Province of the
EASTERN CAPE
EDUCATION

Iphondo leMpuma Kapa: Isebe leMfundo
Provinsie van die Oos Kaap: Departement van Onderwys
Porafensie Ya Kapa Botjahabela: Lefapha la Thuto

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BUDGET CIRCULAR

TO	:	**OFFICE OF THE MEC** **ALL DDG'S** **ALL PROGRAMME MANAGERS** **ALL CHIEF DIRECTORS** **ALL CLUSTER CHIEF DIRECTORS** **ALL DIRECTORS** **ALL CONDITIONAL GRANT MANAGERS** **ALL DISTRICT SENIOR MANAGEMENT TEAMS**
FROM	:	**HEAD OF DEPARTMENT (A)**
DATE	:	**09 JULY 2024**
SUBJECT	:	**INTERNAL BUDGET CIRCULAR 01 OF 2024 FOR 2025 MTEF PLANNING AND BUDGET PROCESS**

1. PURPOSE

1.1 The aim of this circular is to prescribe the minimum requirements with which the annual budget formats must comply in accordance with Section 215 of the Constitution, Section 27(3) of the Public Finance Management Act (PFMA). Section 6.1.1 of the National Treasury Regulations (NTR) requires that an Accounting Officer of a department must comply with any annual budget circular issued by the relevant Treasury. Furthermore, an Accounting Officer of a budget vote must ensure that the budget submission or Expenditure Estimates for that vote includes appropriate supporting information in respect of Sector Budgeting and Programme Structure.

1.2 Section 6.2 of the NTR requires that the annual budget documentation, as presented to Provincial Treasury and Provincial Legislature, must conform to the formats determined by National Treasury. These formats and guidelines were issued by Provincial Treasury on 02 July 2024 and have been customized for the benefit of the department and programme.

1.3 In line with the above-mentioned regulations, this circular sets out the formats and technical guidelines that Programme and Responsibility Managers should follow when preparing their budget inputs for the 2025 Medium Term Expenditure Framework (MTEF) period. Its principal aim is to ensure that the planning and budget documentation submitted, and the work undertaken in the 2024 MTEF Budget process, are aligned to National Government Priorities and Provincial Priorities of Priorities.

2. BACKGROUND AND MOTIVATION

2.1 South Africa finds itself at a critical juncture as it celebrates 30 years of democracy, a milestone that reflects both significant progress and enduring challenges. The end of the sixth administration marks a pivotal moment in the nation's political landscape, transitioning towards an unprecedented era with the formation of a Government of National Unity (GNU). This historic shift will define the hallmark of the seventh administration, potentially reshaping the country's governance and policy direction.

2.2 While it is anticipated that the incoming administration will bring its own perspectives and policies, the exact nature of these changes remains to be seen. In the interim, it is crucial to maintain the balanced fiscal stance, which sets out to stabilise public finances and reduce fiscal and economic risks, while promoting economic growth and supporting the most vulnerable members of society.

2.3 The guidelines in the circular are not intended to pre-empt the policies of the next political administration. Instead, they are issued in accordance with the provisions of the PFMA and are essential for the smooth functioning of the budget process.

2.4 The guidelines outline the economic environment under which this MTEF is formulated.

3. PRINCIPLES FOR THE 2025 MTEF

Due to slow economic growth the budget is again formulated within a tight fiscal environment and the following policy guidance should be taken into consideration when preparing the budget submission:

3.1 The 2025 MTEF process will be underpinned by the announced goal of stabilising and then reducing the government debt as a percentage of economic output. To achieve this, government must run a primary surplus, which means that non-interest spending must be lower than the projected revenues by a margin sufficient to prevent a further increase in government debt.

3.2 In light of this, the total spending envelope will be maintained within the parameters set out in the 2024 MTEF.

3.3 Resources will only be available within the parameters required to meet the objectives of the medium-term fiscal strategy as outlined in the 2024 Budget Review. In this regard, should the economic outlook remain the same, **NO additions** will be made to the overall envelope. Instead, Fiscal consolidation measures will continue to be implemented over the 2025 MTEF. Therefore, Programme and Responsibility Managers are NOT expected to submit any requests for baseline increases.

