national treasury

Department:
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REPUBLIC OF SOUTH AFRICA

Treasury Guidelines

Preparation of Expenditure Estimates for the 2010 Medium Term Expenditure Framework

National Treasury

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The document is available on the internet at: www.treasury.gov.za/publications/guidelines

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1. Introduction

These guidelines provide essential information for preparation of expenditure estimates for the 2010 medium-term expenditure framework (MTEF). They apply to national and provincial departments, entities[1] and constitutional institutions. Closely following the guidelines will help to improve the efficacy of public spending.

The 2010 expenditure estimates are being prepared in the context of a global recession. In South Africa, revenue growth will slow as a result of weaker economic conditions. Responding to these challenges requires a strategic response. Departments need to channel available resources to service delivery projects, placing a premium on the efficient allocation of funds.

The MTEF is a tool that allows government to manage the tension between diverse national, provincial and local policy priorities competing for limited fiscal resources. The framework enables government to make informed choices that are affordable in the medium-term, and to reprioritise expenditure as required.

Preparation for the 2010 Budget is informed by government's development priorities. The spending priorities, broadly defined, are:

- Enhancing the quality of education and skills development;
- Improving the provision of health care, with particular emphasis on reducing infant, child and maternal mortality rates, and broadening prevention and treatment programmes tackling HIV and Aids, and tuberculosis;
- Investing in the criminal justice sector to reduce crime levels and enhance public safety;
- Expanding investment in the built environment to improve public transport and meet universal access targets in electricity, water, sanitation and housing; and
- Decreasing rural poverty by taking steps to raise rural incomes and improve livelihoods by enhancing access to land and providing support for emerging farmers.

A discussion of funded public spending priorities may be found in Section 7 of the 2009 *Budget Review*, available at http://www.treasury.gov.za/documents/national%20budget/2009/review/

Entities and constitutional institutions should consider all their funding priorities when compiling expenditure estimates for the 2010 MTEF. Departments must prioritise service delivery, improving living conditions for the majority of South Africans, and offsetting the effects of the global economic crisis. This requires departments to critically evaluate their current performance against stated targets, and to ensure that the set outputs are achievable and measurable. Departments are also required to ensure that resources in their baseline allocations take account of any policy adjustments or priorities announced by the new government over the period ahead.

Points of emphasis

Particular attention should be paid to the following:

- All budget submissions must be linked to the programme structure of a department, and should reflect costing at activity level within subprogrammes.
- Entities and constitutional institutions are required to submit their expenditure estimates and related output targets to inform the determination of appropriation requirements.

[1] Including all entities listed in Schedules 2 and 3 of the Public Finance Management Act.

- All Medium Term Expenditure Committee (MTEC) submissions and presentations must follow the requirements of the guidelines, and any other requirements set by the National Treasury; submissions that do not comply may be returned to departments.
- The baseline examination should include identification of slow spending items, shifting of funds from non-performing programmes, efficiency savings, non-recurrent items, rescheduling and reprioritisation.
- Submissions should show how departments have considered reprioritising some of the available funds towards new projects.
- Performance against outputs stated in the 2009 *Estimates of National Expenditure* (*ENE*) must be reported for all programmes, except programme 1 (administration).
- Any proposals for additional funding must present output targets to be achieved.
- Where relevant, departmental submissions must identify expenditure estimates relating to provinces or entities.
- Requests for amendment of programme structures must be submitted for consideration by 3 July 2009. Historical information should be submitted where programme budget structures have changed.
- New ministries, recently announced by the President, can submit requests for approval of programme structures by 3 July 2009 if the restructuring of a department and its programme budget structures has been completed. In cases where programme budget structures have not been finalised by this date, proposals will be considered at a later point.
- The 2010 expenditure estimates must be submitted by 24 July 2009.
- Large programmes that can be subjected to expenditure review to assess the relationship between spending, outputs and impact should be identified. Reports on departmental self-evaluation of programmes should be submitted to the National Treasury.

Economic growth and public-sector spending

The recent period of economic growth provided the fiscal space for consistent growth in government expenditure. Over the past four years, non-interest national expenditure has grown by an annual average of 9.5 per cent.

