Medium Term Expenditure Framework (MTEF) Guidelines

Preparation of Expenditure Estimates for the 2015 Medium Term Expenditure Framework

Free State Provincial Treasury

July 2014

CONTENTS

1 INTRODUCTION

1.1 These Medium Term Expenditure Framework guidelines provide an overview of the 2015 Budget process, including timelines for different activities and decision making points, leading to the approval of budget allocations and tabling of the Budget. The technical requirements for budget submissions are outlined in sections 2 to 3 of these guidelines, whereas critical dates and budget structures are reflected in section 4.

1.2 The objectives of the 2015 Budget include:

- **Fiscal sustainability**: achieving an appropriate balance between revenue and expenditure, the debt level and other fiscal aggregates in a manner that promotes economic stability over the economic cycle and ensures a sustainable fiscal position in the medium to long term.
- ***Allocative efficiency*****:** achieving an allocation of resources that reflects the priorities of government on the basis of evidence of programme effectiveness.
- ***Value for money***[1]: promoting the provision of public services, through a process that contributes to achieving economy, efficiency and effectiveness, while being cognisant of the quality and accessibility of services.

1.3 Over the next three years government seeks to:

- Focus expenditure on programmes and projects which are aligned with the policy objectives of government, including those set out in the *Provincial Development Plan* and the *2014-2019 Medium Term Strategic Framework*.
- Contain consumption expenditure including compensation budgets, and direct a greater share of resources towards infrastructure spending.
- Contain expenditure on non-essential items such as travel, catering, consultants and general administration in line with the *2013/14 Provincial Treasury Instruction Note 01 on Cost Containment Measures*, and allocate a greater share of goods and services budgets towards core areas of service delivery.

1.4 The 2015 Budget continues to be informed by the assessment of macro-economic environment and the fiscal policy framework that has served previous budgets. Government faces an extremely tight fiscal environment and expenditure over the 2015 MTEF will be well contained. Poor economic growth performance, rising interest rates and higher levels of inflation place additional pressure on government’s fiscal programme, which seeks to stabilise the growth of debt and restore fiscal sustainability.

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[1] Value for money can be assessed using three criteria: *Economy* - reducing the cost of resources used for an activity while maintaining quality, *efficiency* - increasing output for a given input, or minimising input for a given output, while maintaining quality, and *effectiveness* - achieving the intended outcomes from the output.

1.5 The 2015 Budget will not provide additional funding to the 2014 MTEF spending trajectory. Expenditure for 2015/16 and 2016/17 will be kept within the aggregate ceiling established in the last budget. The new outer year of the 2015 MTEF, 2017/18, has been determined by applying a projected Consumer Price Index (CPI) inflation adjustment to the 2016/17 budget.

1.6 Given the fiscal environment, resources on current baselines should be reallocated from activities that are no longer policy priorities, towards the more urgent priorities defined in the *Provincial Development Plan* and the *2014-2019 Medium Term Strategic Framework*. To this end, departments should assess the possibilities for closing down programmes and projects that are no longer key priorities of government. Emphasis should also be placed on improvements to spending efficiency and effectiveness. Opportunities to expand and improve service delivery will largely need to be financed from within existing allocations. Hence, Departments should identify resources within their baselines from areas of under-performance or insufficient alignment with high level government priorities.

1.6 Where deemed appropriate, the Medium Term Expenditure Committee (PMTEC) and Budget Committee on the Budget (members selected by the Premier) may recommend a reallocation of expenditure between function groups or Departments, or take other measures to finance urgent priorities. However, the threshold for consideration of such financing will remain exceedingly high.

2 BUDGET SUBMISSIONS FOR THE 2015 MTEF

General information

2.1 Departments must submit an endorsement letter, narrative budget submissions and databases to Provincial Treasury on **23 July 2014**.

2.2 Provincial Treasury must submit a narrative budget submissions and databases to National Treasury on **12 August 2014**.

2.3 These guidelines will be issued together with a database for each department. The database includes a *2015 MTEF indicative baseline.* The indicative baseline was determined by excluding non-recurrent spending items and projecting expenditure forward using CPI for the new outer year.

2.4 Departments should work collaboratively with Provincial Treasury budget analysts, through bilateral discussions, to prepare the 2015 MTEF expenditure estimates submission, taking the requirements of the guidelines into consideration.

2.5 Departments must ensure that their Head of the Departments and other political principals are kept updated of budget submissions at all times.

Principles that should guide revisions to expenditure estimates in budget submissions

2.5 The process of preparing expenditure estimates for the 2015 MTEF should be guided by the following principles, which will be taken account of in assessing budget submissions:

2.5.1 Expenditure estimates must be kept within the aggregate ceiling provided in the *2015 MTEF indicative baseline*. New priorities, the strengthening of existing programmes and the accommodation of spending pressures should be accommodated from within the aggregate spending baseline.

2.5.2 The reallocation of funds should seek to achieve one or all of the following objectives:

a) Greater alignment with government's *Provincial* policies, *Development Plan (NDP)* and the *2014-2019 Medium Term Strategic Framework (MTSF)*, and in sector and other institutional plans.

b) Expenditure allocations which are more effective objectives.

c) Achieve greater value for money in realising performance targets, by shifting funds from non-essential items to priority items.

2.5.3 The reallocation of resources (whether within Departments, across Departments in the same function group or between function groups) should be informed by thorough baseline analyses of past expenditure trends, programme effectiveness, achievements and trends of performance indicators and key cost drivers.

2.5.4 The key performance indicators in the 2015 MTEF submission will inform institutional budget allocation decision making. Demonstrable evidence should be provided of the performance implications of funding proposals. Therefore, stronger effort is required to refine the objectives, performance indicators and targets which are used to measure value for money, and whichrepresent the core functions and priorities of Departments.

2.5.5 Departments which have participated in the expenditure reviews and programme evaluation processes are expected to use the results of such reviews and evaluations to improve their programme budgeting and performance.

2.5.6 The impact of reprioritisation on the need to shift the composition of spending from consumption to capital should be taken into account.

2.5.7 With respect to infrastructure spending Departments must: identify infrastructure under spending and provide the reasons for the under spending as well as a description of measures taken to address them; provide the full cost over the life time of infrastructure projects; and provide details of Presidential Infrastructure Coordinating Committee projects that have progressed beyond feasibility assessment and are ready for implementation.

Changes to the Provincial Departments/ Programmes

2.6. With respect to new departments and function shifts related to the creation of new departments and changes to portfolios announced by the Premier on **26 June 2014:**

2.6.1 The new Department and Progarmmes must take into consideration the Budgetary provision must be made for the new departments/ programmes to be established in 2014/15. Provision will be made on existing votes, mostly through reprioritisation. The carry through costs of this should be provided for in each year of the 2015 MTEF period, through reprioritisation.

2.6.2 Requests for approval of programme structures must be made by **4 July 2014** if the planning of the restructuring of a department and its budget programmes have been completed. In cases where programme budget structures have not been finalised by this date proposals will be considered at a later point.

2.6.3 Where existing departmental functions have been changed, both the receiving (new) and giving (existing) department's databases must reflect the function shift, provided that the new department's programme structure is clear and the restructuring approval process has been finalised.

Format and general requirements of budget submissions

2.7 All the requirements outlined in these guidelines apply to provincial departments and public entities (schedule 1, 2, 3A and 3B), and other institutions supported by the departments.

2.8 Budget submissions must be in the form of:

a) An endorsement letter signed by the Accounting Officer / Accounting Authority;
b) Fully completed tables accompanying the budget submission (Annexure 4);
c) A populated expenditure database in the format provided by the provincial Treasury; and
d) An explanatory narrative (refer to 2.18).

2.9 The narrative budget submissions together with databases and tables for Provincial departments (including public entities - schedule 2, 3A and 3B), and constitutional Departments must be submitted to the Provincial Treasury on **23 July 2014**.

2.10 **The endorsement letter** signed by the Accounting Officer or Accounting Authority must highlight important information taken into account in preparing the submission; confirm that the database has been fully completed and that key performance indicators for Departments have been agreed to with the Department of Performance Monitoring and Evaluation and Provincial Treasury. Importantly, this letter must also indicate that the relevant MEC has agreed to the information contained in the budget submission and is familiar with the various requirements of the 2015 budget process.

2.11 **Performance indicators** should be aligned to those reflected in the strategic and annual performance plans as informed by the MTSF.

2.12 **Personnel budgets** should comply with the requirements summarised in paragraphs 3.3 –3.12 below. Departments must also refer to the *Guidelines on Costing and Budgeting for Compensation of Employees (**Annexure 4**)* for more detailed guidance on how to properly cost and budget for personnel.

2.13 **Proposals for new capital projects** must be submitted in line with the *Capital Planning guidelines (**Annexure 5**)*. These guidelines set out the requirements for rigorous evaluation and costing of infrastructure projects, improving project management, and ensuring that capital spending yields the intended outcomes and service delivery improvements, whilst remaining on budget.

2.14 For Departments that have reviewed their **budget programme structures** and activity descriptions, proposed revisions to programme structures should be discussed with the Provincial Treasury budget analysts before a submission requesting approval for this is made. Based on agreement with Provincial Treasury, formal proposals for budget programme structure changes by Provincial departments must be submitted by **4 July 2014**, to National Treasury so that they may be the basis for database submissions on **23 July 2014**, and inform the programme baseline analysis that is anticipated during this budget process. Provincial sector departments must finalise uniform agreed budget programme structures by **30 June each year**.

2.15 Public entities and constitutional Departments must reflect their spending and performance information in a programme/activity/objective format in line with their core functions/mandates, as agreed with Provincial Treasury. The first programme/activity/objective should be Administration. *Guidelines on Budget Programmes* are provided as well.

MTEF database

2.16 There will only be one database used throughout the entire budget process. An initial version for the MTEF decision making will be updated for use in the preparation of the Estimates of Provincial Expenditure (ENE). It is therefore critical that databases are accurately completed in the required format by **23 July 2014**.

2.17 The database must include all expenditure rendered in cash accounting terms over the three years of the MTEF by programme, sub-programme and by economic classification category, as well as revenue estimates . The database submission must include:

a) Estimates of recurrent expenditure by programme, sub-programme, and economic classification.

b) Estimates of non-recurrent activities by programme, sub-programme and economic classification.

c) For each year of the 2015 MTEF, an aggregate budget baseline amount that does not exceed the indicative baseline amount provided by Provincial Treasury.

d) Key performance indicators baseline information at programme and/or sub-programme level, as well as any changes proposed to key performance indicator targets in respect of the baseline reprioritisation at programme level, where applicable.

e) Details of the reprioritisation of funds within and between programmes and sub-programmes, and economic classification. The following factors should be reported on when baselines are reprioritised:

- Reprioritising towards areas of high priority from areas of less priority or lower performance.
- Particular attention must be given to underperforming programmes (including areas of under spending) and non-essential goods and services budgets (for example, travel and subsistence, advertising and catering costs). Where reductions are being made as well as to where funding is being reprioritised, must be explicitly shown in the database;
- Providing for the continuation of existing programmes and new budget pressures, if any;
- Amounts budgeted for conditional grants should not be reprioritised to other spending items, except when there is under spending. In respect of such under spending, evidence must be provided of blockages that will continue to cause under spending despite support provided by Provincial government. Evidence of this support must also be provided.

f) Details of personnel headcount and expenditure by salary level at programme and/or sub-programme level for departments.

g) Details of personnel headcount and expenditure by salary band, nature of appointment, occupations and items of payments for public entities.

h) Provincial concurrent function departments must include the total amounts of transfers for provincial government conditional grants and local government conditional grants.

i) With respect to provincial conditional grants, the horizontal division of the total grant amount between each of the provinces must also be indicated;

j) Details on capital spending, including Presidential Infrastructure Coordinating Commission Strategic Integrated Projects, where applicable;

k) Details of the costs and outputs in relation to statutory requirements and policy priorities that cannot be accommodated within the budget baseline reprioritisation must be provided and well-motivated on a separate sheet provided.

l) Donor assistance.

Explanatory narrative

2.18 The explanatory narrative should include the following, where relevant:

a) A summary of changes in mandate and core functions due to the *2015 Programme Budget structure* or any other relevant developments;

b) A summary of the rationale underlying significant reprioritisation of funds and programmes or projects made in the 2015 MTEF, through the baseline analysis process;

c) Details of progress on the attainment of key performance targets funded in the previous two budget cycles, alignment of key performance targets with the *Provincial Development Plan, 2014-2019 Medium Term Strategic Framework*, sector plans and other institutional plans, where applicable.

d) Departments must also indicate the effects of the baseline analyses and reprioritisation exercise on performance in terms of the key performance indicators and targets;

e) Discussion of findings from expenditure reviews and programme evaluations and how they informed baseline analyses and reprioritisation, and institutional priorities;

f) Progress on the implementation of conditional grants in the past financial year (2013/14) with the reasons for under spending and a description of measures taken to address this;

g) Details of the Presidential Infrastructure Coordinating Commission (PICC), Strategic Integrated Projects (SIPs) planned and budgeted for the 2015 MTEF, where appropriate;

h) In respect of all infrastructure programmes which have been under spending in the past, the reasons for under spending and a description of measures taken to address this;

i) A summary of statutory requirements and policy priorities that cannot be fully funded through the reprioritisation of budget baselines. This summary should include the details of reforms to delivery models, institutional arrangements and policy frameworks that were considered in an attempt to accommodate as much of these costs within institutional budget baselines;

j) Departments may also submit the cost estimates of core policy mandates which are performed by state owned companies on their behalf; and

k) Other relevant information.