3.4 In instances where spending may be accommodated by unforeseen or higher-than-expected revenues, permanent increases to spending will be avoided. Any spending pressures must first be funded from current baselines and programmes that have not delivered their expected outcomes as downward adjustments may be implemented on existing baselines to accommodate the funding shortfall.

3.5 **Any funding pressures to a programme will need to be funded through reprioritisation, either within the programme or from other programmes within the departmental budget.**

3.6 The 2025 Budget process will maintain the compensation ceilings of each programme within the existing limits, implying a trade-off between the unit cost of labour and the total size of the staff establishment in the department. Only extreme and critical exceptions to this will be considered, and only if there are resources available, including from other sources within the spending envelope.

3.7 Moreover, government will be engaging with labour as part of the upcoming negotiation processes with the aim introducing a new dispensation that will allow for older employees in higher notches of various salary levels who wish to exit the public service earlier to do so with added incentives and without being penalised. The new dispensation will help in assisting departments to free up some positions and allow for recruitment of employees in entry levels and entry notches of various levels.

3.8 Salary adjustments will be guided by the public service wage bill management strategy outlined in the 2025 MTEF Guidelines for the Costing and Budgeting for Compensation of Employees and the Department should consider the implications of their remuneration adjustments on future budgets.

3.9 The departments need to demonstrate in their Human Resource Plans how they are managing their personnel establishment accordingly. Programme and Responsibility Managers should consider the PCMT processes when planning and ensure that the period taken to fill posts after the PCMT approval process is in line with the target of 3 months.

3.10 Programme and Responsibility Managers must continue to seek cost containment and improved efficiency by undertaking appropriate activities that result in savings. These activities include implementing the initiatives emanating from the Chief Procurement Office. Particular attention must be given to underperforming programmes (including areas of underspending) and non- essential goods and services budgets for example, travel and subsistence, advertising and catering costs as listed in Provincial Instruction Note 4 of 2017/18. All budget reductions implemented during this exercise and where funding is being reprioritized, it must be explicitly demonstrated in the budget inputs submitted.

3.11 Programme and Responsibility Managers that are undertaking infrastructure projects, should continue to collaborate when planning and implementing projects taking into account the Infrastructure Development Management System (IDMS) and the district development model. Furthermore, it must not reprioritise funding away from on-going infrastructure projects. Reprioritisation of infrastructure projects must be done within the scope of the institution's infrastructure plan, and target projects still in their planning phase. Life cycle costs must be considered, including maintenance and operational requirements, across all capital infrastructure.

3.12The number of contracts of the department within each programme as well as spending should enable government to use procurement as an enabler for transformation of economic activities to meet government objectives of targeting inclusion of historically disadvantaged individuals in the procurement value chain, namely: blacks, women, youth, persons living with disability, the military veterans as well as upliftment of locally based suppliers in disadvantaged communities. Organs of state are encouraged to participate in Transversal Term Contracts to achieve economies of scale and savings from bulk negotiations.

4. BASELINE ESTIMATION AND INFLATION ASSUMPTIONS

For the purposes of baseline estimation over the 2025 MTEF period, the assumed cost-of-living adjustment should be in the interim based on the National Treasury forecast and are estimated as follows:

- CPI in 2025/26 – 4.8%
- CPI in 2026/27 – 4.6%
- CPI in 2027/28 – 4.5%

Note: The above projections serve as a guide for the costing of compensation ceilings by departments. They are not meant to pre-empt the outcome of future wage settlements in the PSCBC over the 2025 MTEF period. These negotiated wage settlements will help determine the final compensation ceilings.

The inflation parameters assume the latest projections from National Treasury's forecasts. These projections have been updated in the HRBP tool which is required for submission. Departments are requested to focus on management of headcounts based on these projections when completing the HRBP tool.

