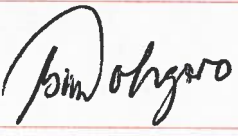




## public works

Department:  
Public Works  
REPUBLIC OF SOUTH AFRICA

### PLANNING AND BUDGETING POLICY

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# Planning and Budgeting Policy

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# Planning and Budgeting Policy

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## Purpose and objectives

- 1.1. The purpose of this policy is to:
  - 1.1.1. Provide a clear understandable directive to management and staff with regards to the compilation of the strategic plan and the reporting on the entity's performance in line with legislative requirements
  - 1.1.2. Provide guidelines with regards to the budgeting for the PMTE in line with legislative requirements
  - 1.1.3. Ensure accountability and promote good financial management practices

## 2. Scope

- 2.1. This policy is applicable to all employees involved with the administration and management of Strategic Planning and Budgeting process within the PMTE.

## 3. Definitions

- 3.1. The terms included hereunder shall, unless the context indicates otherwise, have the meanings ascribed hereto:
  - **Accounting Officer** is the Accounting Officer as defined in section 1 of the PFMA. The Accounting Officer of the PMTE is the Director-General of the Department of Public Works.
  - **Accounting period** refers to a 12 month period of trading starting from 1 April of each year and ending on 31 March of the following year.
  - **Accrual basis** means a basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognised in the financial statement of the periods to which they relate. The elements recognised under accrual accounting are assets, liabilities, net assets, revenue and expenses.

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- **Activity** – means the processes or actions that use a range of inputs to produce the desired outputs and ultimately outcomes
- **Annual budget** means an approved budget for one year. It does not include published forward estimates or projections for periods beyond the budget period.
- **Annual Performance Plan** is a plan that sets out what the institutions intends doing in the upcoming financial year and during the MTEF to implement its Strategic Plan.
- **Annual Report** is a report that provides information on the performance of the institutions in the preceding financial year for the purposes of oversight.
- **Appropriation** is an authorisation granted by Parliament, the legislatures, or other relevant authority approving the budget to allocate funds for purposes specified by the relevant authority.
- **Approved budget** means the expenditure authority derived from laws, appropriation bills, regulations and other decisions related to the anticipated revenue or receipts for the budgetary period.
- **Baseline** – means the current performance levels that an institution aims to improve when setting performance targets.
- **Budgetary basis** means the accrual, cash or other basis of accounting adopted in the budget approved by the legislative body.
- **Budget Year** means the financial year for which an annual budget of a department is to be approved.
- **PMTE** refers to the Property Management Trading Entity that operates within the administration of the Department of Public Works
- **Quarterly performance reports** provide progress updates on the implementation of an institutions' Annual Performance Plan in the previous quarter, with particular reference to monitoring delivery against quarterly performance targets.
- **Strategic planning** is a plan that sets out an institution's policy priorities, objectives and project plans for a five-year period, as approved by its executive authority, within the scope of available resources
- **unauthorised expenditure means—**

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- Overspending of an objective or expenditure not in accordance with the purpose of an objective; or
- In relation to recoveries from client departments, expenditure in excess of approved revenue from the client.

### 4. Legislative framework

4.1. This policy document was developed in response to the legislative requirements of the PFMA read with Treasury Regulations, which states that the Accounting Officer must:

4.1.1. Ensure that expenditure of the department is in accordance with the vote of the department and the main divisions of the vote

4.1.2. Take effective and appropriate steps to prevent any overspending of the vote of the department or a main division within the vote

4.1.3. Report to the executive authority and the National Treasury any impending—

- Under collection of revenue due;
- Shortfalls in budgeted revenue; and
- Overspending of the department's vote or a main division within the vote; and comply with any remedial measures imposed by the National Treasury in terms of this Act to prevent overspending of the vote or a main division within the vote.