Guidance regarding public entities and state owned companies

2.19 Public entities are important financial and service delivery agents and are an integral part of the function PMTEC processes. Entities are required to improve the quality of expenditure information on programmes/activities/objectives and improve the link to performance information, in collaboration with Provincial Treasury and their related departments. During the function PMTEC process, which includes baseline analyses and reprioritisation, within and across Departments, public entities must also be considered.

2.20 In order to enable consolidated expenditure estimates to be prepared, budget projections for public entities must be organised into programmes/activities/objectives (with the first programme/activity /objective being Administration), as well as by main economic classification. It is critical that the data template be accurately completed for submission to Provincial Treasury by **23 July 2014**, as only one database will be used for both the PMTEC and EPR&E processes. A data template will be sent to each entity for completion.

2.21 Further guidance on completing the database template is included in the template itself and entities must read these as well as the notes sheet before completing the template. The data template will be distributed with departmental databases and must be completed and submitted to Provincial Treasury.

2.22 For compensation of employees, the database requires public entities to provide information on personnel headcount and expenditure by salary band, nature of appointment, occupations, and items of payments. All technical requirements for costing and budgeting for compensation of employees apply to public entities in the same way they apply to departments.

2.24 The Asset and Liability Management division in the Provincial Treasury will communicate with relevant state owned companies regarding the content and form of submissions they may be required to make. Relevant state owned companies may be required to participate in function PMTECs and the Public Entities and State Owned Enterprises Financial Forum. State owned companies which submit information to the Provincial Treasury must familiarise themselves with the contents of these guidelines.

2.23 In order to enhance understanding of potential fiscal risks, departments may also submit the cost estimates of core policy mandates which are performed by state owned companies on their behalf. This information should be submitted to the National Treasury on **28 July 2014**, in a narrative form.

3 ASSUMPTIONS AND METHODS FOR ESTIMATING EXPENDITURE

Non-personnel budgets: inflation projections

3.1 The following consumer price index (CPI) inflation projections can be used to inform the provisions that Departments choose to make for price increases over the 2015 MTEF period for non-personnel expenditure items:

- 2015/16: 5.6 per cent
- 2016/17: 5.5 per cent
- 2017/18: 5.0 per cent

3.2 These inflation projections are a guide to expenditure estimates at the aggregate level, but variation along different budget lines is permissible. For instance, taking account of paragraph 3.1 above, it should be expected that budgets for non-essential goods and services items, such as travel, accommodation, consultants etc., grow below inflation.

Personnel budgets: summary of projection methodology

3.3 This section summarises the steps that Departments should follow in preparing their personnel budget for inclusion in the 2015 MTEF baseline.

3.4 The 2012 wage agreement is coming to an end in 2014/15 financial year. Negotiations for a new wage agreement are expected to commence during 2014. The outcome of these negotiations cannot be known in advance. Nevertheless, government must begin planning for the next three year spending window and compensation budgets account for the largest share of spending. In the absence of certainty, government will continue to plan budgets on the assumption that cost of living adjustments will track CPI projections. This does not imply any attempt to pre-empt the outcome of negotiations; it is a neutral assumption on which to proceed in constructing medium-term expenditure baselines.

3.5 That said, budget Departments should take note that there will be very limited scope to augment resources to support wage increases that are higher than budgeted for. In previous budget cycles significant resources were available above the baseline to accommodate unanticipated wage pressure. This included drawdowns on the contingency reserves and other additions to baseline. Given current fiscal constraints, scope for the provision of additional resources will be very limited.

3.6 Departments will, therefore, need to reprioritise from existing baselines and manage headcount growth to respond to above-inflation wage pressures over the next three years, particularly if negotiations result in an outcome that deviates significantly from CPI. Departments are urged to pro-actively manage their personnel establishments and take action to reduce costs associated with promotions and progression over the medium term.

3.7 As in previous years, Departments in all sectors must achieve value for money and control growth in personnel expenditure. Departments must cost and budget realistically for all compensation expenditures. Moreover, careful consideration should be given to the filling of funded vacancies and the potential to utilise available resources to finance future compensation pressures.

3.8 Departments are expected to continue to budget for compensation of employees within their existing baselines. Departments must ensure alignment between compensation of employees budgets and personnel headcount. Where MTEF baseline budgets are clearly inadequate to maintain personnel headcount, Departments must rectify this and reflect it in budget submissions. **Budget submissions that do not comply with this requirement will be referred back to Departments by Provincial Treasury**.

3.9 The 2015 MTEF indicative baseline does not provide for general funding of new posts, except in cases where departments were specifically allocated funding to create new critical posts in the 2014 Budget. Funding for employment of personnel over and above already agreed funded establishments will be considered only where critical skills are required and where properly motivated to the Provincial Treasury. In most instances, these allocations will need to be financed by reallocated resources from funded vacancies or elsewhere within the department's baseline.

3.10 Only filled posts or vacancies that are funded should be included in the expenditure estimation process. Unfunded vacancies are not budgeted for. Data mismatches and discrepancies between PERSAL and budget systems mean that PERSAL cannot be solely relied upon to quantify the vacant funded posts. Posts that have no matching funds available in budgets must be considered to be unfunded, even if they are tagged as funded on the PERSAL system. Filling such posts without appropriated funding would give rise to unauthorised expenditure.

3.11 In their budget database submissions, Departments provide for cost of living adjustments, progression rates in each sector (both notch and grade progression) as well as personnel growth, if applicable, as follows:

a) Personnel expenditure as at **31 May 2014** or the most recent month for which data are available, should be used as the base for estimating the compensation budgets for 2015/16.

b) Actual expenditure figures must be generated from PERSAL for each item of payment (i.e. basic salary, pension, overtime, performance bonus, medical allowances etc.) for Senior Management Service (SMS) and non-SMS employees respectively. Actual expenditure for 2013/14 and revised expenditure for 2014/15 for each item of payment should be increased using the following **escalation factors** contained in table 1.

c) Having applied escalation factors to the baseline, progression factors are then applied are applied to each item. Progression rates differ according to the remuneration policies in different sectors. Table 2 shows the progression rates to be applied to each item of payment. Note that progression does not apply to housing and medical allowances, bargaining chamber contributions or Unemployment Insurance Fund contributions.

TABLE 1: ESCALATION FACTORS

PAYMENT ITEM	2015/16	2016/17	2017/18
Basic salary (non SMS)	5.6%	5.5%	5.0%
Basic salary (SMS)	5.6%	5.5%	5.0%
Housing allowance	0%	0%	5.0%
Overtime	5.6%	5.5%	5.0%
Employer contribution: Medical	5.6%	5.5%	5.0%
Employer contribution: Pension	5.6%	5.5%	5.0%
Performance bonus	5.6%	5.5%	5.0%
All other	5.6%	5.5%	5.0%

TABLE 2: PROGRESSION FACTORS (APPLIED TO EVERY YEAR OF THE 2015 MTEF)

PAYMENT ITEM	ALL OTHER DEPARTMENTS	PROVINCIAL EDUCATION	SAPS	DEFENCE
Basic salary	1.5%	1.0%	1.3%	2.0%
Overtime	1.5%	1.0%	1.3%	2.0%
Employer contribution: Pension	1.5%	1.0%	1.3%	2.0%
Performance bonus	1.5%	1.0%	1.3%	2.0%
Other items	1.5%	1.0%	1.3%	2.0%

d) Having applied escalation and progression factors, the third element is to apply a personnel headcount growth factor, where applicable, taking paragraphs 3.3 - 3.10 into consideration. Headcount numbers, both historical and future estimates, must be explicitly stated in the database. Headcount growth must be kept to a minimum, but where headcount growth is built into the 2014 MTEF baseline this should be reflected.

e) The database submission also must include an estimate of funded vacancies. These vacancies should be identified by salary level per programme. The combination of the budget for filled posts and funded vacancies cannot exceed the total compensation budget estimate. Where misalignment is identified by the relevant Treasury, resubmission will be required.

3.12 The total compensation of summing employees' all payment items budget calculated in the three steps provided in the *Guidelines on Costing and Budgeting for compensation of Employees*. Detail on the calculation method for long service recognition, night shift allowance, housing allowing etc. are also provided.

4 THE 2015 BUDGET PROCESS: CRITICAL DATES AND STRUCTURES

4.1 The budget process aims to ensure that resources are available for political priorities and to improve the quality and effectiveness of spending within sustainable fiscal limits. Through the budget process, a large public number of Departments plan, collaborate, negotiate and decide together on a comprehensive plan for spending public resources over the next three fiscal years. **Annexure 2** contains a more detailed description of the process and structures for preparing Budget 2015. This section focusses on critical dates and key technical structures.

Technical structures

4.2 The budget process is organised to take account of the principle of function budgeting, the constitutionally specified system of intergovernmental fiscal relations and a consolidated approach to the public finances. The composition of function groups is summarised in **Annexure 1**. The emphasis of the 2015 Budget process will be on:

- Strengthening the alignment between the budget process and the strategic planning processes within government. The focus is on institutional performance and the attainment of value for money in this pursuit.

- Strengthening the political and technical interface in relation to budget and policy decision making.
- Strengthening intergovernmental processes to improve the budgeting for areas of concurrent Provincial and provincial legislative competence within a function budgeting framework.

4.3 The PPMTEC and the Budget Task Team, who will process and finalise budget allocation recommendations to EXCO:

- PPMTEC is a committee of senior officials chaired by MEC for Finance that makes recommendations to Budget Task Team regarding budget allocations in the medium term expenditure framework, taking into account government priorities, funding available, alternative funding sources and the division of revenue amongst the three spheres of government.
- Budget Task Team is a committee of the selected MECs and HoDs appointed by the Premier. The team considers intergovernmental finances and the division of revenue and may make recommendations to the EXCO.

Critical dates

4.4 The 2015 Budget process will be broadly comprised of three phases:

- **First phase –preparation for the Medium Term Expenditure Committee (PMTEC) process** - is expected to take place during **August 2014**. It will seek to establish the preliminary 2015 Budget baselines for Departments and function groups through detailed technical analysis of 2015 MTEF baselines by Departments. (
- **The second phase –the PPMTEC process** - is expected to take place in 22-23 **September 2014**. Extensive bilateral engagements between Departments and the Provincial Treasury will take place with a view to improvements in the efficiency and effectiveness of resource allocation on Departments' baselines. Engagements will take place in the context of budget groups and Function PMTECs, in intergovernmental forums. These will consider resource allocation between Departments and deliberate on reforms to delivery models, institutional arrangements and policy frameworks that would promote more effective achievement of value for money in the execution of policy objectives. They will take account of expenditure reviews and programme evaluations so that resource allocation is informed by evidence on programme effectiveness.
- Statutory requirements and policy priorities which are not accommodated in the baseline through the reprioritisation process should be reflected, where appropriate. The outcomes of the second phase will be considered by Budget Task Team, which may recommend reallocation of funds between function groups or Departments, or take other measures to finance identified priorities. Final recommendations on the reallocation of resources from Budget Task Team will be taken to EXCO.

- **The third phase –finalisation of budget allocations and preparation of the budget** - is expected to take place between November 2014 and February 2015. Shortly after the tabling of the MTBPS, Provincial Treasury will issue preliminary MTEF allocation letters to Provincial and provincial Departments. Premier and MECs will have an opportunity to engage on these preliminary allocations prior to their adoption in Legislature, taking account of possibilities for financing any spending pressures that may then be identified. The Budget Task Team will recommend final allocations to EXCO. After the adoption and distribution of final allocation letters, preparations for the tabling of the 2015 Budget and the Estimates of Provincial Revenue and Expenditure will commence.

4.5 Critical dates in respect of the provincial budget process are provided in table 3. Provincial departments and public entities follow the specific requirements of the provincial budget processes. These guidelines should thus be read together with the *Provincial Budget Process Schedule and Guide for Provincial Budget Formats*. Provincial Departments and entities must receive revised baseline estimates from provincial Treasury and public entities by **10 July 2014**, in order for consolidated departmental estimates to be prepared by **23 July 2014**.