It should be noted that the various allowances and benefits applicable to public service employees may use different inflation or Consumer Price Index (CPI) forecasts. Costing of any allowances or benefits should be aligned with their relevant PSCBC resolutions including the inflation forecasts to be used.

4.1 Personnel Inflation projections

Programmes and Responsibility Managers are expected to adhere to the set compensation ceilings during the 2025 MTEF and are also expected to manage and monitor implementation of set ceilings and headcount numbers with the view to identifying the sources of cost pressures so that corrective measures can be taken, with the support of the PT.

Given the current economic circumstances and the limited State resources, it is critical for the department to contribute towards containing the public sector wage bill.

The 2025 MTEF process prioritises expenditure budgets towards areas that stimulate economic growth. It is therefore encouraged to implement stringent compensation containment measures such as the application of the incentive policy framework and other relevant DPSA circulars, including management of overtime payments and progression.

In budgeting for Compensation of Employees with the department's baselines, the following projections can be utilised over the 2025 MTEF for salary increases.

- 2025/26 financial year: 4.8 percent (CPI).
- 2026/27 financial year: 4.6 percent (CPI).
- 2027/28 financial year: 4.5 percent (CPI).
- Sufficient provision MUST be made for pay progression of 1.5 percent in each of the 2025 MTEF financial years.
- Medical contributions are based on Medical Price Index (MPI) in the 2025 MTEF period.
- Housing allowance must also be increased by CPI for each preceding financial year.
- Performance bonus: 0 percent

In terms of the **wage negotiations**, the next round of wage negotiations will formally start in July 2024. The department should continue with the current measures on personnel management, given the current fiscal climate.

Despite the current assumptions as outlined in the guide for the costing of compensation ceilings, the departments should be cognisant of the implications of any future wage agreements in the course of managing various aspects of their human resources, including headcount management and planning, and the awarding of benefits and allowances.

5. BUDGET SUBMISSION DOCUMENTATION REQUIREMENTS

All the budget submissions must consist of the requirements outlined below.

	Details
A	Explanatory Narrative by Programme Manager, Grant Coordinators and District Director
B	Database / Costing Template (EC4.1)
C	Budget Motivation – What the budget buys per Programme and District (funded priorities), Reprioritization done within the programme
D	Infrastructure (B5) (Captured at district and local municipality level)
E	Written explanations, including assumptions on own revenue forecasts
F	Budget working papers / supporting documents
G	HR Plan / Annual Recruitment Plan
H	Gazette information

In addition to the normal budget submission documents above, the Districts are requested to submit to Head Office the following Internal Planning documents:

- A comprehensive District Budget Process schedule signed off by the District Director aligned to the Provincial Budget process schedule; and
- A list of members of the Cluster and District Budget Advisory Committee (BAC) and a schedule of the BAC meetings for the 2024/25 financial year in accordance with Circular 45 of 1999.

Note that for the first budget submission to Management Accounting is due on 18 July 2024, which will then be consolidated and submitted to Provincial Treasury on 22 July 2024, the following will be submitted:

• Accounting Officer's letter/narrative report; and

• MTEF database.

6. THE EXPLANATORY NARRATIVE

Each Programme and District should submit an explanatory narrative to Management Accounting. It is important to keep in mind that this explanatory analysis of the institution's budget is the determinant of the credibility of its budget. This narrative is the main proposal and should clearly articulate the rationale of the budget proposals, with the programme database/ district template providing supporting information. The narrative should contain the following elements, together with their underlying reasoning:

Programmes participating in the Gender Responsive Budgeting (GRB) pilots must include in their submission a paragraph of the reallocation to these priorities and the policy imperative being addressed.

PROGRAMME AND RESPONSIBILITY MANAGERS

6.1 Programme and Responsibility Managers need to explain the alignment of their budgets and identified key policy priorities that guides resource allocation.