Over the period ahead, slower growth owing to the anaemic global environment will place downward pressure on tax revenue, and the real growth rate of public expenditure is consequently expected to moderate. As a result, the 2010 Budget needs to focus on obtaining more value for money. Spending must become more efficient and lower-priority spending must be reduced. Government's efficiency-savings initiative, intended to redirect funds to high-priority service-delivery areas, is a focal point of the 2010 Budget process.

The MTEF allocations already provide for average growth of about 15.6 per cent in 2009/10, 6.5 per cent 2010/11 and 6.2 per cent for 2011/12. The programme baseline allocations for the MTEF are indicative and may change following rigorous examination of baselines.

2. Budget process: national departments and public entities

In addition to observing normal practices related to planning, budget implementation and reporting, the following key dates in the Budget process should be noted. These dates are applicable to departments, entities and constitutional institutions. A schedule of provincial budget process dates is provided in Section 8.

Key dates in the Budget process*

Departments receive MTEC guidelines, database templates and indicative allocations	End May 2009
Information sessions on expenditure estimate guidelines	Mid-June
Submission and approval of amendments to programme structures	3 July 2009
Submission of capital/infrastructure funding requests	3 July 2009
Cabinet Lekgotla to discuss policy priorities and MTSF	22 July 2009
Departments submit expenditure estimates and database	24 July 2009
MTEC starts	17 August 2009
Departments' final date for distribution of Treasury Committee memoranda for unforeseeable and unavoidable expenditure	7 September 2009
Departments submit Adjusted Estimate chapters, database and Adjustments Appropriation Bill	11 September 2009
MTEC ends	23 September 2009
Treasury Committee as scheduled on parliamentary programme	6 October 2009
Departments submit final adjustments estimate inputs (database and chapter including expenditure until end of September and additional funds allocated, as well as Adjustments Appropriation Bill)	9 October 2009
Adjusted Estimate tabled in Parliament	27 October 2009
ENE guidelines to departments and entities	6 November 2009
Appropriation Bill format to departments and *ENE* database to departments and entities	6 November 2009
Inputs from departments for revised drawings after Adjusted Estimate	6 November 2009
Allocation letter to departments	November 2009
Departments submit first draft of *ENE* chapter, database and Appropriation Bill	3 December 2009
Departments submit revised (2nd draft) *ENE* chapters, databases and Appropriation Bill	8 January 2010
Departments submit estimated under/overspending for 2009/10 financial year	14 January 2010
Budget Day – Budget tabled in Parliament	17 February 2010

*Dates are subject to change. Some meetings, such as the Ministers' Committee on the Budget and parliamentary hearings, are not yet finalised.

Medium Term Expenditure Committee (MTEC) discussions

Expenditure estimate proposals will be discussed in bilateral MTEC discussions between departments and National Treasury budget analysts. Internal processes are in place to relay the contents of these deliberations to MTEC members, with the capital budgets committees making further recommendations.

A limited number of extended MTEC meetings will be held to discuss issues outstanding between departments and the National Treasury. All presentations for bilateral MTEC meetings and extended MTEC discussions must be concise and restricted to the key considerations outlined in these guidelines. Where relevant, departments must make a separate presentation on provincial priorities and entities as outlined in these guidelines. Additional funding proposals are discussed in Section 6. All presentations should highlight key outputs achieved to date for 2009/10 and those expected over the medium term.

Strict time limits will be communicated in invitations. Presentations must cover the following main points by programme:

- A short reference to departmental mandate;
- Performance against objectives, targets and recent interventions, including financial outcomes;
- How identification of slow spending items, shifting of funds from non-performing programmes, efficiency savings, non-recurrent items, rescheduling and reprioritisation have been factored into expenditure estimates; and
- Proposals for additional funding, where relevant (see Section 6).

Departments' presentations must include information concerning entities and provinces in the same format. Constitutional institutions should provide the same information in their presentations.

Chairpersons will strictly rule out presentations that do not provide the required information in a succinct format.

3. Reporting against past performance

Examination of past performance is crucial to strategic planning and preparing expenditure estimates for the 2010 MTEF. The National Treasury will continue to assess whether value for money has been obtained in previous budget allocations, and this will be considered when recommendations for allocations are made.