4.2 The accounting officer of a department controlling a trading entity must:

- Each month submit information on actual revenue and expenditure for the preceding month and the amounts anticipated for that month
- Within 15 days of the end of the month submit to National Treasury and the executive authority responsible for the department:
  - The information for that month
  - A projection of expected expenditure and revenue collection for the remainder of the current financial year



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- When necessary, an explanation of any material variances and a summary of the steps that are taken to ensure that the projected expenditure and revenue remain within budget
- 4.3 Where a trading entity suffers a deficit in trading, the accounting officer of the department operating the trading entity must investigate whether –
- The trading entity reported any foreseeable potential over expenditure in the monthly reports;
  - Appropriate steps were taken to address the deficit
  - Financial misconduct sanctions should be instituted if the above was not adhered to
- 4.4 The PMTE, as a trading entity should comply with the requirements of Generally Recognised Accounting Practice (GRAP).

## 5. Background

### 5.1. Introduction

- 5.1.1. The primary responsibility of the PMTE is to deliver accommodation services to client departments and maintain the immovable assets of National Government. The PMTE derive its income from an accommodation fee charge to client departments for occupying government owned buildings as well as a 5% management fee on municipal service accounts paid for on behalf of the client departments.

The PMTE also has to incur expenditure and pay for operating expenses as part of delivering the mandate of the department. The categories of expenditure to be managed by the PMTE include: compensation of employees, goods and services, interest and rent on land, payments for financial assets and expenditure on capital assets (planned and unplanned maintenance).

The deficit is finance through an augmentation receive from National Treasury via the Department.

### 5.2 Planning and Budgeting

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- 5.2.1 **Plans (Strategic and Annual)** and budget should be interrelated to improve operational effectiveness. It is important for the budget to link to the strategic plan in order to ensure that key objectives and priorities are budgeted for and achieved.
- 5.2.2 **The Strategic Plan** focuses on strategic outcomes oriented goals for the institution as a whole, and objectives for each of its main service-delivery areas aligned to its budget programmes. The Strategic Plan should cover a period of at least five years, ideally from the first planning cycle following an election, linked to the identified outcomes of the Presidency. Although plans may have a longer timeframe, they should be revised at least every five years, and a draft new or revised strategic plan should generally be prepared for consideration early in the final year of the prior planning period. Departments are expected to table strategic plans within a month after the tabling of the budget relating to the first year covered by the plan.
- 5.2.3 **The Annual Performance plan** sets out performance indicators and targets for budget programmes, and sub-programmes where relevant, to facilitate the institutions realising its goals and objectives set out in the Strategic Plan. Where appropriate, the plan should include a quarterly breakdown of performance targets for the upcoming financial year. The Annual Performance Plan covers the upcoming financial year and the MTEF period.
- 5.2.4 **The Annual budget** sets out what funds an institution is allocated to deliver services and sets indicative future budgets over the MTEF. The budget covers the current financial year and the following two years. The budget can only be revised by an adjustments budget. The annual budget is developed within the framework of the Strategic Plan, and must inform and be informed by its Annual Performance Plan. In-year implementation and monitoring of the budget is conducted through the monthly financial reports, while end-year reporting is made through annual financial statements, which are included in the annual report.

## 6. Planning

### 6.1. Introduction

- 6.1.1. The Accounting Officer must ensure that the process through which the PMTE executes its mandate promotes effective, efficient, economical and equitable service delivery.
- 6.1.2. The Accounting Officer must ensure that the PMTE has:



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- A strategic plan with a planning horizon of at least five years
- An annual performance plan
- Operational plans tailored to meet the needs of the PMTE.