6.2 The general current status of the institutional budget and the trends in the achievement of deliverables (including conditional grants) and in programmes, underlying cost assumptions and prevailing issues; composition of spending must discuss trends, issues and challenges per economic classification over the 3 (three) year MTEF period, i.e. in respect of compensation of employees, capital spending, goods and services, transfers and subsidies and other relevant elements of the budget defined by economic classification. The 2025 MTEF Budget aims to change the composition of spending away from consumption/non-core towards core.

6.3 Information on the programmes and projects to be scaled back, rescheduled to a later period or closed, in order to raise resources for higher priority programmes;

6.4 The costed implications of spending pressures on existing programmes / policy areas / projects and proposed initiatives to manage them.

6.5 The current status of the schools receiving transfers from the department, including underlying cost assumptions, prevailing issues and their trends.

6.6 To articulate on how programmes will maintain the ceilings in non-core items such as communication, venues and facilities and travel & subsistence aligning to the departmental policies.

6.7 Programmes need to indicate whether they are proposing any amendments to the transfers from the department to schools.

6.8 The narrative report must also explain the context for the budget, costing of mandates and policies and also indicate where expenditure reprioritization has been implemented and the impact of this on service delivery indicators.

HUMAN RESOURCE MANAGEMENT AND DEVELOPMENT

6.9 Departments' plans and intentions in respect of the headcount management, recruitment, and human resource development within the compensation of employees' expenditure baselines over the 2025 MTEF should be explained.

6.10A narrative accompanying the Annual Recruitment Plan should also include the strategy of management on personnel expenditure including information on key changes to the department's personnel profile. Furthermore, Human Resource Management and Development should demonstrate how it intends to remain within the budget ceilings of the 2024 MTEF.

6.11Spending on the compensation of employees has grown substantially over the past few years. This trend needs to be reversed to ensure that the spending on compensation of employees does not crowd out spending in critical areas, including the complementary resources required by personnel to undertake their tasks in an efficient manner.

6.12Department will be required to make submissions to the PCMT for any requests for frozen posts to be filled, created or upgraded. Only vacant funded posts as approved will be loaded onto PERSAL. All existing unfunded vacancies will be abolished.

6.13This does not imply that the PCMT will take over the PERSAL functions of departments. The PERSAL restriction will only be used as a tool to assist Executive Authorities to exercise control over the compensation budgets.

6.14DPSA issued a directive detailing how the proposed PERSAL Control Methodology will be applicable to the province, which has been extended until 31 March 2025.

INFRASTRUCTURE REFORMS AND SUBMISSION

6.15In determining 2025 MTEF budget proposals, the programme must not reprioritise funding away from on-going infrastructure projects. Reprioritisation of infrastructure projects must be done within the scope of the institution's infrastructure plan, and target projects still in their planning phase.

6.16 A minimum of two per cent of the total infrastructure budget must allocated for climate change and disasters.

6.17 Infrastructure projects and programmes must be undertaken following the Infrastructure Delivery Management System (IDMS) supported by the Framework of Infrastructure Delivery and Procurement Management (FIDPM). Infrastructure (User) Asset Management Plan (IMAP/U-MAP) must be prepared and updated annually outlining the asset activities and resources required, to provide a defined level of service, in the most cost-effective way. The plan must include a list of programmes and projects for a minimum period of five years.

6.18 The IAMP/UAMP must inform the development of the Infrastructure Programme Management Plan (IPMP) and Infrastructure Procurement Strategy (IPS) which specifies what the department intends to achieve in the next 3 years of implementation of projects/programmes. This will ensure that all programmes implemented over the MTEF period are aligned with broader strategic objectives of government.

6.19 The infrastructure investments in the IPMP should inform the project list that must be tabled as part of EPRE (Table 5) which comprises of projects/programmes that are committed and have not been completed (all projects that have not reached handover/final completion) an additional projects/programmes to be implemented over the MTEF including maintenance allocations.

6.20 The Infrastructure Reporting Model (IRM) is configured to allow the capturing of Table B5 information. The department is required to capture project/programme information on the Table B5 report of the IRM and only capture the summary of the financials per nature of investment on the MTEF database. The department will further export the information from the IRM for EPRE publication.

