



Department of Finance

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UmNyango weZeemali

Departement van Finansies

Kgoro ya Matlotlo

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PROVINCIAL TREASURY CIRCULAR 19 OF 2011

TO:

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

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

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

SUBMISSION OF FIRST DRAFT OF BUDGET DOCUMENTS (ESTIMATES OF PROVINCIAL REVENUE AND EXPENDITURE AND ANNUAL PERFORMANCE PLANS FOR 2012 MTEF PERIOD)

a) LEGISLATIVE FRAMEWORK

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

b) INTRODUCTION

The “Medium Term Expenditure Guidelines” are introduced by the Circular 20(A) of 2011. The guidelines provide government departments and public entities with advice on the preparation of expenditure plans for the three-year period ahead, and the process to be followed in seeking Executive Council approval as well as Provincial Legislature approval for appropriations for the year ahead and indicative allocations for the outer years of the 2012 Medium Term Expenditure Framework (MTEF) period.

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

As for the 2011 budget process, the 2012 process takes government’s twelve outcomes and their associated output targets and service delivery agreements as the framework that underpins public expenditure priorities.

The emerging policy framework of the New Growth Path and the urgency of accelerating employment creation are central to government’s medium term strategic outlook.

Departments and spending agencies are expected to reprioritise their baseline allocations and identify savings opportunities as the main body of work in the 2012 budget process. While the budget process provides an opportunity for new spending proposals to be tabled for consideration by the Budget and Finance Committee, the main emphasis in the budget process falls on more efficient and effective use of resources within the already-announced medium term spending envelope.

c) GUIDING PRINCIPLES

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

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

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

Furthermore the 2011 budget process should aim at achieving the 12 identified government outcomes. Department's cost savings will continue to play an important role in the budget process as government seeks reprioritised funding to address its key expenditure priorities.

The expenditure envelope for the 2011/12, 2012/13 and 2013/14 years remains broadly unchanged. Departments and public entities are expected to plan ahead within the indicative forward estimates of the 2011 Budget. For the 2014/15 year, the baseline for recurrent allocations is a 6 per cent overall increase to the 2013/14 amount. Non-recurrent allocations must be removed from the baseline in the outer years of the MTEF where projects and activities have come to an end.

The following are the consumer price inflation assumptions for the 2012 MTEF planning process:

2011/12: 4.8 per cent
2012/13: 5.3 per cent
2013/14: 5.5 per cent
2014/15: 5.0 per cent.

d) COSTING OF EXPENDITURE

It is important that the costing of expenditure between and within programmes should be carefully done, as the law allows for only limited movement of funds between programmes once the Appropriation has been enacted. Cost estimates for each programme are also the key information inputs into the budget process. These provide the essential data both for analysis of budget submissions and, once approved, for populating the financial management systems through which transactions are recorded against approved allocations.

e) COMPENSATION OF EMPLOYEES

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

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

April 2012: 5.8 per cent

April 2013: 6 per cent

April 2014: 5.5 per cent.

f) GOODS AND SERVICES

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

2012/13: 5.3 per cent

2013/14: 5.5 per cent

2014/15: 5.0 per cent.

g) TRANSFERS AND SUBSIDIES

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

h) PAYMENTS FOR CAPITAL ASSETS

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

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

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

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

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

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

i) BUDGET STRUCTURES

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

j) PUBLIC ENTITIES

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

k) ADDITIONAL BUDGET REQUIREMENTS

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

Attached here is the **2011 Provincial budget process schedule** indicated critical dates for submission of documents to Provincial Treasury as well as **2012 Medium Term Expenditure Guideline** for more information about the required budget documents.

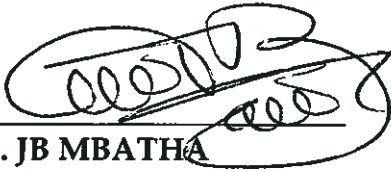
Date for submission of first draft of budget documents has been revised from 1 August 2011 to the 19th August 2011.

1) SUBMISSION DATES

Departments are requested to submit Infrastructure and IT capital project plans and expenditure estimates of departments and public entities, including detailed supporting documentation. These must be included in budget submissions to the Provincial Treasury at an earlier date set at **10 August 2011**.

Departments and Public Entities are requested to submit all budget documents (Annual Performance Plans, Database and Estimates of Provincial Revenue and Expenditure chapters) by **19th August 2011**.

Your co-operation will be highly appreciated.



MR. JB MBATHA
ACTING HEAD OF DEPARTMENT

DATE: 3/8/2011