or accountability of one department, programme or institution. The achievement of an outcome may require the co-ordination and integration of several programmes across different departments, institutions and spheres of government. Outcomes may also be influenced by external factors and are therefore not entirely within the control of government activity. Outcomes are different from outputs in that outputs are final goods and services that directly fall under the control and accountability of the department. Several outputs can contribute to the achievement of one outcome.

Outputs

Outputs are the *final* goods and services produced or delivered by departments to customers or clients that are external to the department. Outputs may be defined as the '*what*' that departments deliver or provide, contributing towards meeting the outcomes that government wants to achieve. Outputs must be measurable. Outputs are delivered to an external party and comprise the majority of day-to-day interaction between citizens and the government. Outputs include services such as issuing passports, providing policy advice, assessing applications for benefits and policing the streets.

The public sector generally performs better when managers focus more on enhancing outputs and outcomes rather than on processing inputs. Output targets are more meaningful than input targets in terms of assessing service delivery outcomes.

Key elements of robust outputs to watch out for include:

An *external focus* – outputs are *final* goods and services that are consumed by *external* clients. These external clients may be another sphere of Government that implements policy of national departments. In some cases, the output may be internal to the department such as a department's financial management, human resource management and advisory services to senior management.

Accountability – outputs should fall within the control and accountability of the department or institution. There should be no ambiguity as to who is responsible for the delivery of the goods or services in question

Comprehensiveness – specified outputs should be as comprehensive as possible and cover a range of more detailed, related activities. Comprehensive outputs tend to be fewer and more manageable when measuring and tracking performance compared to long lists of detailed activities that the department undertakes. Thus several activities may contribute to a single output.

Grouping outputs into different categories may help departments and programmes to distinguish between final goods and services that are provided to external customers and those that are internal outputs that service the needs of the department itself. These categories include:

- Final goods and services
- Policy advice
- Administration of legislation and regulation on behalf of government

These categories can be applied in the formulation of good measurable objectives.

Measurable objectives

Measurable objectives are clear statements of the specific outcomes or results that can be achieved over the medium term period in a given programme. They should provide a clear link between the programme's output/s and the department's goals, and define the actual impact on the public rather than focusing on the level of effort that is expended. Measurable objectives are tools to assess the effectiveness of an agency's performance and the public benefit that is derived.

A quick test to assess whether the objectives are appropriately specified should see whether the measurable objective consists of:

- The primary output that the programme will achieve, when all subprogramme outputs are considered
- The intended impact that the programme's output will have on the public or client
- The acceptable level of performance that will signal that the objective has been obtained

How the above structure is applied to departmental programmes is outlined later in the chapter.

Examples of Measurable Objectives and Outputs

The purpose of this section is to demonstrate several good examples of measurable objectives, outputs and indicators taken mostly from the *2004 Estimates of National Expenditure*. Grouping departments and programmes into different output categories provides some guidance in developing appropriate measurable objectives and outputs.

These categories include:

- Final goods and services that are provided to external customers, such as the service offered by a provincial hospital or prescribed textbooks distributed to public schools. These include tangible goods and services, the administration of concessions, grant payments and other programmes, and goods and services that are delivered under outsourced arrangements but for which the department is accountable.
- Policy advice and ministerial services, such as the co-ordination of the budget process by Treasury. This is an output that assists the government to make informed decisions on policy choices. Government 'buys' the capacity to provide policy advice. The output is usually in the form of briefing notes, policy reviews and cabinet memoranda, to name a few. Policy advice and ministerial services normally involve the processes of researching and monitoring, analysing and evaluating alternative options, preparation of ministerial speeches, discussions and negotiations and the issuing of instructions about policy issues.

- *Administration of legislation and regulation on behalf of government* includes outputs related to compliance monitoring and the assessment and enforcement of regulation.

Final goods and services

The example below is taken from the **Department of Home Affairs** in order to illustrate a good example of a measurable objective where a department delivers a service directly to the public.

Measurable Objective: Grant specified rights and citizenship to eligible persons by issuing valid documents within the targeted delivery period

Intended impact	Programmes output	Performance level
Grant specific rights and citizenship to eligible persons	By issuing valid document	Within the targeted delivery period

The outputs of the various subprogrammes: passports, travel documents and emergency travel documents, can all be linked to the issuing of valid documents.

Statistics South Africa provides an example of a department responsible for producing information to inform decision-making of relevant stakeholders.

Measurable Objective: Inform socio-economic decision-making by producing accurate, relevant and timely economic and social statistical information

Intended impact	Programmes output	Performance level
Inform socio-economic decision making	By producing economic and statistical information	Relevant and timely

The outputs of the subprogrammes: statistical information on industry-related activities in the primary, secondary, tertiary services and transport sectors of the economy, provide tools which help inform socio-economic decision making.