CONDITIONAL GRANTS

6.21 Conditional grants for the year ahead require that the business plans be submitted two weeks after the Division of Revenue Bill has been enacted. Business plans seek to promote sufficient planning at provincial level before the eventual execution that requires funding. Planning should focus on how their envisioned activities for the year, using conditional grant allocations, allow them to appropriately apportion funds to achieve the government's priority that each grant seeks to address.

6.22 Although business plans are submitted yearly, they technically form part of a much longer planning horizon, particularly where infrastructure is concerned. As such the business plan for the year shows the activities that will be carried out for a year, and how the activities link with outputs, and in the long run address the priorities under which the grant was created. It is important to ensure that the dates, activities that will take place, the outputs expected from the activities, and when they are expected, are spelt out. This is especially important for activities that are sequential and are required before other activities can be carried out.

6.23 Based on an activities and output execution plan, the projected cash flow, matching the dates of the activities, will need to be provided. Activities, outputs, and cash flow projections are necessary but not the only inputs into business plans. Business plans should also demonstrate how activities will allow the achievement of all outputs, which should eventually be linked to the outcomes of the grants. Risks to the projected activities and their mitigation strategies should also be spelt out. Business plans templates provided by the national departments responsible for monitoring the grants should be a guiding principle when drafting plans.

REVENUE

6.24The department must continue to craft revenue enhancement strategies for the increase in the revenue sources which will therefore increase the provincial fiscal framework.

6.25Written explanations, including assumptions on own revenue forecasts should be provided as informed by the provincial revenue generation strategy. These include efficiencies and the improvement in revenue collections that have been identified by the department and the Provincial Treasury.

6.26The Revenue-IYM must be submitted monthly (which should balance with the IYM) as it allows the monitoring of revenue sources at item level in accordance with the implementation of the revenue strategies.

6.27Tariff submissions must be submitted as part of the budget process and amended tariffs must be implemented from 1 April 2024 and should be factored into the 2025 MTEF revenue estimates.

6.28The staff debts (particularly for the ex-employees) owed to the department must be collected within the collection timeframe in line with departmental debt management policy.

6.29A review of the organograms is required to ensure that adequate staff to collect the revenue are in place for the efficient collection is revenue. This is evident in areas such as debt collectors that are appointed to support the departments to recover outstanding debts with additional spending.

7. CREDIBILITY OF BUDGET SUBMISSIONS

7.1 Programmes, Sub Programmes and Districts need to focus expenditure on programmes and projects which are aligned with the policy objectives of government such that there is clear **alignment between the budget and the plans**. The expenditure on programmes and projects should clearly find expression in the Procurement Plan. The description of the item in the budget must correspond with that contained in the Procurement Plan, Bid Documents and advertisements that appear in the relevant media in order that procurement process and expenditure can be tracked back to the budget.

7.2 Particular attention must be given to underperforming programmes (including areas of underspending) and non-essential goods and services budgets (for example, travel and subsistence, advertising and catering costs). All budget reductions implemented during this exercise and where funding is being reprioritized, it must be explicitly demonstrated.

7.3 Non-adherence and constant changes to Procurement Plans and projects during the year has been identified as a challenge. Programme and Responsibility Managers are therefore urged to desist from amending the Procurement Plan during the course of the financial fear. Amendments to the Procurement Plans will only be allowed during the Budget Adjustment Estimates. As a result, SCM will work closely with Programme Mangers to monitor the implementation of procurement plans in order to overcome these challenges.

7.4 It is the responsibility of the Programme Managers to proactively monitor and drive adherence to Procurement Plans, providing for the continuation of existing projects and new budget pressures, if any, within existing baselines.

7.5 Amounts budgeted for conditional grants should not be reprioritized to other spending items, pre-approval for deviations must be sought from the transferring office (DBE).

7.6 Programme and Responsibility Managers need to ensure that non-negotiable items (core service delivery items) are adequately protected. The shifting of funds from these items is discouraged.