TABLE 3: CRITICAL DATES FOR THE 2015 PROVINCIAL BUDGET PROCESS

ITEM	DATE
Technical Committee on Finance (TCF) Lekgotla	17-18 July 2014
Budget Council meeting (provisional) Initial allocation letter to departments	End July 2014 10 July 2014
Provincial Treasury submit first draft 2015 Budgets to National Treasury: (Estimates of Provincial Revenue and Expenditure and database) ✓ Department submit first draft (EPRE, Database and Budget submission) 2015 Budget to Provincial Treasury ✓ Departments submit first draft APP and SPP to Department of Premier ✓ Department of Premier circulate the documents to stakeholders (such as Provincial Treasury) before submission to DPME **Provincial APPs and SPPs submitted to DPME by Department of Premier** **EXCO Budget Lekgotla**	**12 August 2014** ✓ 23 July 2014 ✓ 31 July 2014 ✓ 12 August 2014 **29 August 2014** **27-28 August 2014**
PPMTECs Technical Committee on Finance meeting	**21-23 September 2014** 26 September 2014
Preliminary conditional grant frameworks and allocations submitted to National Treasury by National transferring officers	2 October 2014
Budget Council and Budget Forum meeting	3 October 2014
Adjustment budget allocation letters from National Treasury Proposed allocations to EXCO Adjustment budget allocation letters to departments Submission of adjustment inputs to Provincial Treasury Tabling of Medium Term Budget Policy Statement (MTBPS) and Adjustment Budget in Legislature	24 October 2014 29 October 2014 30 October 2014 5 November 2014 20 November 2014
Preliminary allocation letters issued to provinces – equitable share and conditional grant allocations ✓ Preliminary allocation letter submitted to Departments	End October 2014 6 November 2014
Departments submit 2nd draft 2015 Budgets to Provincial Treasury and 2nd draft APP & SPP to Premier's office	13 November 2014

ITEM	DATE
Provincial treasuries submit 2nd draft 2015 Budgets to National Treasury: Estimates of Provincial Revenue and Expenditure and database Provincial APPs and SPPs submitted to DPME Technical Committee on Finance meeting	20 November 2014 20 November 2014 21 November 2014
Provincial benchmark exercise for 2015 Budget **Free State** Final conditional grant frameworks and allocations submitted to National Treasury by National Department Second allocation letter to provinces ✓ Second allocation letter to Departments	02–12 December 2014 **09 December 2014** 5 December 2014 12 December 2014 15 December 2014
Provincial benchmark exercise for 2015 Budget (2nd round) Technical Committee on Finance meeting	19- 23 January 2015 End January 2015
Final allocation letters issued to provinces ✓ Final allocation letter to Departments Provincial departments submit final draft 2015 Budgets to National Treasury: Estimates of Provincial Revenue and Expenditure and database Budget Council meeting Submission of appropriation bill to State Attorneys Submission of the book to the printers	End Jan/Early Feb 2015 4 February 2015 5 February 2015 End Jan / Early Feb 2015 18 February 2015 23 February 2015
Provincial 2015 Budgets tabled at provincial legislatures	6 March 2015

4.6 Critical dates in respect of the national budget process as set out below in table 3 for your information.

TABLE 3: CRITICAL DATES FOR THE 2015 NATIONAL BUDGET PROCESS

ITEM	DATE
MTEF *technical guidelines* and databases issued to Provincial Treasuries	20 June 2014
Information sessions with Treasuries on MTEF technical guidelines and databases	9 June 2014
National Departments submit proposals for budget programme structure revision to Provincial Treasury	4 July 2014
PMTEC process commences	21 July 2014
Budget submission from National Departments and public entities: narrative and database	28 July 2014
ENE technical guidelines distributed to Departments	11 August 2014
Public entities submit board approved annual budget to Provincial Treasury	1 September 2014
PMTEC process concludes: recommendations tabled to MINCOMBUD	30 September 2014
Tabling of Medium Term Budget Policy Statement	22 October 2014
Preliminary allocation letters issued to Departments	31 October 2014

Ministerial comments on preliminary allocation letters	10 November 2014
Submission of first draft ENE databases and chapter	14 November 2014
Cabinet approved final allocations distributed to Departments	21 November 2014
Submission of approved ENE chapter (second draft)	5 December 2014
Budget tabled in Parliament	25 February 2014

ANNEXURE 1: FUNCTION GROUPS AND BUDGET GROUPS

FUNCTION GROUP	MTSF OUTCOME	NDP	BUDGET GROUP	NATIONAL DEPARTMENTS	PROVINCIAL DEPTS	KEY PUBLIC ENTITIES
1. BASIC EDUCATION	*[1] Quality basic education*	*Chapter 9*	**A: Basic education**	Basic Education	Education	SA Council for Educators uMalusi, Education Labour Relations Council
2. HEALTH	*[2] A long and healthy lifestyle*	*Chapter 10*	**B: Health**	Health	Health	Provincial health laboratory service Medical Research Council Council for Medical Schemes
3. DEFENCE, PUBLIC ORDER AND SAFETY	*[3] All people in South Africa are and feel safe*	*Chapters 12 & 14*	**C: Defence and State Security**	Defence Military Veterans Provincial Treasury P10 (*Financial Intelligence and State Security*)		Armaments Corporation of South Africa Limited Castle Control Board Financial Intelligence Centre
			D: Police Services	Police Independent Police Investigative Directorate Civilian Secretariat for Police	Safety and Security (PRT)	Private security industry regulatory authority
			E: Law Courts and Prisons	Justice and Correctional Services Office of the Chief Justice		Legal Aid South Africa Special Investigating Unit The Public Protector of South Africa South African Human Rights Commission
4. POST SCHOOL EDUCATION & TRAINING	*[5] A skilled and capable workforce*	*Chapter 9*	**F: Post school Education and training**	Higher Education and Training	Education (FET and Adult Education Programmes)	SETAs , Provincial Skills Fund, NSFAS SAQA,
	[4] Decent employment through inclusive economic growth *[10] Protect and enhance our environmental assets and natural resources*	*Chapters 3 & 5*	**G: Industrial development, trade and innovation**	Economic Development Mineral Resources Trade and Industry Science and Technology Tourism Environmental Affairs Agriculture, Forestry and Fisheries (except P3) Small business Public Works P4 (*Property & Construction Ind. Policy Regulation*)	Economic Development Environmental Affairs Nature Conservation Tourism	CSIR, HSRC, NRF, SANSA, TIA Mintek, CGEO Competition Commission and Tribunal IDC, SATOUR NEF, SEDA, SABS, CIPRO, NCR, NLB, SANBI, SANPARKS ARC, NAMC, CIDB, PMTE
			H: Employment,	Labour Public Works P3 (*Expanded Public Works*)		CCMA, NEDLAC, Productivity SA

5. ECONOMIC AFFAIRS			**labour affairs and**	Provincial Treasury P7 (*Pensions, Contributions and*	EPWP programmes	Jobs Fund
			social security funds	*Benefits*) *All EPWP programmes in Provincial departments*	In all departments	UIF, RAF, Compensation Funds
	[6] An efficient, competitive and responsive economic infrastructure network	*Chapter 4*	**I: Economic infrastructure and network regulation**	Energy (except P4) Transport (except P7) Telecommunications and Post Water (except P4)	*For budget accounting purposes provincial infrastructure in included in sub group 6.1. Nevertheless, provincial roads and other economic infrastructure will also be considered as part of this group.*	SANRAL, Ports Regulator, Sentech, USAASA, SAPO, ICASA, USAF, NEMISA NERSA, NECSA SANEDI TCTA, Water Boards

FUNCTION GROUP	MTSF OUTCOME	NDP	BUDGET GROUP	PROVINCIAL DEPARTMENTS[1]	PROVINCIAL DEPTS	KEY PUBLIC ENTITIES[2]
6. LOCAL ECONOMIC DEVELOPMENT & SOCIAL INFRASTRUCTURE	*[8] Sustainable human settlements and improved quality of household life*	*Chapter 8*	**J: Housing Development and social infrastructure**	Human Settlements Water Affairs P4 (*Regional implementation/support*) and Sanitation Transport P7 (*Public Transport*) Energy P4 (*Electrification and energy programme*) COGTA (*Local and Provincial Condition Grants*) All other departments (*relevant conditional grants to local and provincial government, direct and indirect*)	Human Settlements Roads and Transport (PRT) Public Transport	PRASA , Railway Safety Regulator IDT EDIH Pty Housing Development Agency, NURCHA, NHFC SHRA, NHBRC, RHLF
	[9] Responsive, accountable, effective and efficient local government	*Chapter 13*				
	[7] Vibrant, equitable, sustainable rural communities contributing towards food security for all	*Chapter 6*	**K: Rural development and land reform**	Rural Development and Land Reform Agriculture, forestry and fisheries P3 (*Food Security and Agrarian Change*)		ALHA, Ingonyama, Deeds TA
	[14] Nation building and social cohesion	*Chapter 15*	**L: Arts, Sport, Recreation and Culture**	Arts and Culture Sport and Recreation	Arts and Culture Sport and Recreation	Freedom Park Trust, NAC, NFVF, PANSALB SAHRA, NHC, Heritage Departments Arts Departments, Libraries Boxing SA, SAIDFS
			M: Executive and legislative organs	The Presidency Communications Women Parliament Planning, Monitoring and Evaluation	Office of the Premier Provincial Legislature Traditional Affairs	GCIS MDDA, Brans SA Commission on Gender Equality SABC Provincial Youth Development Agency

7. GENERAL PUBLIC SERVICES	*(12) An effective and development oriented Public service*	*Chapter 13*	**N: General public administration and fiscal affairs**	National Treasury Public Enterprises Statistics South Africa Cooperative Governance and Traditional Affairs (*excluding transfers to local and provincial government*) Public Service and Administration Public Works (P1, P2, P5)	Provincial Treasury Public Works	Provincial School of Government SITA , Public Service Commission FSB, GPAA, PIC, FFC, ASB, Co-operative Banks IRBA, SARS, Pension Funds Adjudicator Ombudsman for Financial Service Providers SALGA, CRL commission, MDB
			O: Home affairs	Home affairs		IEC, Govt Printing Works Film and publication board
	[11] Create a better South Africa, Africa and a better World	*Chapter 7*	**P: External Affairs and Foreign Aid**	Inter Provincial Relations and Cooperation Provincial Treasury P6 (*InterProvincial Financial Relations*)		African renaissance and interProvincial cooperation fund
8. SOCIAL PROTECTION	*[13] Social protection*	*Chapter 11*	**Q: Social Development and Welfare Services**	Social Development	Social Development	SASSA, NDA

[1]Prefers to the relevant programme as described in the 2014 Estimates of Provincial Revenue & Expenditure
[2]Only selected entities are included on this table. A full list of entities and their assignment to function and budget group is contained in Annexure 3.

ANNEXURE 2: STRUCTURES AND PROCESSES FOR THE 2015 BUDGET

Introduction

South Africa’s budget exceeds one thousand bill resources are allocated to meet South Africa’s effectiveness of spending within sustainable fiscal limits. Through the budget process, a large number of public Departments plan, collaborate, negotiate and decide together on a comprehensive plan for spending public resources over the next three fiscal years.

The budget process is organised to take account of the principle of function budgeting, the constitutionally specified system of intergovernmental fiscal relations and a consolidated approach to the public finances. The composition of function groups is summarised in **Annexure 1**.

Key process objectives of the 2015 budget include the need to strengthen:

- The alignment between the budget process and the strategic planning processes within government. The focus is on institutional performance and the attainment of value for money in this pursuit.
- The political and technical interface in relation to budget and policy decision making.
- Intergovernmental processes to improve the budgeting for areas of concurrent Provincial and provincial legislative competence within a function budgeting framework.

Function budgeting

Function-budgeting serves two purposes:

- It is a method of categorising expenditure based on the policy objectives which the expenditure is intended to achieve.
- It is a framework in terms of which the budget process is organised. The process of planning, collaborating, negotiating and deciding on resource allocation is aligned within a function group categorisation of expenditure.

Classifying resource allocations according to their purpose shifts the focus of budgeting from line items to the outcomes. In a period of fiscal constraint, function budgeting facilitates a discussion of the trade-offs involved in allocating resources between policy objectives. It also brings attention to the efficiency and effectiveness of resource use directed at a particular policy objective. This implies a discussion of the relationship between allocations and the design of policy frameworks, institutional arrangements and delivery models that seek to achieve a particular outcome. It takes budgeting beyond a focus on individual administrative units, recognising that policy outcomes require cooperation between complementary stakeholders.

For the 2015 MTEF eight function groups are defined (see **Annexure 1**). The groups are structured to align as far as possible to the 14 outcomes identified in the *2014-2019 Medium Term Strategic Framework*. The function groups also therefore facilitate a discussion of a relationship between budgets and the vision contained in the *Provincial Development Plan*.