National departments and public entities

Reporting on performance should be based on the service-delivery targets set in the 2009 *ENE*. Although the *ENE* database was not linked to outputs for each programme, and allowed for reporting on selected performance indicators, additional indicators not listed in the *ENE* can be reported on per programme. Information should be provided for the previous financial years, the current year and the next three years at programme level. Current-year reporting should include a projection of progress for April to June 2009 against the 2009 *ENE* targets. Programme 1, usually reserved for administrative functions, is exempt from this requirement.

Departments are advised to monitor their relevant entities and report on their progress against targets in the 2009 *ENE*. In addition to statistical information in the *ENE*, entities must report against outputs specified in the shareholder compact or service level agreements with their departments (as approved by the board of directors). The programme/objectives/activity sheets in the database must be used for this reporting. In addition to the monitoring of performance results by the National Treasury, the Auditor-General is scheduled to implement auditing of performance information from 2009/10.

Provincial departments

Performance information should be reported for the same period prescribed for national departments, based on targets set in the 2009 Budget Statements.

4. Baseline assessment and reprioritisation

The National Treasury has conducted an initial baseline examination of all departmental programmes by removing non-recurrent items from the baseline and growing the remainder by 5 per cent in 2012/13. Inflation, measured by the consumer price index, is projected to decline to 5.1 per cent in 2010/11, falling further to 4.6 per cent by 2011/12. To finalise expenditure estimates for the 2010 MTEF, departments are required to conduct in-depth baseline assessments in line with service delivery targets.

In preparing expenditure estimates, each department should thoroughly review its:

- Aims and objectives
- Performance and service delivery outputs and targets needed to meet these aims and objectives
- Allocations to programmes that provide for these outputs
- Identification and costing of key activities within subprogrammes.

Each department is required to compile a note explaining how reprioritisation affects its aims and objectives, particularly in relation to performance and service-delivery targets and outputs. Proper costing of services is an important component of the baseline examination and ancillary information not contained in the database may be provided as an annexure or when required.

This detailed baseline exercise should highlight programmes and subprogrammes that have not delivered on expected outputs, or areas where there is insufficient capacity to deliver services. On the basis of the exercise, decisions should be taken to reprioritise funding from lower-priority to higher-priority programmes. Accounting officers should review ongoing or contractual liabilities and reprioritise funds where necessary to ensure that priorities can be funded within the baseline.

The baseline and reprioritisation exercise must include the following steps:

Identification of non-recurrent expenditure

Amounts for "once-off" projects or where spending takes place over a defined period should be excluded when the baseline is re-examined. Non-recurrent expenditure should be identified at programme, subprogramme and activity level in the relevant annexures. Departments should indicate the cost escalations for non-recurrent allocations that will be rescheduled from the current financial year to the next financial year.

Slow spending programmes

Programmes that may not have met historic targets due to slow supply chain management processes, lack of human resources or poor planning, amongst others, should be identified. This may result in the identification of savings, and decisions may be taken to modify or cut non-priority programmes.

Underperforming programmes

The baseline examination, supported by a realistic assessment of actual outputs and outcomes against targets, should identify possible areas of savings.

Efficiency savings

The efficiency-savings initiative is intended to ensure that funds are directed to service delivery, rather than non-essential spending or frills. Efficiency savings can be achieved through reducing operating costs and non-service delivery activities (e.g. advertising, vehicle hire, travel, security, non-essential telecommunications, entertainment costs, consultant fees where relevant) and should be considered for all programmes. This requirement also applies to entities and constitutional institutions. Where a departmental programme consists mainly of transfers to entities, the department and the relevant entities should identify efficiency savings in their budgets.

Rescheduling of projects or activities

Where implementation of projects or activities has been rescheduled, departments should provide a detailed explanation for the rescheduling. Departments should also state the savings and financial implications of rescheduling projects and activities. Where identified savings cannot be reprioritised, a cut in the baseline will be appropriate.

5. Additional instructions to departments

Budget submissions should be accompanied by a letter from the director-general of the department detailing information included in the submission, according to the steps outlined in this guideline. The ranking of any funding priorities over the MTEF should be explicit.