### **6.2. Strategic Planning**

6.2.1. The Strategic plan must at least include the following:

- Vision, mission and values of the PMTE
- An overview of the constitutional and legislative mandate of the entity
- A situational analysis of the institution's service delivery and organisational environment
- The strategic goals (outcomes) of the entity aligned to the strategic objectives (high level outputs) as agreed with the Minister of Public Works.
- An analysis of the PMTE's resource implications in relation to its strategic goals and objectives
- An analysis of the PMTE's key risks that may impact on the realisation of the strategic objectives
- A list and brief description of the capital projects the PMTE intends implementing during the period covered by the strategic plan. The following should be included:
  - The municipalities where the projects are located
  - The estimated total cost of each project
  - Expenditure on each project to date
  - The planned start and completion dates of each project
- A list and brief description of the public-private partnership contracts that the institution is currently responsible for managing including information on which contracts will be ending during the period covered by the plan

6.2.2. The Strategic plan must be aligned to the electoral cycle which implies that a new strategic plan must be prepared during the course of the first budget cycle following the national general election.

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6.2.3. The Accounting Officer in consultation with the Minister of Public Works (Executive Authority) may revise the strategic plan when there are significant policy changes or significant changes in service delivery by the environment by issuing:

- An annexure to the existing plan, which can either be published separately or as an annexure to the annual performance plan; or
- A new strategic plan that replaces the preceding plan.

6.2.4. The PMTE must submit its strategic plan or any revised version thereof to the NDPW (designated department) by the end of January prior to the commencement of the first year covered in the plan or revised plan. The plan must be submitted to the Minister of Public Works for approval through the Director-General of Public Works.

6.2.5. The NDPW (designated department) must submit a copy of the approved strategic plan or a revised version thereof to National Treasury and to the Department of Performance Monitoring and Evaluation.

6.2.6. The Accounting Officer must towards the end of the period covered by the PMTE's strategic plan compile an end-term review that reports on the extent to which the entity has succeeded in achieving each of its strategic goals and objectives.

6.2.7. The end-term review report must by a date and format determined by the National Treasury be submitted to Parliament and the Department of Performance Monitoring and Evaluation.

### **6.3. Annual Performance Planning**

6.3.1 The annual performance plan must include at least the following:

- An updated situational analysis of the PMTE's service delivery and organisational environment
- Details of significant revisions to legislation and related mandates, effective since the previous and proposed current year
- Expenditure outcomes and estimates of expenditure for the three years preceding the current year and explanations of the link between those estimates and the entity's strategic goals, equivalent in meaning to outcomes, specified in the entity's strategic plan and delivery agreement
- Performance outcomes and targets for each strategic objective

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- Key performance indicators as agreed with the NDPW, for measuring performance of each main objective
- Any other additional performance indicators for measuring the performance of each of the PMTE's main divisions (line functions)
- Quarterly performance targets
- Expenditure outcomes and estimates of expenditure
- A discussion of factors influencing the PMTE's ability to deliver on capital projects, including information on:
  - Expenditure outcomes related to each capital project for the three year preceding the current year
  - Expenditure estimates for the current year, the budget year and the two financial years following the budget year.

6.3.1. The PMTE must by the end of January prior to the commencement of the budget year submit its annual performance plan as approved by the Director-General (Accounting Officer) for final approval to the Minister of Public Works (Executive Authority).

6.3.2. The approved annual performance plan must be submitted to Parliament, National Treasury and the Department of Performance Monitoring and Evaluation.

6.3.3. The annual performance plan must form the basis of the compilation of the PMTE's performance overview included in the annual report of NDPW.

6.3.4. Deviation from target relating to the budget must be reflected in the annual report.

### **6.4. Operational plans**

6.4.1. The Accounting Officer must ensure that operational plans are developed for each of the line functions as contained in the organogram.

6.4.2. Individual operational plans must link to the content of their strategic and annual performance plans.

### **6.5. Performance agreements**

6.5.1 The Accounting Officer must ensure that the performance agreements of individual employees are linked to the achievement of deliverables contained in the strategic, annual performance and operational plans.