Intergovernmental budgeting

The Constitution establishes three spheres of government; assigns them functional responsibilities, prescribes a legal framework for fiscal relations and enjoins the three spheres to cooperate on fiscal and policy matters. Several of the function groups listed in the previous section relate to concurrent powers shared between the Provincial, provincial and local spheres.

Provincially collected revenue is shared between the three spheres of government to finance the administration of these concurrent functions. In particular, health and basic education are financed through a combination of the provincial equitable share and conditional grants to provincial governments. The community development and social infrastructure function requires effective fiscal relations between Provincial, provincial and local spheres.

This raises a number of challenges. One is to ensure improved linkages between the National and Provincial budget processes. A second is to ensure that intergovernmental fiscal transfers are structured in a manner that achieves Provincial policy objectives in a cost effective manner. A third is to ensure that provincial and local governments have sustainable funding so that they can continue to deliver their mandates.

In addition to examining the budget from a functional perspective therefore, the budget process must also consider whether the constitutional requirement for an equitable division of revenue between the three spheres has been met. This requires examining whether the total allocations to provinces and local government (from all functions) respond to the pressures in these spheres. Failure to properly take account of pressures in other spheres can result in funds intended for one priority through the Provincial budget process being diverted to fund other pressures in provincial or municipal budget processes. The Provincial budget process must therefore include extensive engagement with other spheres to ensure that shared priorities are agreed upon.

Consolidated budgeting and the public sector balance sheet

While Provincial revenue must be shared across three spheres of government, the budget is consolidated to include public entities and social funds that receive their revenue from other sources. These include Departments such as the Unemployment Insurance Fund, South African Provincial Roads Agency Limited (SANRAL) and the Provincial Skills Fund[3]. In several instances these entities build up surpluses or risks on their balance sheets which have direct consequences for the fiscal position of government. The policy mandates and associated financial programmes of these Departments should be properly integrated into the budget process.

The budget process must also take account of risks and opportunities on the broader public sector balance sheets. While some of these revolution fall can outside have significant consequences for fiscal sustainability.

[3] Entities which are administratively outside Provincial departments but which receive funding from transfers are also consolidated into the budget.

Key political structures

The budget process is led by a number of political structures, which report to Legislature for final approval of all budget decisions. Legislature exercises oversight over the budget and its related processes to ensure that key government priorities are achieved. Legislature reviews the proposed allocation of Provincial resources and provides final approval for them to be tabled in the Budget.

The political structures involved in the budget process include:

- **Provincial Budget Task Team (Budget Task Team):** Its mandate includes consideration of budget allocations to be included in the Provincial budget, the MTEF and the division of revenue framework. It also considers issues related to the determination of expenditure allocations, including the economic assumptions underpinning the budget, fiscal policy objectives and tax proposals. The Budget Task Team is convened and chaired by the MEC for Finance. Its members are appointed by the Premier on recommendation from the Minister of Finance. The team makes recommendation to EXCO on how budget should be distributed.

Technical structures

The technical preparation of the 2015 MTEF will be guided by the structures and processes outlined below.

Provincial Medium Term Expenditure Committee (PPMTEC):

PPMTEC is a committee of senior officials that makes recommendations to Budget Task Team and EXCO regarding budget allocations in the medium term expenditure framework, taking into account government priorities, provincial economic review and outlook, funding available, alternative funding sources and the division of revenue amongst the three spheres of government. It is composed of the MECs of the following departments:

- ✓ Provincial Treasury (MEC for Finance Chair)
- ✓ Police, Roads and Transport
- ✓ Education
- ✓ Agriculture and Rural Development
- ✓ Various majors
- ✓ Director General
- ✓ CEO Treasury

Function of Head of Departments (FOHOD):

FOHOD is a committee of the heads of all provincial departments and is chaired by the DG of the province. The FOHOD considers intergovernmental finances and the division of revenue and may make recommendations to the EXCO. If agreed in these forums, matters are referred to Budget Task Team. The FOHOD will be consulted on all significant changes proposed to intergovernmental transfers, to ensure that the interests of provinces have been taken into account. SALGA should also be consulted on any changes impacting local government.

PPMTEC sub-committees

Provincial Treasury will appoint *Budget Group Leaders*, who will be responsible for engaging with Departments and preparing reports to the PMTEC for each Budget Group. They will convene Budget bilaterals and Budget Group discussions. A first report of the Budget Group Leader will be considered, together with other inputs, at a Function PMTEC prior to its presentation at the PMTEC. In function areas with concurrent powers (health, basic education and local economic development and social infrastructure), the Function 10x10 may substitute for, or complement, the role of the Function PMTEC.

Having taken account of the discussion at the Function PMTEC, the Budget Group Leader will prepare a report to PMTEC. PMTEC takes final decisions on the recommendations that will be presented to EXCO. The table below summarises the composition and mandate of key sub-structures of PMTEC. The full terms of reference of these structures will be adopted by PMTEC.

NATIONAL MTEC SUB-STRUCTURES: SCOPE AND COMPOSITION

STRUCTURE	DESCRIPTION	MANDATE
BUDGET BILATERAL	*SCOPE:* Provincial departments/Individual budget votes *CONVENOR:* Budget Group Leader *COMPOSITION:* Provincial Treasury budget analysts, programme and financial officials of Departments.	Analyse budget by line item to ensure that institutional work is appropriately financed. Detailed examination of the programme budgets falling within each vote by line item Analyses of spending trends, identifying areas of waste and inefficiency, key cost drivers and the financial and non-financial performance record of programmes.
BUDGET GROUP	*SCOPE:* Cluster of Departments aligned with an MTSF outcome (see table in **Annexure 1**) *CONVENOR*: Budget Group Leader *COMPOSITION:* Relevant programme and finance officials from line departments, public entities and provincial representatives as appropriate and Provincial Treasury budget analysts	Review of budget submissions made by departments and other Departments Consider the reallocation of resources within the group Generate draft MTEC recommendations
FUNCTION PMTEC	*SCOPE:* Function group or subset within a function group *CONVENOR:* Provincial Treasury (Budget Office) *COMPOSITION:* Executive officials (DG and DDG) from relevant Departments	Consider draft reports of Budget Group Leader Assess the broad alignment of resources to support government's policy objective Identify key reforms to delivery models, institutional arrangements or policy frameworks that can generate better value for money in the achieving government's policy objectives Deliberate on the trade-offs and challenges that cut across the function group.
FUNCTION 10x10	*SCOPE:* Health, Basic Education and Local Economic Development and Social Infrastructure Function groups *CONVENOR:* Provincial Treasury (DG) and Provincial Department in the sector (DG) *COMPOSITION:* Heads of lead department of the nine provincial and one Provincial department relevant to the sector Heads of department of the nine provincial treasuries and the Provincial Treasury. Senior officials of other Provincial or provincial departments, where appropriate Representatives of local government, where appropriate	Consider draft reports of the Budget Group and the Function MTEC Assess the broad alignment of intergovernmental fiscal resources to support objectives (MTSF, NDP) Identify key reforms to delivery models, institutional arrangements or policy frameworks that can generate better value for money in the achieving government's policy objectives Deliberate on the trade-offs and challenges that cut across the function group.

Report of the Budget Group Leader

Having considered the input of the Function MTEC, the Budget Group Leader will generate a final report and recommendations to the main MTEC. The report will address resourcing issues in the MTEF including, but not limited to:

- Recommendations on the reallocation of resources within the budget group.
- The quantification of savings that have been identified through efficiency gains and the elimination of wasteful practices, and proposals in respect of how these savings should be reprioritised within the function group.
- The identification of programmes and sub-programmes that are characterised by rapidly growing budgets, together with an assessment of the capacity of these programmes to spend their budgets and the suitability of budget growth against policy objectives.
- The identification of programmes or sub-programmes that have very slow growth or declining budgets together with an assessment of the appropriateness of these facts in relation to the priorities of the function group.
- Key policy objectives and statutory requirements that cannot be financed within the resources available to the budget group.
- Taking account of the discussion in the relevant Function MTEC and/or Function 10x10

  - ✓ Areas of agreement and disagreement in relation to appropriateness of resource allocation and its alignment with policy outcomes, including areas of disagreement that may have emerged in those discussions themselves.

  - ✓ Reforms to delivery models, institutional arrangements or policy frameworks that can achieve greater effectiveness or efficiency in the deployment of resources over the medium or longer term, and recommendations about how these should be addressed in future budget processes.

- The identification of exogenous factors and risks outside the control of policy makers that are likely to influence or put strain on the medium term expenditure framework and proposals for how policy frameworks, delivery models, institutional arrangements or resource allocations can change to take account of these factors.

- The final reports and recommendations of the Budget Group Leaders relevant to each Function Group will be considered in the MTEC and will be processed through the main MTEC to the MINCOMBUD.

ANNEXURE 2A

Summary: Budget Programme Structures

Uniform Budget Programme Structures for the 2015/16 Budget are applicable to: Basic Education; Health; Social Development; Provincial Treasuries; Provincial Legislatures; Department of the Premier; Agriculture and Rural Development; Human Settlements; Safety and Liaison; Economic Development and Tourism; Cooperative Governance and Traditional Affairs; Sport, Arts and Culture; Public Works; Transport; and Environmental Affairs.

Please note that the Budget Programme Structures for the above mentioned sectors remain unchanged, except for Safety & Liaison. The structure for Safety & Liaison has been reviewed by the sector and the new structure will be implemented.

All provincial departments should fully implement the collectively agreed Uniform Budget Programme Structures for the 2015 MTEF.

Basic Education

The following programme structure has been reviewed by the sector and is regulated for provincial **Basic Education** departments. Programme five and six have been retained pending the final decision to fully move the function to **Higher Education**.

Programme	Sub-programme
1. Administration	1.1. Office of the MEC 1.2. Corporate Services 1.3. Education Management 1.4. Human Resource Development 1.5. Education Management Information System (EMIS) 1.6. Conditional Grants
2. Public Ordinary School Education	2.1. Public Primary Schools 2.2. Public Secondary Schools 2.3. Human Resource Development 2.4. School Sport, Culture and Media Services 2.5. Conditional Grants
3. Independent School Subsidies	3.1. Primary Phase 3.2. Secondary Phase
4. Public Special School Education	4.1. Schools 4.2. Human Resource Development 4.3. School Sport, Culture and Media Services 4.4. Conditional Grants
5. Further Education and Training	5.1. Public Institutions 5.2. Youth Colleges 5.3. Professional Services 5.4. Human Resource Development 5.5. In-college Sport and Culture 5.6. Conditional Grants
6. Adult Basic Education and Training	6.1. Public Centres 6.2. Subsidies to Private Centres 6.3. Professional Services 6.4. Human Resource Development 6.5. Conditional Grants
7. Early Childhood Development	7.1. Grade R in Public Schools 7.2. Grade R in Community Centres 7.3. Pre-grade R Training 7.4. Human Resource Development 7.5. Conditional Grants
8. Infrastructure Development	8.1. Administration 8.2. Public Ordinary Schools 8.3. Special Schools 8.4 Early Childhood Development
9. Auxiliary and Associated Services	9.1 Payments to SETA 9.2 Professional Services 9.3 Special Projects 9.4 External Examinations 9.5 Conditional Grants

Health

The following programme structure is regulated for provincial **Health** departments:

Programme	Sub-programme
1. Administration	1.1. Office of the MEC 1.2. Management
2. District Health Services	2.1. District Management 2.2. Community Health Clinics 2.3. Community Health Centres 2.4. Community-based Services 2.5. Other Community Services 2.6. HIV/Aids 2.7. Nutrition 2.8. Coroner Services 2.9. District Hospitals
3. Emergency Medical Services	3.1. Emergency Transport 3.2. Planned Patient Transport
4. Provincial Hospital Services	4.1. General (Regional) Hospitals 4.2. Tuberculosis Hospitals 4.3. Psychiatric/Mental Hospitals 4.4. Sub-acute, Step down and Chronic Medical Hospitals 4.5. Dental Training Hospitals 4.6. Other Specialised Hospitals
5. Central Hospital Services	5.1. Central Hospital Services 5.2. Provincial Tertiary Hospital Services
6. Health Sciences and Training	6.1. Nurse Training Colleges 6.2. EMS Training Colleges 6.3. Bursaries 6.4. Primary Health Care Training 6.5. Training Other
7. Health Care Support Services **(Only in provinces where functions are centralised)**	7.1. Laundries 7.2. Engineering 7.3. Forensic Services 7.4. Orthotic and Prosthetic Services 7.5. Medicine Trading Account
8. Health Facilities Management	8.1. Community Health Facilities 8.2. Emergency Medical Rescue Services 8.3. District Hospital Services 8.4. Provincial Hospital Services 8.5. Central Hospital Services 8.6. Other Facilities

Social Development

The following programme structure is regulated for provincial **Social Development** departments:

Programme	Sub-programme
1. Administration	1.1. Office of the MEC 1.2. Corporate Management Services 1.3. District Management
2. Social Welfare Services	2.1. Management and Support 2.2. Services to Older Persons 2.3. Services to the Persons with Disabilities 2.4. HIV and AIDS 2.5. Social Relief
3. Children and Families	3.1. Management and Support 3.2. Care and Services to Families 3.3. Child Care and Protection 3.4. ECD and Partial Care 3.5. Child and Youth Care Centres 3.6. Community-Based Care Services for children
4. Restorative Services	4.1. Management and support 4.2. Crime Prevention and support 4.3. Victim empowerment 4.4. Substance Abuse, Prevention and Rehabilitation
5. Development and Research	5.1. Management and Support 5.2. Community Mobilisation 5.3. Institutional capacity building and support for NPOs 5.4. Poverty Alleviation and Sustainable Livelihoods 5.5. Community Based Research and Planning 5.6. Youth development 5.7. Women development 5.8. Population Policy Promotion

The structure was reviewed and will be used for the 2015 MTEF Budget submission.