Budget structures

All budget submissions must be completed in terms of approved budget structures. The design of programme budget structures is critical in giving effect to the strategic plan, allocating resources and monitoring performance of outputs against each programme. Refer to Appendix 1 for guidance on amending the budget structures.

Wage negotiations and personnel costs

Departments should budget for compensation of employees in line with the projections outlined below, based on CPI inflation.

2010/11	2011/12	2012/13
6 per cent	5.6 per cent	5 per cent

Any salary increases above the budgeted rate should be funded from departmental baselines. No additional funds will be allocated for this purpose, and departments need to strictly ensure that affordability is central to their interactions with the relevant mandating structures.

Budget submissions for 2010 FIFA World Cup

As part of their expenditure estimates, departments responsible for 2010 FIFA World Cup support services should include information on the status of implementation and reallocation of funds within baseline. The MTEC will assess any adjustment of priorities to cater for World Cup activities and the resultant programme allocations. The baseline examination and costing must include an assessment of estimated input cost escalation for capital projects.

Official development assistance

Official development assistance involves both cash and in-kind contributions. National and provincial departments and entities are required to provide a schedule of all donor funding by programme, subprogramme and main economic classification over the MTEF period, together with a brief description and timelines of how the funds will be spent. Where monetary value cannot be attached to in-kind contributions, a brief narrative description of the contribution must be provided. Performance information, including specific outputs per project, must also be identified on programme and donor funding sheets and summarised separately to inform evaluation. Where applicable, departments should indicate where donor commitment to ongoing projects is questionable, and report on contingency plans to deal with such an eventuality.

6. Additional funding proposals

The identification of strategic priorities, assessment of past performance and the baseline examination must inform any proposals for additional funding. Departments should give careful consideration to structuring their submissions for funding against particular programmes. Proposals must also be identified at programme level, linked to subprogrammes and key activities.

Where existing departmental functions have been separated, as recently announced by the President, new departments can submit additional funding proposals within existing departmental structures, provided the new department's programme structure and policy priorities are clear.

Departments, entities and constitutional institutions are advised to refer to historic budget documentation to ensure that they adopt a realistic approach in submissions for additional funding. The quantum of new budget proposals will also be evaluated against the department's total baseline budget to assess the capacity to implement proposals, informed by consideration of past performance.

Preparation of additional funding proposals

Additional funding proposals should include:

- A note showing a rigorous baseline assessment, including looking into the possibility of partially funding the new proposal through reprioritisation of funds or alternative funding mechanisms, such as public-private partnerships for infrastructure projects.
- Evidence for and quantification of the problem, including information on past and current interventions, and rationale for the proposed initiative.
- Identified outputs over and above those already contained in the baseline, stated at subprogramme and programme level.
- Detailed costing of all policy proposals at programme, subprogramme and activity level
- In the case of new requests on infrastructure projects, a demonstration of how the initiative enhances service delivery outcomes.
- Departmental spending estimates exceeding baseline allocations over the MTEF.
- Legislative, administrative and implementation plans.
- A monitoring and evaluation plan.
- Risk analysis.
- Links to any other relevant programmes within the department or across departments.
- Additional information, including templates that may be requested by budget analysts.

To assist in preparing comprehensive summaries for the MTEC meetings and briefings to the Ministers' Committee on the Budget (Mincombud), it is important that detailed and relevant narrative information is provided with budget submissions under each programme.

The narrative submission should clarify the relevance of any annexures submitted and explain how any new funding requests relate to government aims and programme objectives. Evidence of feasibility studies and implementation readiness should be provided where relevant. There should also be an explanation of why any new proposals could not be fully accommodated in the reprioritisation exercise. Departments should also provide a brief narrative of the anticipated consequences if a new proposal is not funded. <u>The written submission should be limited to a maximum of three pages per programme.</u>

Constitutional institutions

The requirements for preparing expenditure estimates for departments also apply to constitutional institutions. Their estimates must be submitted in the required format to the National Treasury.

Budgeting for interdepartmental initiatives

In the case of interdepartmental programmes, participating departments are required to submit the relevant information in the format required in these guidelines. Covering letters should include reference to such cross-cutting programmes. Funding proposals should also be signed off by the responsible accounting officer(s) and be ratified by the relevant cluster management officers.