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### 6.6. Performance indicators and targets

6.6.1 The Accounting Officer must ensure that the performance indicators and targets in the annual performance plan meet the following criteria:

#### *Performance indicators*

- **Reliable** - the indicator should be accurate enough for its intended use and respond to changes in the level of performance.
- **Well-defined** - the indicator needs to have a clear, unambiguous definition so that data will be collected consistently, and be easy to understand and use.
- **Verifiable** - it must be possible to validate the processes and systems that produce the indicator.
- **Cost-effective** - the usefulness of the indicator must justify the cost of collecting the data.
- **Appropriate** - the indicator must avoid unintended consequences and encourage service delivery improvements, and not give managers incentives to carry out activities simply to meet a particular target.
- **Relevant** - the indicator must relate logically and directly to an aspect of the institution's mandate, and the realisation of strategic goals and objectives.

#### *Performance targets*

- **Specific** - the nature and the required level of performance can be clearly identified
- **Measurable** - the required performance can be measured
- **Achievable** - the target is realistic given existing capacity
- **Relevant** - the required performance is linked to the achievement of a goal
- **Time-bound** - the time period or deadline for delivery is specified.

### 6.7. Quarterly Performance Reports

6.7.1 The Accounting Officer must establish procedures for quarterly reporting on performance data to the Minister of Public Works (executive authority) on performance data in order to facilitate effective performance monitoring, evaluation and corrective action.

6.7.2 The Accounting Officer must submit the quarterly report to:

- The Minister of Public Works

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- National Treasury and the Department of Performance Monitoring and Evaluation
- 6.7.3 After submission of the quarterly reports, the PMTE must comply with any remedial measures imposed by the Executive Authority, National Treasury and the Department of Performance Monitoring and Evaluation.
- 6.7.4 The Accounting Officer must ensure that the content of the quarterly reports are consolidated into the performance section of the PMTE's portion in the Annual Report.

### 7. Budgeting

#### 7.1. Introduction

- 7.1.1 The deficit of the PMTE is currently funded through an augmentation from NDPW.
- 7.1.2 In order for the PMTE to obtain the augmentation the PMTE must provide the necessary information required by the NDPW to comply with the budget circular

#### 7.2. Annual estimates of revenue and expenditure

- 7.2.1 The Accounting officer must provide an estimate of revenue and expenditure in line with the annual circular issued by National Treasury.
- 7.2.2 In order to adhere to provide an estimation of the PMTE's expenditure the following processes must be followed:

- **Planned Maintenance**

Key Budget Milestones	Date	Governance and approval requirements
System download of information to be used for budgeting	December	Budget Expenditure Working Group
Submission to Planned Maintenance Budget Committee (PMBC)	January	Planned Maintenance Budget Committee to recommend budget to Infrastructure Budget Committee for approval

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Submission for final approval	February	Infrastructure Budget Committee
Noting of budget by EXCO	February	EXCO/DG
Budget alignment	Quarterly	
Preliminary allocation for next year	October	

- Client Departments – Capital budget**

Key Budget milestone	Date	Governance & Approval Requirements
System download of information to be used for budgeting	December	Budget Expenditure Working Group
Submission to Client Department	January	Client Approval
Budget alignment	Quarterly (first one in May)	
Preliminary allocation for next year	October	

- Other Expenditure (Cleaning and gardening, property rates and unplanned maintenance)**

Key Budget milestone	Date	Governance & Approval Requirements
Regional analysis of prior year expenses	January	
Regional inputs on needs for next year	January	



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Analysis and Consolidation of inputs	January	
Submission to IBC	February	IBC Approval

The PMTE must provide the following information for each capital project included in the budget:

- Preparatory Work
  - Needs and demand analysis with output specifications
  - Options analysis
- Viability Evaluation
  - Financial analysis
  - Economic analysis
- Professional Analysis
  - Technology discussion
  - Environmental impact assessment
  - Legal and regulatory due diligence
  - Implementation Readiness, including institutional capacity and procurement plan

### 7.3. Current Budget

7.3.1. The Chief Director: Financial Planning and Reporting must ensure that the approved budget is captured on the accounting system at least 14 days prior to the commencement of each financial year.