Policy advice and ministerial services

The example taken from the **Independent Complaints Directorate** illustrates well a service that is provided by one department to help ensure the quality of services delivered to the public by another department.

Measurable Objective: Maintain the integrity of independent oversight of the police by timeously finalizing investigations into police-related deaths and criminality, and corruption and misconduct allegedly committed by members of the SAPS and the MPS.

Intended impact	Programmes output	Performance level
Maintain integrity of independent oversight of the police	Investigations into police-related deaths and criminality	Timeously finalise

The subprogramme outputs: Investigate complaints of criminality by the SAPS and MPS and legal advice, clearly relate to investigations into police-related deaths and criminality to help maintain the integrity of the police.

Administration of legislation

The Department of Social Development, provides a good measurable objective and related outputs where a department's outputs are related to compliance monitoring and the assessment and enforcement of legislation.

Measurable objective: Manage social grants through the development of norms and standards and improve compliance with particular focus on improving application processing time and fraud reduction

Intended impact	Programmes output	Performance level
Better management of social grants	Development of norms and standards	Improve compliance and in particular application processing time and fraud reduction

The subprogramme outputs: effective and efficient grant administration, new grant payment system to replace Socpen; enhancement of the Socpen system to support grant administration; develop an optimal service delivery infrastructure network to support service delivery; effective and efficient administration; institutional reform of the social grants system, are associated with the development of norms and standards to manage social grants.

The **Department of Land Affairs** offers another example of a department responsible for implementation of legislation within a targeted period.

Measurable Objective: Resolve restitution claims within the target period through negotiated settlements that restore land rights or award alternative forms of compensation to claimants

Programme's output	Intended impact	Performance level
Resolution of restitution claims through negotiated settlements	Restore land rights or award alternative forms of compensation to claimants	Within the target period

The subprogramme outputs: claims gazetted; claims verified; urban claims settled; rural claims settled; co-ordinate sustainable projects linked to settled claims, relate directly to resolving restitution claims in order to restore land rights.

The last example, taken from the Department of Justice and Constitutional Development, is a good guide for developing a measurable objective which intends to provide a legislative services to the state and public.

Measurable objective: Promote justice and corporate governance through the provision of a legal system and legislative services to the state and the public, by completing instructions received

Intended impact	Programmes output	Performance level
Promote justice and corporate governance	Legal system and legislative services to the state and public	Completing instructions received

The subprogramme outputs: legal services; reduce private sector assistance to government departments; implement Constitution in transforming the legal system; enhanced effectiveness of Chapter 9 institutions; supervision of administration of insolvent estates and companies and close corporations in liquidation, are strongly associated with the provisioning of a legal system and legislative services in order to promote justice and corporate governance.

Output performance measures and service delivery indicators

Output performance measures and service delivery indicators measure how well an expenditure programme (or main division of a vote) is delivering its output and contributing towards meeting the outcomes that government wants to achieve. They play a key role in planning and budgeting as they are used to measure and assess how effectively resources are used to achieve departmental strategic priorities and service delivery targets.

Output measures refer to the tabulation, calculation or recording of an activity, representing the level of service provided. Examples include the number of grants provided, the number of cheques processed, the number of operations performed, the number of graduates enrolled each year. Similar to outcome indicators, service delivery indicators are proxies that are used to measure certain aspects of output performance which are difficult to measure, and tend to be expressed in quantitative or numerical terms such as percentages, ratios and rates.

Output performance measures and service delivery indicators encompass one or more of the following characteristics of performance:

- The *quantity*, volume, or level of outputs or services to be delivered
- The *quality* at which the outputs are to be delivered
- The *timeliness* or timing required for delivery of the outputs

Access to services measures and indicators is often important when measuring quality of outputs, particularly in the South African context. Access measures and indicators measure how well a service is reaching the targeted group.

Measuring the quantity and quality of the services that are delivered to communities and the impact of these services is more meaningful than measuring the inputs. Service delivery information that refers to inputs in the treatment of tuberculosis patients, such as the amount of medication, staff hours being spent on the treatment programme, etc., will not measure how well the service is delivered or the impact of treatment. A more appropriate performance measure may refer to the number of TB patients that have remained on the full treatment programme and are now fully cured. Not only does the measure examine the capacity of the local clinic to perform the required number of vaccinations; it also starts to measure the success of campaigns that encourage patients to remain on the programme.

Developing output performance measures and service delivery indicators

Even the best service delivery and performance information is of limited value if it is not used to identify service delivery and performance gaps, to set targets and to work towards better results. Determining the proper type of measure will depend upon the output that is being measured. The primary focus of a government's performance measures is public reporting. Therefore, the foremost consideration is that the measures and the information they provide be clear and easy to understand.