Provincial Treasuries

The following programme structure is regulated for **Provincial Treasuries**:

Programme	Sub-programme
1. Administration	1.1 Office of the MEC 1.2 Management Services 1.3 Corporate Services 1.4 Financial Management (Office of the CFO) 1.5 Internal Audit
2. Sustainable Resource Management	2.1 Programme Support 2.2 Economic Analysis 2.3 Fiscal Policy 2.4 Budget Management 2.5 Public Finance
3. Asset and liabilities Management	3.1 Programme Support 3.2 Asset Management 3.3 Liabilities management 3.4 Supporting and Interlinked Financial Systems
4. Financial Governance	4.1. Programme Support 4.2. Accounting Services 4.3. Norms and Standards 4.4. Risk Management 4.5. Provincial Internal Audit

Department of the Premier

The following programme structure is regulated for the **Office of Premiers**:

Programme	Sub-programme
1. Administration	1.1 Premier support 1.2 Executive Council Support 1.3 Director-General Support 1.4 Financial Management 1.5 Programme Support : Administration
2. Institutional Development	2.1 Strategic Human Resources 2.2 Information Communication Technology 2.3 Legal Services 2.4 Communication Services 2.5 Programme Support: Institutional Development
3. Policy and Governance	3.1 Special Programmes 3.2 Intergovernmental Relations 3.3 Provincial Policy Management 3.4 Traditional Affairs / House (as applicable) 3.5 Premiers Priority Programmes (as applicable) 3.6 Programme Support: Policy and Governance

The sector has indicated the need to review the structure, but the process has yet to take place. A proposal is to review the structure and implement the new structure at the start of the new electoral cycle for the 2015 MTEF Budget submission.

Human Settlements

The following programme structure is regulated for provincial **Human Settlements** departments:

Programme	Sub-programme
1. Administration	1.1. Office of the MEC 1.2. Corporate Services
2. Housing Needs, Research and Planning	2.1. Administration 2.2. Policy 2.3. Planning 2.4. Research
3. Housing Development	3.1. Administration 3.2. Financial Interventions 3.3. Incremental Interventions 3.4. Social and Rental Intervention 3.5. Rural Intervention
4. Housing Asset Management Property Management	4.1. Administration 4.2. Sale and transfer of Housing Properties 4.3. Devolution of Housing Properties 4.4. Housing Properties Maintenance

Safety and Liaison

The following programme structure has been reviewed by the sector and is regulated for provincial **Safety and Liaison** departments:

Programme	Sub-programme
1. Administration	1.1 Office of the MEC 1.2 Office of the HOD 1.3 Financial Management 1.4 Corporate Services 1.5 Legal 1.6 Security
2. Provincial Secretariat for Police Service	2.1. Programme Support 2.2. Policy and Research 2.3. Monitoring and Evaluation 2.4. Social Crime Prevention 2.5. Community Police Relations

After much deliberation the sector representatives agreed on two programmes of which Programme 1 remained the same but mostly updated Programme 2 as outlined above. The latter programme consists mostly of the previous sub-programmes of the previous programmes but the representatives motioned that the new structure is more responsive to the delivery mandate of the province.

Economic Development and Tourism

The following programme structure is regulated for **Economic Development and Tourism** departments:

Programme	Sub-programme
1. Administration	1.1 Office of the MEC 1.2 Office of the HOD 1.3 Financial Management 1.4 Corporate Services
2. Integrated Economic Development Services	2.1. Enterprise Development 2.2. Regional and Local Economic Development 2.3. Economic Empowerment
3. Trade and Sector Development	3.1. Trade and Investment Promotion 3.2. Sector Development 3.3. Strategic Initiatives
4. Business Regulation and Governance	4.1. Governance 4.2. Regulation Services 4.3. Consumer Protection 4.4. Liquor Regulation 4.5. Gambling and Betting
5. Economic Planning	5.1 Policy and Planning 5.2 Research and Development 5.3 Knowledge Management 5.4 Monitoring and Evaluation
6. Tourism	6.1. Tourism Planning 6.2. Tourism Growth and Development 6.3. Tourism Sector Transformation

Sport, Arts and Culture

The following programme structure is regulated for provincial **Sport, Arts and Culture** departments:

Programme	Sub-programme
1. Administration	1.1. Office of the MEC 1.2. Corporate Services
2. Cultural Affairs	2.1. Management 2.2. Arts and Culture 2.3. Museum Services 2.4. Heritage Resource Services 2.5. Language Services
3. Library and Archives Services	3.1. Management 3.2. Library Services 3.3. Archives
4. Sport and Recreation	4.1. Management 4.2. Sport 4.3. Recreation 4.4. School Sport

Public Works

The following programme structure is regulated for provincial **Public Works** departments:

Programme	Sub-programme
1. Administration	1.1. Office of the MEC 1.2. Management of the Department 1.3. Corporate Support
2. Public Works Infrastructure	2.1. Programme support 2.2. Planning 2.3. Design 2.4. Construction 2.5. Maintenance 2.6. Immovable Asset Management 2.7. Facility Operations
3. Expanded Public Works Programme	3.1. Programme Support 3.2. Community Development 3.3. Innovation and Empowerment 3.4. Co-ordination and Compliance Monitoring

Transport

The following programme structure is regulated for provincial **Transport** departments:

Programme	Sub-programme
1. Administration	2.1. Office of the MEC 2.2. Management of the Department 2.3. Corporate Support 2.4. Departmental Strategy
2. Transport Infrastructure	2.1 Programme Support Infrastructure 2.2 Infrastructure Planning 2.3 Infrastructure Design 2.4 Construction 2.5 Maintenance
3. Transport Operations	3.1 Programme Support Operations 3.2 Public Transport Services 3.3 Transport Safety and Compliance 3.4 Transport Systems 3.5 Infrastructure Operations
4. Transport Regulation	4.1 Programme Support Regulation 4.2 Transport Administration and Licensing 4.3 Operator Licence and Permits 4.4 Law Enforcement
5. Community Based Programmes	5.1 Programme Support Community Based 5.2 Community Development 5.3 Innovation and Empowerment 5.4 EPWP Co-ordination and Monitoring

Environmental Affairs

The following programme structure is regulated for provincial **Environmental Affairs** departments:

Programme	Sub-programme
1. Administration	1.1. Office of the MEC 1.2. Senior Management (HOD) 1.3. Corporate Services 1.4. Financial Management 1.5. Sector Skills Development and Training
2. Environmental Policy, Planning and Coordination	2.1. Intergovernmental Coordination, Spatial and Development Planning. 2.2. Legislative Development 2.3. Research and Development Support 2.4. Environmental Information Management 2.5. Climate Change Management
3. Compliance and Enforcement	3.1. Environmental quality management compliance and enforcement 3.2. Biodiversity management, compliance and enforcement
4. Environmental Quality Management	4.1. Impact Management 4.2. Air Quality Management 4.3. Pollution and Waste Management
5. Biodiversity Management	5.1. Biodiversity and Protected Area Planning and Management 5.2. Conservation Agencies & Services 5.3. Coastal Management
6. Environmental Empowerment Services	6.1. Environmental Capacity Development and Support 6.2. Environmental Communication and Awareness Raising

Provincial Legislatures

The following programme structure is regulated for **Provincial Legislatures**:

Programme	Sub-programme
1. Administration	1.1. Office of the Speaker 1.2. Office of the Secretary 1.3. Corporate Services 1.4. Financial Management
2. Parliamentary Business	2.1. Law making 2.2. NCOP 2.3. Oversight 2.4. Public Participation 2.5. Members facilities 2.6. Cooperative Governance

Amount forming a direct charge on the Provincial Revenue Fund:
As defined in the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and required to be disclosed by Section 27.3 (f) of the PFMA.

* Members' remuneration and allowances

Example:

1. Administration	R xxxxx
2. Parliamentary Business	R xxxxx
Amount to be Voted	**R xxxxx**
(+) Amount forming a direct charge on Provincial Revenue Fund: (members salaries and allowances)	R xxxxx
Total estimated expenditure	**R xxxxx**

The structure has been reviewed and agreed on by Provincial Legislatures for implementation for the 2013 MTEF budget submissions.

To prevent any misunderstanding, the direct charge will be reflected as such in the IYM, in a separate row and will therefore not be included in either of the two programme budgets and expenditure.

Agriculture and Rural Development

The following programme structure is regulated for provincial **Agriculture and Rural Development** departments:

Programme	Sub-programme
1. Administration	1.1. Office of the MEC 1.2. Senior Management 1.3. Corporate Services 1.4. Financial Management 1.5. Communication Services
2. Sustainable Resource Management	2.1. Engineering Services 2.2. Land Care 2.3. Land Use Management 2.4. Disaster Risk Management
3. Farmer Support and Development	3.1. Farmer-settlement and Development 3.2. Extension and Advisory Services 3.3. Food Security
4. Veterinary Services	4.1. Animal Health 4.2. Export Control 4.3. Veterinary Public Health 4.4. Veterinary Laboratory Services
5. Research and Technology Development Services	5.1. Research 5.2. Technology Transfer Services 5.3. Infrastructure Support Services
6. Agricultural Economics Services	6.1. Agric-Business Support and Development 6.2. Macroeconomics Support
7. Structured Agricultural Education and Training	7.1. Higher Education and Training 7.2. Further Education and Training (FET)
8. Rural Development Coordination	8.1. Development Planning and monitoring 8.2 Social Facilitation

The Rural Development programme has been reviewed and the programme above reflects the latest deliberations by the sector. However the structure is still in the developmental stage pending agreement by all provinces and final input and sign-off by the national Department of Rural Development and Land Reform.

Cooperative Governance and Traditional Affairs

The following programme structure is regulated for provincial **Cooperative Governance and Traditional Affairs** departments:

Programme	Sub-programme
1. Administration	1.1. Office of the MEC 1.2. Corporate Services
2. Local Governance	2.1. Municipal Administration 2.2. Municipal Finance 2.3. Public Participation 2.4. Capacity Development 2.5. Municipal Performance Monitoring, Reporting and Evaluation
3. Development and Planning	3.1. Spatial Planning 3.2. Land Use Management 3.3. Local Economic Development (LED) 3.4. Municipal Infrastructure 3.5. Disaster Management 3.6. IDP Coordination
4. Traditional Institutional Management	4.1. Traditional Institutional Administration 4.2. Traditional Resource Administration 4.3. Rural Development Facilitation 4.4. Traditional Land Administration
5. House of Traditional Leaders (Optional) *	5.1. Administration of Houses of Traditional Leaders 5.2. Committees and Local Houses of Traditional Leaders

Programme 5 is shown as an optional programme to allow for cases in provinces where the budget for Houses of Traditional Leaders is preferred as an individual programme; otherwise these budgets will be reflected in Programme 4 as is currently the practice.

Annexure 2B

Combined Departments for illustrative purposes

- Human Settlements, Cooperative Governance and Traditional Affairs
- Public Works and Transport

Human Settlements, Cooperative Governance and Traditional Affairs

The following programme structure is regulated for provincial **Human Settlements, Cooperative Governance and Traditional Affairs** departments:

Programme	Sub-Programme	Sub-Sub-Programme
1. Administration	1.1. Office of the MEC 1.2. Corporate Services 1.3. Capacity Development	
2. Human Settlements	2.1. Housing Needs, Research and Planning	2.1.1. Administration 2.1.2. Policy 2.1.3. Planning 2.1.4. Research
	2.2. Housing Development	2.2.1. Administration 2.2.2. Financial Interventions 2.2.3. Incremental Interventions 2.2.4. Social and Rental Intervention 2.2.5. Rural Intervention
	2.3. Housing Asset Management Property Management	2.3.1. Administration 2.3.2. Sale and transfer of Housing Properties 2.3.3. Devolution of Housing Properties 2.3.4. Housing Properties Maintenance
3. Cooperative Governance	3.1. Local Governance	3.1.1. Municipal Administration 3.1.2. Municipal Finance 3.1.3. Public Participation 3.1.4. Capacity Development 3.1.5. Municipal Performance Monitoring, Reporting and Evaluation
	3.2. Development and Planning	3.2.1 Spatial Planning 3.2.2. Land Use Management 3.2.3. Local Economic Development 3.2.4. Municipal Infrastructure 3.2.5. Disaster Management 3.2.6. IDP Coordination
4. Traditional Institutional Development*	4.1 Traditional Institutional Administration 4.2 Traditional Resource Administration 4.3 Rural Development Facilitation 4.4 Traditional Land Administration	
5. House of Traditional Leaders (Optional))*	5.1 Administration of Houses of Traditional Leaders 5.2 Committees and Local Houses of Traditional Leaders	

* In provinces where Human Settlements, Cooperative Governance and Traditional Affairs departments are combined into one Vote, Traditional Institutional Development and House of Traditional Leaders is shown as individual programmes and not sub-programmes. However in all other combined Votes (E.g. Housing above), programmes would become sub-programmes and sub-programmes would become sub-sub-programmes.