7.7 Programme and Responsibility Managers are encouraged to note the provisions of Treasury Instruction 2 of 2015/16 regarding cost control measures in building new schools and the extension of existing schools and

7.8 Ensure that accruals relating to the day-to-day business of the department are budgeted for and managed effectively. Programme and Responsibility Managers need to take cognisance of the modified cash accounting as an example, the accruals of March should be budgeted for in April and anything falling outside of a 30day timeframe should be considered in the roll over process, such as savings from delayed projects that were budgeted for in a particular year.

8. CRITICAL MILESTONES IN THE 2025 MTEF BUDGET PROCESS

- The budget process aims to ensure that resources are allocated to meet South Africa's government priorities and to improve the quality and effectiveness of spending within sustainable fiscal limits.

- Annexure 1 contains a more detailed description of critical dates for the planning and budget process and structures for preparing the 2025 MTEF Budget

Annexure 1- Budget Process Schedule

BUDGET PROCESS SCHEDULE: 2025 MTEF	
ACTIVITY	**DATE**
Support departmental strategic planning sessions/retreat	June - October 2024
Departmental Budget Circular with customized budget guidelines issued	12-Jul-24
Programmes submit 1st draft 2024/25 Budget to Management Accounting: EC 4.1s, narrative report and supporting documents	**19-Jul-24**
Budget Process Review session with Programmes, Grants, Clusters and Districts	15-19 July 2024
Engagement sessions with Districts on completion of EC 4.1 and submission of Budget Inputs	17-19 July 2024
Department submit 1st draft 2025 Budget to Provincial Treasury: Database and Accounting Officer's letter - Narrative	22-Jul-24
Programme Managers submit first draft 2025-26 APP's	Mid October 2024
Department submit 2nd draft 2025 Budget to Provincial Treasury: Database and Accounting Officer's letter, EPRE, Conditional Grants draft Business Plans, ARP,HR Plan, Procurement Plan, DDM,	15-Nov-24
Final Allocaiton letter issued to Programme and Conditional Grant Managers	February 2025 after budget tabling
Departmental Final Budget submission to PT: Database and Accounting Officer's letter, EPRE, Conditional Grants draft Business Plans, ARP,HR Plan, Procurement Plan, DDM	Mid February 2025 after budget tabling
S40 Cash flow projections submission to PT	28-Feb-25
Development of budget loading working papers and loading of 2025-26 budget	19 Feb - 22 Mar 2025
Submission of variance explanation and recovery plans by Programme and Grant Managers to Management Accounting	on or before the 7th of each month
Submission of monthly IYM reports to PT	On or before the 15th each month
Rollover of unspent funds application process	25-Apr-25

9. CONCLUSION

All Programme and Responsibility Managers are expected to:

- Submit their 2025 MTEF draft budget submission based on the 2024 MTEF indicative figures for the two MTEF years. For the outer year (2027/28) of the MTEF, programmes are required to utilize the 2026/27 baseline increased by CPI excluding the once offs;
- Reprioritize their baseline allocations, and in so doing to pursue all opportunities for shifting funds from low efficiency/priority expenditures towards areas of higher efficiency/priority in determining the MTEF baseline expenditure estimates e.g., LTSM, ICT, LAIS etc.; and
- The reprioritization on baselines should be done at programme and sub-programme level as provided for in the database.

Programmes and Responsibilities, Grants and Project Managers are hereby required to submit the first draft Plans and Budget Submissions with all relevant working papers and supporting documents to nelson.skalk@ecdoe.gov.za, naledi.yiba@ecdoe.gov.za and financialplanningservices@ecdoe.gov.za not later than 12h00 on the 19th of July 2024. Inputs to be submitted are outlined in Par 5 of this circular.

MRS N.D. NGCINGWANA
CHIEF FINANCIAL OFFICER

16 July 2024
DATE

APPROVED/NOT APPROVED

MRS S.A. MAASDORP
HEAD OF DEPARTMENT(A)

18·7·24.
DATE