Concurrent functions and provincial budget requests

Departments responsible for concurrent functions must reach agreement with their provincial counterparts on any expenditure they plan to propose for the provinces in the 2010 MTEF, and include recommendations from meetings held by national sector departments and nine provincial sector departments (“10 X 10” discussions) in their budget submissions. These departments must have separate submissions for the national department and the provinces. Provincial performance, including outputs over the MTEF, must be included in the submission.

Conditional grant funding

The MTEF submission should include a report on the progress of conditional grant implementation. Requests for approval of new conditional grant funding of departments responsible for concurrent functions must be signed by the appropriate officer and should provide all the information identified in the spreadsheet. Conditional grant funding must be identified in terms of the relevant departmental programme. Supplementary information can be provided as an annexure.

Departments are expected to report on local and provincial government compliance with existing conditional grant conditions and are invited to make inputs concerning changes to grant formulas. The deadline for all conditional grant submissions is 24 July 2009.

Public entities

Departments are accountable and responsible for information from their respective entities. Compliance in this regard will help to prevent late funding requests without clear proposals, supporting a balanced assessment process.

For entities, the appropriation requirements may be submitted as “unauthorised budgets” or expenditure estimates over the MTEF. Deviations from expenditure estimates may be submitted once the budget has been approved by the board of directors or the executive authority. Accrual information must be presented. However, schedule 3A and 3C entities funded from appropriations may provide cash information only. Both historic and projected budget figures must be provided in the appropriate annexures. All entities currently in the *ENE* database and listed in the consolidated budget spending tables of the *Budget Review,* and all others that have proposals for additional funding, are obliged to comply with these requirements.

The budget submissions of all entities, whether or not they are seeking additional funding, must be included in the submissions of the oversight departments. The National Treasury will consider and determine the appropriation needs of a public entity prior to budget approval by the board of directors. Entities should also estimate own revenue where applicable.

All entities are required to provide information about their borrowing plans over the MTEF period as part of their submissions. This will enable the National Treasury to consolidate government borrowing estimates.

Entities should provide statements of their cash and cash equivalent balances over the past five years, as set out in balance sheets and cash-flow statements. A funding plan showing the gap between cash generated from operations and cash requirements should also be provided.

7. Infrastructure and capital projects

The Capital Budgets Committee (CBC), a subcommittee of the MTEC, will take a more rigorous approach to the appraisal of capital projects in the 2010 MTEF process. The committee aims to ensure that funding is directed to projects offering maximum economic and social benefits.

To ensure efficiency, cost-effectiveness and better allocation of resources, these guidelines set out a procedural framework for the appraisal of new and existing projects. Detailed Guidelines on Budgeting for Infrastructure and Capital Expenditure are available on www.treasury.gov.za/publications/guidelines. They provide information on what is required when making budget requests for capital projects and programmes. Project funding proposals, including economic feasibility studies and detailed supporting documentation, should be submitted to the National Treasury by 3 July 2009.

Infrastructure and capital projects and programmes are classified in three categories:

- **Mega projects or programmes** are estimated to cost more than R300 million per year for a minimum of three years, or a total project cost of at least R900 million. All mega projects require a comprehensive appraisal by the CBC.
- **Large projects or programmes** are estimated to cost between R50 million and R300 million per year for a minimum of three years – totalling at least R150 million but less than R900 million over the MTEF. Large projects require detailed information and a feasibility study for scrutiny by the CBC.
- **Small projects or programmes** are estimated to cost less than R50 million per year and not more than R150 million over the MTEF. Small projects with the same outputs may be grouped together in a programme for evaluation by the CBC.

Appraisal process and guidelines
Departments must provide suitable details in the required format and ensure that capital proposals are comprehensive, achievable and fully motivated. The CBC will review appraisals submitted to ensure that they are adequately prepared and analysed.

The requirements for making capital budget requests are set out below. In general, a department's submission should be laid out as a discussion, with supporting data, graphs and tables where statistical information requires illustration. Separate large and mega projects each require their own submissions.