Public Works and Transport

The following programme structure is regulated for provincial **Public Works and Transport** departments:

Programme	Sub-programme
1. Administration	1.1. Office of the MEC 1.2. Management of the Department 1.3. Corporate Support 1.4. Departmental Strategy
2. Public Works Infrastructure	2.5. Programme support 2.6. Planning 2.7. Design 2.8. Construction 2.9. Maintenance 2.10. Immovable Asset Management 2.11. Facility Operations
3. Transport Infrastructure	3.1. Programme Support Infrastructure 3.2. Infrastructure Planning 3.3. Infrastructure Design 3.4. Construction 3.5. Maintenance
4. Transport Operations	4.1. Programme Support Operations 4.2. Public Transport Services 4.3. Transport Safety and Compliance 4.4. Transport Systems 4.5. Infrastructure Operations
5. Transport Regulation	5.1. Programme Support Regulation 5.2. Transport Administration and Licensing 5.3. Operator Licence and Permits 5.4. Law Enforcement
6. Community Based Programmes/Expanded Public Works Programme	6.1. Programme Support Community Based/EPWP 6.2. Community Development 6.3. Innovation and Empowerment 6.4. Co-ordination and Compliance Monitoring

ANNEXURE 3:

Tables to accompany the Budget Submission

ANNEXURE 3.1: LINKAGE OF THE BUDGET WITH PRIORITY OUTCOMES										
Programme	Sub-programme	Outcome		Link to priority outcomes			Priority outcomes			
		Name	Total cost	Outputs	Activities	Programme	2014/15	2015/16	2016/17	2017/18
Total										

Annexure 3.2: Proposed MTEF Allocations

PROPOSED MTEF ALLOCATIONS **VOTE :**																
	2014/15				2015/16				2016/17				2017/18			
	Appropriated				To be appropriated				Indicative allocations				Indicative allocations			
Descriptions	Current Payments	Transfers and subsidies	Capital Payments	Total	Current Payments	Transfers and subsidies	Capital Payments	Total	Current Payments	Transfers and subsidies	Capital Payments	Total	Current Payments	Transfers and subsidies	Capital Payments	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Total appropriation <u>*Aim:*</u>																
1 Administration <u>*Purpose:*</u>																
2 Programme name <u>*Purpose:*</u> <u>*Measurable objective:*</u> *Of which* .-list transfers .-list transfers Conditional grants to provinces .-list conditional grants .-list conditional grants Conditional grants to Municipalities .- list conditional grants .-list conditional grants Specifically and exclusively appropriated list																

Name of department **Annexure 3.3**

Changes to programme structure, purpose and measurable objectives - 2014/15

Current descriptions (according to Appropriation Act 2014)	Proposed descriptions (to be incorporated in Appropriation Bill 2015)	Reasons for proposed Changes
1	2	3
Aim:	Aim:	Aim:
1 Administration	**1 Administration**	**1 Administration**
Purpose:	Purpose:	Purpose:
Subprogramme:	Subprogramme:	Subprogramme:
2 Programme name	**2 Programme name**	**2 Programme name**
Purpose:	Purpose:	Purpose:
Measurable objective:	Measurable objective:	Measurable objective:
Subprogramme:	Subprogramme:	Subprogramme:

Total Savings Identified **Annexure 3.4**

Identified from R'000	Economic classification/ Item	Re-allocated to	Economic classification/ Item	Reason for reprioritisation	2015/16	2016/17	2017/18
Administration Programme Name	Entertainment						
Total Technical Savings					**-**	**-**	**-**

Name of department

Annexure 3.5

R' thousand	Current Payments	Transfers and Subsidies	Payments for Capital Assets	Total Baseline	Current Payments	Transfers and Subsidies	Payments for Capital Assets	Total Baseline	Change to Baseline	Reprioritised Baseline	Current Payments	Transfers and Subsidies	Payments for Capital Assets	Total Baseline	Change to Baseline	Reprioritised Baseline	Current Payments	Transfers and Subsidies	Payments for Capital Assets	Total (Indicative Allocation)	Change to Baseline	Reprioritised Baseline
	2014/15				2015/16						2016/17						2017/18					
1. Administration				-				-		-				-		-				-		-
Of which																						
Compensation of Employees				-				-		-				-		-				-		-
Education, Training and Development Practice SETA (ETDP SETA)				-				-		-				-		-				-		-
2. Programme 2				-				-		-				-		-				-		-
Of which																						
Compensation of Employees				-				-		-				-		-				-		-
3. Programme				-				-		-				-		-				-		-
Of which																						
Compensation of Employees				-				-		-				-		-				-		-
Guidance, Counselling and Youth Development Centre for Africa: Malawi				-				-		-				-		-				-		-
Conditional Grants to Provinces:																						
HIV and Aids (Life Skills Education) Grant				-				-		-				-		-				-		-
4. Programme				-				-		-				-		-				-		-
Of which																						
Compensation of Employees				-				-		-				-		-				-		-
South African Qualifications Authority				-				-		-				-		-				-		-
Umalusi				-				-		-				-		-				-		-
Conditional Grants to Provinces:																						
Further Education and Training College Sector Recapitalisation Grant				-				-		-				-		-				-		-
5. Programme				-				-		-				-		-				-		-
Of which																						
Compensation of Employees				-				-		-				-		-				-		-
Conditional Grants to Provinces:																						
National School Nutrition Programme Grant				-				-		-				-		-				-		-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Annexure 3.5: continued

Programme	Medium-term expenditure estimates									
RECURRENT BUDGET	**MTEF Baseline EPE**	**MTEF Baseline EPE**	**Change to Baseline**	**Reprio-ritised Baseline**	**MTEF Baseline EPE**	**Change to Baseline**	**Reprio-ritised Baseline**	**MTEF Baseline**	**Change to Baseline**	**Reprio-ritised Baseline**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	11
R thousand	**2014/15**		**2015/16**			**2016/17**			**2017/18**	
1 Administration										
2 Programme name										
3 Programme name										
4 Programme name										
5 Programme name										
6 Programme name										
7 Programme name										
8 Programme name										
9 Programme name										
Subtotal	–	–	–	–	–	–	–	–	–	–
Direct charge on the Provincial Revenue Fund	–	–	–	–	–	–	–	–	–	–
Details of statutory amounts										
Details of statutory amounts										
Total	–	–	–	–	–	–	–	–	–	–

Annexure 3.5: continued

ECONOMIC CLASSIFICATION BUDGET	Medium-term expenditure estimates									
	MTEF Baseline EPE	MTEF Baseline EPE	Change to Baseline	Reprio-ritised Baseline	MTEF Baseline EPE	Change to Baseline	Reprio-ritised Baseline	MTEF Baseline	Change to Baseline	Reprio-ritised Baseline
1	2	3	4	5	6	7	8	9	10	11
R thousand	2014/15	2015/16			2016/17			2017/18		
Current payments	0	0	0	0	0	0	0	0	0	0
Compensation of employees										
Goods and services										
Interest and rent on land										
Transfers and subsidies to:	0	0	0	0	0	0	0	0	0	0
Provinces and municipalities										
Departmental agencies and accounts										
Higher education institutions										
Foreign governments & international organisations										
Public corporations & private enterprises										
Non-profit institutions										
Households										
Payments for capital assets	0	0	0	0	0	0	0	0	0	0
Buildings and other fixed structures										
Machinery and equipment										
Heritage assets										
Biological assets										
Land and subsoil assets										
Software and other intangible assets										
Payments for financial assets										
Total	0	0	0	0	0	0	0	0	0	0

Annexure 3.5: continued

CURRENT/ CAPITAL TRANSFERS AND SUBSIDIES	Medium-term expenditure estimates									
	MTEF Baseline EPE	MTEF Baseline EPE	Change to Baseline	Reprio-ritised Baseline	MTEF Baseline EPE	Change to Baseline	Reprio-ritised Baseline	MTEF Baseline	Change to Baseline	Reprio-ritised Baseline
1	2	3	4	5	6	7	8	9	10	11
R thousand	2014/15	2015/16			2016/17			2017/18		
Transfers and subsidies to: (Current)	–	–	–	–	–	–	–	–	–	
Provinces and municipalities										
Departmental agencies and accounts										
Higher education institutions										
Foreign governments & international organisations										
Public corporations & private enterprises										
Non-profit institutions										
Households										
Transfers and subsidies to: (Capital)	–	–	–	–	–	–	–	–	–	–
Provinces and municipalities										
Departmental agencies and accounts										
Higher education institutions										
Foreign governments & international organisations										
Public corporations & private enterprises										
Non-profit institutions										
Households										
Transfers and subsidies to: (Total)	–	–	–	–	–	–	–	–	–	–
Provinces and municipalities										
Departmental agencies and accounts										
Higher education institutions										
Foreign governments & international organisations										
Public corporations & private enterprises										
Non-profit institutions										
Households										

Annexure 3.6a: Summary of personnel numbers and compensation of employees[1]

Personnel numbers	Actual				Anticipated posts to be filled[2]			
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
1 Administration								
2 Programme Name								
3 Programme Name								
4 Programme Name								
5 Programme Name								
6 Programme Name								
7 Programme Name								
8 Programme Name								
9 Programme Name								
10 Programme Name								
Total	**–**		**–**	**–**	**–**	**–**	**–**	**–**
Total compensation of employees (R thousand)	–		–	–	–	-	-	-
Unit cost (R thousand)	–		–	–	–	-	-	-

1 Full-time equivalent

2 Approved posts

Annexure 3.6b: Approved Organisational Structure

Programme	Approved structure (number)	Approved Structure (Budget)	Funded		Unfunded/ unfilled posts (no.)	Funded (Budget) R'000		Unfunded/ unfilled posts (budget) R'000
			Filled Posts (no.)	Vacant (no.)		Filled Posts	Vacant	
Department					-			-
Level 1					-			-
2					-			-
3					-			-
4					-			-
5					-			-
6					-			-
7					-			-
8					-			-
9					-			-
10					-			-
11					-			-
12					-			-
13					-			
14					-			-
15					-			-
16					-			-
Additional posts					-			-
Level 1					-			-
2					-			-
3					-			-
…					-			-
TOTAL								

DEPARTMENTAL VACANCY PLAN PER UNIT PER LEVEL

Annexure 3.6C

		APPROVED STRUCTURE				SALARY LEVELS															
PROGRAMME	COMPONENT	NUM.1	BUDGETED (Y/N)	NUM.2	BUDGETED (Y/N)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Programme 1	MEC																				
	HOD																				
	....																				
Total				0		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Programme 2	Programme Support																				
	...																				
Total				0		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Grant Total				**0**		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

NUM. 1 is the original critical list as in terms of the previous financial year (e.g 2014/15)

NUM. 2 is the number of critical posts that we can fill within the coming financial year (e.g 2015/16)

Annexure 3.6D

		ADDITIONAL POSTS				SALARY LEVELS																OF WHICH
PROGRAMME	COMPONENT	NUM.1	BUDGETED (Y/N)	NUM.2	BUDGETED (Y/N)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	INTERNS
Programme 1	MEC																					
	HOD																					
	....																					
Total				0		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Programme 2	Programme Support																					
	...																					
Total				0		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Grant Total				**0**		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

NUM. 1 is the original critical list as in terms of the previous financial year (e.g 2014/15)

NUM. 2 is the number of critical posts that we can fill within the coming financial year (e.g 2015/16)

Name of department Annexure 3.7

Earmarked Funds R' thousand	Earmarked Amount	Earmarked Amount	Change to Amount	Reprioritised Amount	Earmarked Amount	Change to Amount	Reprioritised Amount	Proposed Amount
	2014/15	2015/16			2016/17			2017/18

Annexure 3.8: Infrastructure expenditure

Name of the project/ programme	Outcome			Current Estimate	Allocated Amount		
1	2			3	4		
R thousand	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Expenditure assessment of existing infrastructure projects/ programme							
Total				–	–	–	–

Annexure 3.9: Official development assistance expenditure

Donor	Overseas Development Assistance Programme / Project name (include a breakdown of the main items/ services to be funded)	Cash or in Kind	Expenditure Outcome			Budget	Medium-term expenditure estimates		
	2	3	4			5	6		
R thousand			2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Total			–	–	–	–	–	–	–

Annexure 3.10: Public- Private Partnerships projects

Project description	Total cost of project	Total cost of project	Total cost of project	Budgeted Expenditure	Medium-term expenditure estimates		
	Audited	Audited	Audited				
1	2	3	4	5	6		
R thousand	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Projects under implementation	-	-	-	-	-	-	-
PPP unitary charge							
Advisory fees							
Revenue generated							
Project monitoring cost							
New projects	-	-	-	-	-	-	-
PPP unitary charge							
Advisory fees							
Revenue generated							
Project monitoring cost							
Total	-	-	-	-	-	-	-

ANNEXURE 4:

GUIDELINES FOR COSTING AND BUDGETING FOR COMPENSATION OF EMPLOYEES

FOR THE PREPARATION OF EXPENDITURE ESTIMATES FOR THE 2015 MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)

Provincial Treasury
July 2014

CONTENTS

1. INTRODUCTION

1.1 The purpose of these guidelines is to provide guidance to institutions on costing and budgeting for compensation of employees (COE).