### 7.4. Budget Control

7.4.1. Each Branch Manager within the PMTE must appoint a budget controller to monitor the expenditure against budget.

7.4.2. The Budget controller must:

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- Receive detailed control reports from Financial System, generated and distributed by Management Accounting: PMTE after the closure date of each month
- Review, evaluate, comment on, and identify any incorrect debits and credits against the relevant accounts on the detailed budget reports
- Report in writing to the Sub-directorate: Budget control, any overspending, under-spending, unauthorized, irregular, or fruitless and wasteful expenditure

7.4.3. Take steps to rectify any adjustments of incorrect allocations

7.4.4. Written reports and requests from budget controllers must be signed by the duly authorized Branch Managers.

7.4.5. The Chief Financial Officer (CFO) must ensure that corrective actions are implemented in consultation with Branch Managers in the event of overspending and that any unauthorised, irregular or fruitless and wasteful expenditure is dealt with in terms of the Treasury regulations.

### 7.5. Surrender of surplus funds

7.5.1. The PMTE shall at the end of each financial year and after the books of the PTME has been closed, declare any surplus or deficit to the National Treasury.

7.5.2. The PMTE may only accumulate surplus funds if approval was obtained from National Treasury.

- Grant approval for the retention of the entire surplus;
- Decide to apply such surpluses to reduce future transfers; or
- Require that all or part of the surpluses be deposited into the Exchequer Bank Account of the National Revenue Fund.

## 8. Monitoring and reporting

8.1 The Accounting Officer must:

- Each month submit information in the prescribed format with a breakdown per month of the anticipated revenue and expenditure for the financial year

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- Within 15 days of the end of each month submit to National Treasury and the Minister of Public Works:
  - The information for that month
  - A projection of expected expenditure and revenue collection for the remainder of the current financial year
  - When necessary, an explanation of any material variances and a summary of the steps that are taken to ensure that the projected expenditure and revenue remain within budget.

### **9. Presentation of Budgets in Financial Statements**

#### **9.1. Comparison of Budget and Actual**

- 9.1.1. The PMTE shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP.
- 9.1.2. The comparison of budget and actual amounts shall presented separately for each level of legislative oversight:
- the approved and final budget amounts;
  - the actual amounts on a comparable basis; and
  - by way of a disclosure note, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.
- 9.1.3. All comparisons of budget and actual amounts shall be presented on a comparable basis to the budget.
- 9.1.4. The PMTE shall provide an explanation of whether changes between the approved and final budget are as a result of reallocations within the budget, or of other factors:
- By way of disclosure note in the financial statements; or

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- In a report issued before, at the same time as, or in conjunction with the financial statements, and shall include a cross reference to the report in the notes to the financial statements.

### **10. Implementation**

- 10.1. This policy shall be implemented through formal training of key users and on-going support by the process owner.
- 10.2. The Chief Financial Officer is responsible for ensuring that users understand the policy and comply with its requirements.

### **11. Non-compliance**

- 11.1. Any deviation from this policy will be identified, reported immediately to the Chief Financial Officer and the necessary corrective measures shall be taken.
- 11.2. Any serious or persistent material non-compliance with this policy constitutes misconduct.

### **12. Responsibility**

- 12.1. The overall responsibility for adherence and compliance enforcement to this policy lies with the Accounting Officer.

### **13. Approval of the Policy**

- 13.1. This policy shall be approved in terms of the delegation of authority by the Accounting Officer.

### **14. Review of policy**

- 14.1. The Accounting Officer, with the support of the Chief Directorate: Financial Planning and Reporting of the PMTE, shall review the Planning and Budgeting policy
- 14.2. Any request to amend this policy shall be approved by the Chief Financial Officer and the Accounting Officer before it becomes policy

### **15. Acronyms**

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CFO	Chief Financial Officer
EXCO	Executive Committee
GRAP	Generally Recognised Accounting Practice
NDPW	National Department of Public Works
PFMA	Public Finance Management Act, Act No. 1 of 1999, as amended
PMTE	Property Management Trading Entity
TR	Treasury Regulations issued by National Treasury, 2005