- **Needs analysis.** Justify why a project is required and why government should get involved. The capital proposals must indicate the extent to which the project will address the need and outline the consequences if it is not supported. The analysis should be explicit about how the proposed project or programme helps to achieve the institution's strategic objective(s).
- **Options analysis.** The capital proposals must demonstrate that alternative solutions have been thoroughly examined. Alternative solutions could include different technical specifications, different locations, policy or institutional reforms, and differences in the scale or the timing of the project. If the costs and benefits can be measured in monetary terms, an optimal solution among alternatives will be the one with the highest net present value (NPV).
- **Value-for-money assessment**. This can take several forms:
  - o **Cost-benefit analysis.** After considering all lifecycle costs and benefits, it must be determined whether a project is worth undertaking. NPV must be positive for a project to be considered economically viable.

- **Cost-effectiveness analysis.** This is applied where costs and benefits are not measurable in monetary terms. When comparing various cost-effectiveness ratios and the unit costs are different across the alternative solutions, the main consideration is whether the marginal gains are worth the extra costs.

- **Scenario and risk analysis.** This identifies the variables influencing project viability and quantifies the extent of their influence. The analysis involves testing the effects of variations in selected costs and benefits on the project's NPV.
- **Implementation readiness.** The institution's readiness to implement the project or programme must be outlined, giving details on the project lifecycle. This will include assessment of provisions made over the full lifecycle, and identifying factors that could affect project delivery. Mitigation plans have to be put in place for all risks.
- **Approvals and permissions.** All approvals and permission obtained for the project, including environmental impact assessments, must be listed.

8. Provincial budgeting process

In addition to the information provided above, provinces are expected to meet the requirements of their own provincial budget processes. This section highlights some of these additional requirements, which may vary between provinces. It should be read together with the *Provincial Budget Process Schedule* and *Provincial Budget Formats Guide*.

The timeline for key budget decisions in the policy review stage is outlined below.

Provincial budget timelines

May 2009	Executive council (EXCO) considers spending priorities
June - July 2009	Provincial technical committees consider key spending pressures Policy discussions with line departments
July - September 2009	Revision of the macroeconomic framework
September 2009	EXCO considers in-year pressures and policy priorities for upcoming MTEF
October/November 2009	Adjusted estimates tabled in legislature
December 2009 - January 2010	Provinces prepare budget documentation
February 2010	Provincial budgets tabled

In preparing submissions, provincial executives need to prioritise the development of meaningful performance indicators, including sector or cluster indicators. Provincial departments must update their annual performance for the upcoming financial year. The final actual outputs of 2009/10 must serve as the estimated baseline targets for 2010/11.

Infrastructure

Proposals for provincial infrastructure projects should be in the form of infrastructure plans, which include a final list of prioritised projects. The infrastructure plan should be in the prescribed *Infrastructure Delivery Management Guidelines* format and should include expanded public works programme requirements. These guidelines are available at www.cidb.org.za/Toolkit06/index.htm.

Infrastructure departments must capture their infrastructure budgets (capital and maintenance costs) using the items provided in the Basic Accounting System standardised project segment. Provincial treasuries are asked to ensure that departments comply with the new structures. The infrastructure project segments are:

- New infrastructure (capital expenditure)

- Rehabilitation and replacement (capital expenditure)
- Renovation and refurbishment (capital expenditure)
- Upgrading and additions (capital expenditure)
- Maintenance and repairs of existing facilities (current expenditure).

APPENDICES

Appendix 1: Amending programme budget structures

Newly established ministries may submit their programme budget structures by 3 July 2009 if the process of restructuring has been finalised and programme budget structures have been defined. Existing departments must comply with the timeframes set in the guidelines.

The budget structure consists of four basic components:

1. Objective structure – main division/programme, subprogramme, elements and activities
2. Responsibility structure – establishment or organisational structure
3. Economic classification structure – a combination of codes in the item, assets and project segments of the standard chart of accounts
4. Fund structure – the sources of funding (e.g. voted funds via the National Revenue Fund).

This appendix deals only with the first component – the objective structure.

Objective structure

General

The objective structure can only be developed after the **aim** of the vote for the department has been established. Expenditure not in accordance with the purpose of a vote will be regarded as unauthorised expenditure. The aim of the departmental vote must include the needs to be satisfied, the problems to be addressed, the results to be achieved and the expected outcome. A strategic plan must be developed in terms of Treasury Regulations 5 and 30 to achieve the goals (objectives) set within the aim of the vote.