These measures and indicators should be:

- Simple, clearly expressed and specific
- Relevant and reliable, that is the measure or indicator should be strongly related to the output that it is intended to measure and not used simply because information is readily available
- Economic and easily measurable – there should be easy access to and availability of regularly updated data for the measure or indicator at reasonable cost
- Adequate and manageable – while, selecting a few good measures or indicators to monitor is better than selecting too many, it is important that the measures or indicators chosen provide a sufficient basis for assessment of performance
- *Monitorable*, that is the measure or indicator should be amenable to independent scrutiny, thereby enhancing accountability of performance

Developing suitable performance measures is a complex task. Six key steps may be identified in the preparation and development of performance measures.

Drawing from the departmental strategic plan, managers should:

1. Agree on the results that the department or institution intends to achieve
2. Specify the outputs that are to be measured
3. Select the most important output measures and indicators
4. Set realistic output performance targets against which to measure achievement
5. Determine the process and format of performance reporting
6. Establish processes and mechanisms to facilitate corrective action when required

Step 1: Agree on what is to be achieved

The first step in specifying outputs and developing robust indicators is to agree on the outcomes or results that the department aims to achieve. This means that the department has to specify the measurable objectives, linked to government's strategic priorities, and outputs that it intends to deliver.

Well-defined objectives help to enhance the output and provide a better basis on which to develop appropriate measures and indicators. A strong link is therefore required between departmental outputs, measurable objectives and performance measures and service delivery indicators. Once a department has decided what it wants to achieve, it then needs to decide what it wants to deliver in order to best meet its intended achievements.

Step 2: Specify the outputs that are to be delivered

The second step is often the most difficult – specifying the outputs that will contribute towards meeting the department's measurable objectives and intended outcomes.

Specifying outputs is a key step as it defines the best possible services that may be delivered within the available resources to achieve the social and economic outcomes that the department aims to contribute towards. This is often a stage that involves significant policy debate, as it requires departments to make choices regarding the different policy alternatives that may contribute towards the same outcome, taking into account their spending responsibilities and capacity to deliver.

Step 3: Select the most important output measures and indicators

There is no need to measure every detailed aspect of output performance and service delivery. *Fewer measures may deliver a stronger message*. Departments should therefore only identify measures and indicators that communicate progress towards meeting Government's strategic outcomes or results. Those developed by line or operational managers are often most appropriate.

When selecting robust measures and indicators, it is important to consider the following elements:

- Communicative power – the measure or indicator should communicate how well the department is achieving its outputs and should be understandable to both internal and external clients of the department.
- Data power – there should be regularly available data for the measure or indicator chosen in order to compare what has been achieved with what was intended.
- *Manageability* – the number of measures and indicators utilised should be no more than three or four for each output to ensure that departments have the capacity to collate and analyse measurement data.

Step 4: Set realistic output performance targets

When developing measures and indicators, there is always a temptation to set unrealistic targets and impossible standards for achievement. Monitoring and measuring output performance against a realistic target is more useful than merely measuring performance for performance sake. The setting of targets is therefore critical as it allows for a comparison between existing levels of performance and what is considered to be an acceptable standard of output delivery. When setting targets, consideration should be given to both historical and forecast information that is related to the final service rendered or product produced.

Setting realistic targets using historical data to forecast allows departments to:

- Communicate the results that may be achieved if the current policies and expenditure programmes are maintained
- Raise questions regarding the appropriateness of current policies and/ or expenditure programmes
- Compare output performance on a regular basis using data that is collected on a monthly, quarterly or annual basis.

Care should be taken that targets are set to be realised within the medium term. Targets that are set to be achieved by 2014 are hardly meaningful for the purpose of monitoring and evaluation within a medium term framework.

Step 5: Determine the process and format of reporting on service delivery and performance

Regular monitoring and reporting of departmental spending and delivery performance against expenditure plans and service delivery targets is a requirement of the PFMA. Service delivery and performance information is only useful once it is analysed and fed back into management, planning and budgeting processes to ensure that the appropriate corrective action may be taken. This means getting the right information to the right people at the right time. Departments should therefore determine the purpose and intended audience for this information to ensure that it is analysed and presented in a way that is best understood by the target audience.

Step 6: Establish processes and mechanisms to facilitate corrective action when required

Regular monitoring and reporting of performance against expenditure plans and targets, helps ‘managers to manage’ by informing them of progress against set targets.

The PFMA gives managers greater flexibility to use resources and reprioritise them in line with changes to plans. Service delivery and performance information informs managers as to whether any changes in strategic or operational plans are required in order to meet their targets.

Being able to respond proactively to changes in plans or in response to service delivery and performance results requires that managers ask themselves three key questions. These are:

- What has happened so far?
- In the light of what has happened so far, what is likely to happen to the plan for the rest of the financial year?
- What actions, if any, need to be taken to achieve the agreed plan, objectives and targets?

Monitoring and measuring service delivery and performance therefore enhance management and contribute towards better budgeting and enhanced service delivery.