1.2 The 2012 wage agreement is coming to an end in 2014/15 financial year. Negotiations for a new wage agreement are expected to commence during 2014. The outcome of these negotiations cannot be known in advance. Nevertheless, government must begin planning for the next three year spending window and compensation budgets account for the largest share of spending. In the absence of certainty, government will continue to plan budgets on the assumption that cost of living adjustments will track CPI projections. This does not imply any attempt to pre-empt the outcome of negotiations; it is a neutral assumption on which to proceed in constructing medium-term expenditure baselines.

1.3 That said, budget institutions should take note that there will be very limited scope to augment resources to support wage increases that are higher than budgeted for. In previous budget cycles significant resources were available above the baseline to accommodate unanticipated wage pressure. This included drawdowns on the contingency reserves and other additions to baseline. Given current fiscal constraints, scope for the provision of additional resources will be very limited.

1.4 Institutions will, therefore, need to reprioritise from existing baselines and manage headcount growth to respond to above-inflation wage pressures over the next three years, particularly if negotiations result in an outcome that deviates significantly from CPI. Institutions are urged to pro-actively manage their personnel establishments and take action to reduce costs associated with promotions and progression over the medium term.

1.5 As in previous years, institutions in all sectors must achieve value for money and control growth in personnel expenditure. Institutions must cost and budget realistically for all compensation expenditures. Moreover, careful consideration should be given to the filling of funded vacancies and the potential to utilise available resources to finance future compensation pressures.

2. BASIC COSTING PROCEDURES

2.1 Institutions are expected to continue to budget for compensation of employees within their existing baselines. Institutions must ensure alignment between compensation of employees budgets and personnel headcount. Where MTEF baseline budgets are clearly inadequate to maintain personnel headcount, institutions must rectify this and reflect it in budget submissions. Budget submissions that do not comply with this requirement will be referred back to institutions by the relevant Treasury.

2.2 The 2015 MTEF indicative baseline does not provide for general funding of new posts, except in cases where departments were specifically allocated funding to create new critical posts in the 2014 Budget. Funding for employment of personnel over and above already agreed funded establishments will be considered only where critical skills are required and where properly motivated to the relevant Treasury. In most instances, these allocations will need to be financed by reallocated resources from funded vacancies or elsewhere within the institution’s baseline.

2.3 Effective management of work that is outsourced to consultants is also important. Consultants should not be required to do work that should be done by staff employed within institutions. That is, all personnel in institutions should be fully utilised to avoid unnecessary use of consultants.

2.4 Institutions should ensure that the following are taken into account when budgeting for compensation of employees:

- Ministerial determinations;
- Public Sector Co-ordinating Bargaining Council (PSCBC) agreements; and
- Cabinet decisions relating to remuneration and personnel management matters.

2.5 The personnel sheet of the 2015 MTEF database provides two separate panels: one to estimate costs of filled posts and the other for vacant funded posts. The sum of these two elements should be equal to the *revised estimate* for the compensation of employees baseline.

2.6 To cost personnel budgets the projected annual cost of filled posts as at end of June 2014 plus cost of vacant funded posts to be filled for the remainder of the financial year should be used as a base for projections over the MTEF. This is the *revised estimate* for 2014/15 as at the end of June 2014.

2.7 Revised estimate figures need to be generated *per item of payments per salary level* within the COE line item to allow for application of the different dispensations such as Senior Management Service (SMS) and Occupation-Specific Dispensations (OSDs). For instance, the COE line item is composed of items of payments such as basic salary, pension, overtime, performance bonus, medical allowances, etc.

2.8 Actual expenditure figures on filled posts must be generated from PERSAL for each item of payments for SMS and non-SMS employees, respectively. Costs of posts to be filled for the remainder of the financial year, as well as promotions and demotions, should be generated from departmental Human Resource Management (HRM) plan.

2.9 To generate COE costs over the MTEF, the revised estimate for 2014/15 financial year for each item of payments should first be increased by the cost of living adjustment *escalation factors* applicable to each fiscal year. This operation yields the cost of personnel taking account of cost of living adjustment (COLA), which in this case is projected to equal inflation. These escalation factors are shown in the table below.

TABLE 5: COE ESCALATION FACTORS PAYMENT ITEM	**2015/16**	**2016/17**	**2017/18**
Basic salary (non SMS)	5.6%	5.5%	5.0%
Basic salary (SMS)	5.6%	5.5%	5.0%
Housing allowance	0%	0%	0%
Overtime	5.6%	5.5%	5.0%
Employer contribution: Medical	5.6%	5.5%	5.0%
Employer contribution: Pension	5.6%	5.5%	5.0%
Performance bonus	5.6%	5.5%	5.0%
All other	5.6%	5.5%	5.0%

ANNEXURE 5

Capital Planning Guidelines

Provincial Treasury
July 2014

CONTENTS

1. INTRODUCTION

In support of the National Development Plan and the New Growth Path objective of continual improvement in service delivery, the National Treasury provides guidance on how infrastructure programmes and project proposals should be planned, appraised and evaluated before significant funds are committed. The guidance encourages a life-cycle analytically robust evaluation process that ensures alignment not only between departmental planning processes (strategic planning, infrastructure planning & budget planning) but also with the Immovable Asset Management Act (GIAMA) and the infrastructure Development Act. Similar to the Capital Planning Guidelines, the Infrastructure Development Act aims to facilitate the coordination of public infrastructure development projects so that there is better planning, approval and implementation of projects as they move through the project life-cycle.

The capital planning guidelines below outline for departments and entities (hereafter institutions) project appraisal techniques and an explanation of the kind of information that needs to be submitted to the National Treasury when an infrastructure capital project is being planned and a bid is being submitted. The guidelines are designed to ensure thorough planning of capital projects and the prioritisation of projects that offer maximum economic and social benefits to society.

The planning, appraisal and evaluation of capital projects is a continuous process which takes place throughout the year. An infrastructure bid submitted to the National Treasury should be closely linked to other planning processes in the institution. The institution's infrastructure Plan or User Asset Management Plan is a rolling plan and it is expected that each year this plan will be updated and re-prioritised on the basis of:

- Targets and priorities set out in the strategic plan
- The anticipated MTEF budget; Priorities set out in the Strategic Infrastructure Projects (SIP)
- The progress of the current projects being implemented.

The Medium Term Expenditure Framework (MTEF) infrastructure bid proposals may contain on-going and new capital projects which may include refurbishments, upgrades or maintenance projects

2. EXTENSION OF EXISTING INFRASTRUCTURE PROJECTS

All submissions for existing capital projects should be based on the need to complete or extend the project. If the completion/extension was contemplated in the original planning documentation, a reference to these documents is sufficient.

However, if the additional bid is due to cost overruns or an increase in the scope of the project which was not part of the original planning documentation, a clear explanation and motivation is necessary as part of the submission.

3. NEW CAPITAL PROJECTS

All new capital projects are required to undergo a systematic and rigorous appraisal as described in these Guidelines. The type and depth of information required will depend on the size and the nature of the project. Resources spent on appraising capital project proposals should be proportional to the likely project cost, keeping in mind its nature and complexity.

The appraisal activities may be outsourced, depending upon the capacity resident in an institution. ***Institutions must provide for project planning within their current MTEF budget baselines, including, as necessary, funding for outsourced capital project appraisals.*** Multiple small projects with the same outputs maybe grouped and motivated as a single infrastructure programme requiring funding.

All projects go through a series of distinct stages from the initial project idea to the time the project is completed and handed over. It is important for institutions to understand these project stages and the analysis to be carried out at each stage. These analyses are integral to a logical approach to project planning that will assist in the appraisal of the project. The analyses will also provide the rationale or justification for government funding for the project. A clear need must be articulated which is in the national interest to address.

4. MINIMUM INFORMATION REQUIRED

The following information must be submitted for each capital project. While every project must address all the elements, the detail and rigor applied at a particular stage will be dependent upon the size and complexity of the project.

1. Preparatory Work
1.1. Needs and demand analysis with output specifications
1.2. Options Analysis
- Demand Analysis
- Technical Engineering Analysis
- Environmental Analysis
- Socio-economic Analysis
- Legal and Regulatory Due Diligence

2. Viability Evaluation
2.1. Financial analysis
2.2. Economic analysis

3. Risk Assessment and Sensitivity Analysis

4. The Preferred Option

5. Implementation Readiness
5.1. Institutional capacity
5.2. Procurement plan

6. Project Concept Note

Appraisal of capital projects is not a straight forward step by step process where the different analyses are independent from each other and can be performed in a perfectly sequential manner. Information will need to flow between the different analyses and constant feed-back mechanisms need to be in place to ensure the coherency of all the documentation.

5. PREPARATORY WORK

5.1 Needs and Demand Analysis

The needs analysis should demonstrate alignment with the institution's mandate and strategic objectives. The purpose of this analysis is to enable the institution to clearly identify a clear infrastructure need, spell out output specifications and ascertain the extent of current and future demand for the service.

The analysis should describe:

- The problem that has given rise to the need for additional infrastructure, including an analysis of the existing asset capacity;
- The extent and urgency of the need;
- The extent of the need this request is intended to meet;
- Output specifications that describe the service the institution needs to deliver, the required minimum standards of the service output as well as the specific key indicators to measure performance;
- The data, surveys or service-delivery indicators demonstrating the current demand and estimating the future demand growth. The demand analysis cannot simply assume a continuation of a historic trend, but must demonstrate what long-term factors are driving demand, and how those trends may be shifting;
- The consequences if the services infrastructure need is not addressed; and
- How the proposed capital solution to the problem fits into the institution's long term infrastructure delivery programme.

The output from this stage is a statement of the services infrastructure need, a specification of the output requirements and a sound demand analysis.

5.2 Options Analysis

The purpose of an options analysis is to undertake an analysis of all feasible options that can achieve the identified output specifications. This will assist in identifying the preferred solution.

The following principles should guide the options analysis:

- All feasible options should be evaluated;
- The preferred option should achieve value for money;
- The preferred option should be affordable;
- The analysis should consider those options crucial to a project's success; and
- A scenario which sets out the base case (the 'do nothing' scenario) where the current situation is sustained with minimal operating and maintenance investments and basic efficiency improvements.

A first high-level analysis of these options should include a qualitative listing of the advantages and disadvantages as well as preliminary quantification of the costs and benefits of each option relative to the objectives of the project. This comparison should allow for the development of a shortlist of 1 to 2 preferred options which will be assessed in detail.

Each of the shortlisted options will be separately assessed by the processes described in the stages below. The information below needs to be assembled first to enable the undertaking of the Financial and Economic analysis.

5.2.1 Demand Analysis

The first step is to confirm that there is demand for the goods and services that will be produced by the project. This is important because levels of current and forecasted demand should be sufficient to meet the financial and economic feasibility of the project. There is need to ensure that constraints governing the volume of sales or pricing are identified and factored into the demand forecasts.
The outcome of this analysis will give confidence to the following:

- Forecast quantities of sales and prices over the life of the project;
- Constraints such as government regulations (administered prices, ceilings, quotas including arrangements for making future adjustments to prices); and
- Other variables that affect the volume of sales or prices such as technological developments impacting on the product life cycle and subsidies.