The main divisions/programmes of a department are identified through its strategic plans and budget documents. Clearly defined and identifiable strategic objectives unique to a department are critical in designing programme structures.

The name and description of each main division must be unique so that it can be immediately linked to a specific department. The objective structure must be designed to be fixed for at least five years. It serves no purpose for departments to amend their objective structures each year while encouraging the formulation of longer-term strategic plans and three-year expenditure plans.

Changes to an objective structure must be limited to decisions that lead to a change in mandate and a policy shift. The objective structure must be seen as a permanent structure and should not be changed each time the management of a department changes.

A clearly defined and concise objective structure will improve:

- Accountability, financial management, monitoring and control
- Management practice
- Planning and budgeting
- The production of statistical information.

Objective structure features

Main divisions (programmes)

The main divisions (programmes) can be categorised according to a support or line function, and can be linked to key functions.

Support function

Programme 1 is usually “administration”. This category refers to those centralised activities that support the department as a whole.

This must always be indicated as the first main division and will include subprogrammes such as:

- The minister’s salary and car allowance only
- Management vested in programme 1: director-general, deputy directors-general, as well as other administrative expenditure of the minister and deputy minister
- Corporate services (financial administration, human resources, information technology etc).

Line function

- Programmes classified under this function contribute directly to the aim of the department, and are normally considered the key functions of the department.
- The main divisions must be developed to be fixed for at least five years.
- Expenditure may be incurred under the provision of a particular programme only when the aim and programme description include the specific service on which the amount is expended.
- Expenses not covered by the aim and programme descriptions of the vote will be regarded as unauthorised in terms of Section 34 of the Public Finance Management Act (PFMA). Programme descriptions must be examined continually to avoid such sanctions.
- The design of programme budget structures must be linked to a department’s strategic plan and output indicators relevant to the programme.
- Each programme and subprogramme should have a distinct name. For example, two programmes in one department may not each contain a subprogramme called “management”. There should be a unique identifier to distinguish between, for example, “grant management” and “licences management”.

Circumstances under which a change to an objective structure may be considered

Expansion of an existing programme and delivery of new services

This is relevant where a provision arises from the application of a legal requirement. Reference to the latest act and, where appropriate, the section must be indicated in the programme description. A priority classification must be given for the expansion of a programme:

- Due to a policy decision and or legislative change
- Due to the transfer of functions between votes or the shifting of funds within a vote (see Section 30 [e] of the PFMA)
- Between votes (see PFMA Sections 42 and 33 and Treasury Regulations Section 6.5)
- Within votes (see Section 30 [e] of the PFMA)
- Where an existing programme becomes redundant.

Merging or segregation of different votes due to a policy decision

Changing the name of a programme due to a policy decision, or where an existing programme name is not unique and needs to be refined.

Approval of changes to the objective structure

The form and contents of a vote may not be amended without the prior approval of the National Treasury. Note that changes to the objective structure made late in the financial year lead to the burdensome recording of numerous journal corrections on the financial system. This can be avoided if an objective structure is changed at the beginning of a financial year.

New structure or changes to an objective structure for a new financial year

The department needs to discuss and finalise any changes to its objective structure prior to submission of new MTEF budgets, as the MTEC deliberations will be based on the new approved objective structure.

The expenditure trends in the *ENE* database should be comparable. The department must keep in mind that changes to its objective structure will have an impact on the financial data of past, current and future financial years. Departments are responsible for revising these figures per newly approved programme and subprogramme.

Changes to an objective structure in the current financial year

Requests for changes to the objective structure for a current financial year will only be considered in relation to legislative changes and in exceptional circumstances, such as:

- A function shift between votes that necessitates the creation of a new subprogramme, element or activity
- Additional funding received for unforeseeable and unavoidable expenditure, for which no subprogramme or element or activity existed
- Funds received for emergency situations approved in terms of Section 16 of the PFMA, for which no subprogramme, element or activity existed.

Given that changes to the objective structure have to be reported by the National Treasury to Parliament's Standing Committee on Public Accounts, departments must compile explanatory memoranda containing details of changes, with reference numbers and dates of all approvals given by the Treasury.