5.2.2 Technical Engineering Analysis

This is an important step that determines the scale, the design, location and technology that will be adopted by the proposed project. The input parameters necessary for the construction, operation and maintenance of the project are identified, quantified and the cost approximated over the life of the project. To be able to do this it is necessary to come up with an implementation schedule that sets the output levels. The most cost effective procurement procedures are also considered at this stage. The outcomes of the analysis include:

- The technology choice for the project including designs and prototypes;
- Project size and location;
- Construction schedule and output targets;
- Input parameters and their prices including labour for the construction and operation and maintenance of the project; and
- Procurement procedures.

For larger and technically more challenging projects, however, the technical assessment is crucial and needs to be accomplished accurately and thoroughly. The technical feasibility will then inform the financial analysis, by providing detailed clarification on the costs of construction, operation and maintenance of the project and identifying potential risks. Different technology choices for the project, including designs and the need for prototyping should be assessed to determine whether they will be viable for delivering the desired project outputs. In addition, potential locations for the project should be assessed to determine their viability, including ownership, geological and heritage aspects.

5.2.3 Environmental Analysis

Every project involving new construction or substantial rehabilitation of an existing structure will involve undertaking an Environmental Impact Assessment (EIA). In those instances where the institution is going to procure, by conventional means, the construction of a facility of its own design, the institution must undertake the EIA and obtain all necessary environmental, zoning and town planning consents. The cost of so doing is one of the costs that must be identified early on and quantified when determining the feasibility of a particular project.

Outcomes from this analysis include:

- The costs of, and time to obtain an Environmental Impact Analysis (EIA) report;
- Anticipated mitigation or displacement costs; and
- Other necessary approvals and permits.

Identified costs and risks must be taken into account in the viability analysis. Institutions should note that EIA can be very costly and can extend over a protracted period of time hence the need for an EIA should be recognised early so that adequate budgetary provision can be made for such costs.

5.2.4 Socio-economic Analysis

Many services infrastructure projects provide potential economic benefits to BEE and SMME enterprises as well as the community in general. The implementation of a project can result in an increase in land values or in an increase in demand for affordable housing. The use of local labour and materials in a major infrastructure project also provides significant benefits to communities affected by the infrastructure project. There may also be costs not easily realisable such as those resulting from congestion in the city caused by the implementation of the project. All these will need to be translated into economic values.

Outcomes from this analysis include:

- Positive and negative BEE, SMME and local labour and materials economic values; and
- A comparison of these economic costs to their counterpart sectors in a “no project” scenario.

5.2.5 Legal and Regulatory Due Diligence

A legal and regulatory due diligence study should confirm that the project will be able to comply with all regulatory requirements, identify any risks and obligations that could increase costs of or decrease benefits. The cost of compliance must be included in the financial and economic analysis.

Typically the analysis will include an assessment of the following:

- Sector legislation, policies and regulations;
- Tax legislation;
- Labour legislation;
- Environmental legislation;
- Heritage legislation;
- BBBEE legislation and Codes of Good Practice;
- Local procurement requirements;
- Imported goods requirements;
- Foreign exchange requirements;
- Zoning and town planning requirements;
- Building codes;
- License requirements; and
- Site ownership and/or access approvals.

6. VIABILITY EVALUATION

6.1 Financial Analysis

6.1.1 Financial cash flow analysis

The objective of this analysis is to establish the financial viability of the option. The analysis is carried out in accordance with the discounted cash flow method. A financial model projecting the cash flows for the costs and any revenue generated from the project over its lifetime is developed. This analysis needs to be undertaken for each of the preferred options identified. If the institution lacks the capacity for developing such financial models, outsourcing this expertise should be considered. In order to preserve the outsourcing option for future capital expenditure undertakings, the institution should budget for such expenditures.

The financial model must be informed by all the life-cycle costs to deliver the identified outputs. The cash flow profile identifies all the receipts and expenditure over the life of the project. This is based on the operating costs (including working capital requirements) and revenues; investment costs and residual value (in last year of project) and sources of financing (their characteristics and implications). All revenues generated over the lifetime of the project must be projected, bearing in mind, where applicable, the requirements of the Public Finance Management Act (PFMA) requiring such revenues to be deposited into the appropriate national or provincial revenue fund (sections 13 and 22). The result of this analysis is a timeline on which all cash flows over the project's lifetime, both positive (i.e. revenues) and negative (i.e. expenditures) are demonstrated.
By calculating the balances, discounted at an appropriate rate, it is possible to define a financial net present value for the option that will determine its financial viability. The discount rate used in the calculations is within the discretion of the institution but it needs to be justified. However, it's advisable to use the government bond yield as the discount rate over a comparable period as it reflects the actual cost to government of raising funds at any given time.

The financial analysis must also determine the minimum net cash flow requirement over the life of project. This must include life-cycle capital or construction costs as well as the annual operating and maintenance costs. This will demonstrate that the option is financially sustainable and will not require supplementary funding. If the proposed option is not financially viable, it is important to check whether it is viable from an economic and social point of view. If it is then consideration is given to other sources of additional funding.

Since capital projects are long-term in nature, there is uncertainty with regards to some of the assumptions used in the calculation of costs and revenues. Costs should be readjusted to reflect different scenarios based upon variations in key assumptions – e.g. what is the effect of a 10% increase in costs, or what is the effect on the cost of imported inputs if there is 5% devaluation in the exchange rate? This is an essential part of the capital bid as it will assist the project planners to be aware of how costs vary with changes in the underlying assumptions. 10

6.2 Economic Analysis

An economic analysis is different from a financial analysis in that it analyses the viability of a project based upon economic and social welfare improvements, and not financial bankability. An economic analysis thus takes non-monetary welfare impacts into account, such as improved health, reduced accident risks, congestion and pollution.

All projects will need to undertake either a cost-benefit analysis or a cost-effectiveness analysis for each of the preferred options. Generally, the cost-benefit analysis is more appropriate for economic infrastructure projects, e.g. transport, water, energy and communications sector projects, whereas a cost-effectiveness analysis will be more appropriate for social infrastructure projects, e.g. health, and education.

6.2.1 Cost Benefit Analysis

Different methodologies are available for analysing the economic viability of a project; the most common one is the Cost Benefit Analysis (CBA). A CBA seeks to establish whether a particular investment is the most efficient use of society's resources. It does this by identifying and monetising the costs and the benefits to society to enable comparison.

A CBA identifies and monetises every direct impact and predicts the timing thereof over the same horizon as the asset's economic lifetime. This is best presented as an economic (value) flow on a timeline, quantifying the economic costs and benefits on an annual basis. These values are then discounted back to their present values using a social discount rate1.
1 Social discount rate is the economic opportunity cost of capital required to discount future cash flows and it is used when estimating the economic NPV of capital projects financed by government funds.

Every preferred option will be subject to this approach. The result will then be a comparison of every option with the base case "do-nothing" scenario and a ranking of the different options in accordance to their net welfare benefit to society.
The result of a CBA is best reported in the form of an Economic Net Present Value (ENPV) which are the costs subtracted from the benefits or in the form of a Benefit-Cost Ratio (BCR) which is the ratio of the benefits over the costs. A project that will benefit the country will have an ENPV larger than zero and a BCR larger than one.

6.2.2 Cost Effectiveness Analysis

Cost-effectiveness studies are appropriate where project options must be compared but assigning a monetary value to the desired outcome would not be appropriate. This usually applies to projects that do not represent an economic activity, such as social, health or human rights projects, and where a needs analysis has been informed by a defined social requirement.
Decision-making in these cases is focused on finding the solution that is the most efficient in realising the desired project outputs, and the results of the studies are therefore expressed as a ratio (cost per 'unit' of benefit).

The cost-effectiveness analysis analyses the costs of a project in exactly the same manner as a CBA. However, the benefits are described in a very specific non-monetised way such as ‘number of HIV tests conducted’ or ‘number of lives saved per year’ or ‘number of children vaccinated’. The results are then presented as the cost per ‘unit’ of benefit (1 HIV test, 1 life saved, or 1 child vaccinated). The project with the best ratio is the one with the optimal scale that uses the resources the most efficiently. In certain occasions however, there is a particular threshold (minimum of 10.000 vaccinations) that needs to be reached before comparing projects on the efficiency ratio.

The cost-effectiveness analysis allows institutions to assess projects without having to monetise social benefits.

6.2.3 Economic Impact Assessment

Once the viability of one or more project options has been demonstrated through cost-benefit analysis or cost-effectiveness analysis, it may be necessary to do further analysis to identify the macro-economic growth effects, spill-over effects, or distributional impacts.
If the proposed project is so large, capital intensive or import reliant that it might influence national or sectorial GDP, the balance of payments or the exchange rate, a macro-economic impact assessment is required.

If the project has the potential to affect a particular social group, a region or a sector, a micro-economic impact assessment is required. The assessment allows for the identification of the losers and the winners from the project and the judgement of whether these distributional impacts are aligned with government priorities. If the potential losers are identified as an already vulnerable group, this might require mitigation actions to be undertaken. The project’s scope and financial structure must be aligned towards the findings in the impact assessment.

The results of these impact assessments can assist in prioritising viable projects on the basis of other developmental goals such as impact on rural or regional development, industrial expansion, potential for job creation or losses, or reduction in inequality; or for large projects, and their impact on exchange rates, balance of payments, inflation, and GDP growth.
Methodological tools for analysing these impacts are Social Accounting Matrices (SAMs), Input Output tables (I/O), Computable General Equilibrium models (CGE) and simple surveys and public consultation.

6.3 Risk assessment and sensitivity analysis

The outcomes of both the financial and economic analysis are based on certain modelling assumptions and risk predictions. These assumptions need to be scrutinised and tested to ensure that the project remains viable even in an environment which differs significantly from that assumed in the various analyses conducted.

Large projects with significant technical, financial and economic risk are required to undergo a qualitative as well as quantitative risk assessment. Smaller projects with limited technical or contextual risk, must attempt to draw up a risk matrix where all the potential risks are listed and the likelihood and impact of the identified risk on the project is qualitatively described and controls or mitigating actions identified.

A risk assessment looks at all risks related to a project and assesses the impact of these risks and if mitigating actions are possible. For certain projects where uncertainty is significant and involves large financial risks, presenting a risk-adjusted costing model is crucial. Costing for risks is then undertaken by identifying all the risks, approximating the financial impact they will have on project costs and revenues and estimating the probability of occurrence of the risk event.

A sensitivity analysis tests the impact of changes in various modelling assumptions on the viability of the project. After the financial model has been finalised, sensitivity analyses need to be undertaken in order to determine the resilience of the cash flows to changes in assumptions over the project's life-cycle. Adjusting each variable individually by a given percentage and then stress-testing project viability will highlight which assumptions are the most vulnerable. The impact of changes in these assumptions on the FNPV and ENPV should be determined.

7. THE PREFERRED OPTION

Having identified and thoroughly evaluated the options that may provide a solution to the identified need, it is important to now quantify the cost of the shortlisted options that will most nearly provide a complete solution, in order to select a preferred option for funding. The aim is to identify the best solution that will meet the criteria given any constraints the institution may be facing. The result is a clear reasoning as to why and how the preferred option was chosen. The preferred option is the option that meets the project objectives most economically.

8. IMPLEMENTATION READINESS

8.1 Institutional Capacity

Sufficient capacity to deliver the project on time, on budget and to specifications should be demonstrated clearly. An institutional arrangement that is conducive to effective delivery is critical. Analysis to ensure that the institutions responsible for implementation, including project management, and operational responsibility will be appropriate to the task, should demonstrate that:

- Institutions have an appropriate mandate;
- Suitable incentives or penalties are in place to ensure delivery;
- Accountability, transparency and appropriate risk allocation are guaranteed;
- There are no governance issues that may affect implementation; and
- The relevant institutions have, or can access, the required capacity.

If necessary, a plan for institutional capacity building should be included in this analysis. This includes sufficient planning, procurement and skills transfer of the required technical expertise.

Options for enhancing implementation potential include in-house training as well as various forms of partnering with the private sector.

8.2 Procurement Plan

A procurement plan must be submitted. The plan needs to demonstrate that the proposed procurement method is the most appropriate for the project and will result in achievement of the targeted outcomes. This includes indicating the procurement methodology that will be employed and how it will be managed.
The plan will include a description of the bidding and bid evaluation process, a high-level project plan, key milestones and timelines as well as the envisaged institutional and financial arrangements.

9. PROJECT CONCEPT NOTE

All institutions submitting bids should complete the Project Concept Note below. The completed Note, which provides a summary of the bid, should serve as the front cover for the submission.

PROJECT CONCEPT NOTE Name of department/public entity

PROJECT CONCEPT NOTE

Name of department/ public entity	

Project name	**Name and contact details of the project officer**
Project objective	

Project description

Project Outputs

Project Location	**Project Stage**			**Project Size**	
Expected construction start date			**Estimated construction duration (months)**		
Estimated project costs before tender (R million)			**Project usefullife (years)**		
Implementing agent					
Contracting agent					

Source of funding

Expected socio-economic and envirinmental benefits

NPV - Coct Benefit analysis		**CER - Cost Effective Analysis**	