

## PROCESS AND STRUCTURES FOR THE 2016 BUDGET

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1. The budget process aims to ensure that resources are allocated to meet South Africa's political priorities and to improve the quality and effectiveness of spending within sustainable fiscal limits. Through the budget process, a large number of public institutions plan, collaborate, negotiate and decide together on a comprehensive plan for spending public resources over the next three years.
2. This memorandum explains the processes that will be followed within the national executive to arrive at the tabling of the 2016 Budget in parliament. It also describes the political structures that will lead this process and the parameters that will define expenditure control and decisions to allocate resources. Greater detail is given in the *MTEF technical guidelines: For the Preparation of Expenditure Estimates for the 2016 Medium Term Expenditure framework (MTEF)*.

### FISCAL CONSTRAINTS AND EXPENDITURE PLANNING

3. The 2016 Budget will be prepared in a constrained fiscal environment. Government has committed itself to explicit limits on aggregate expenditure over the next two years. As a consequence there will be no general addition to baselines in 2016/17. The budget process for the first year of the framework will seek to align existing budgets more closely with policy objectives and unanticipated cost pressures.
4. In effect, this implies shifting towards a *two-year budget cycle* in which fiscal space is available in the year after the next appropriation. The 2016/17 appropriation will reflect estimates published in the 2015 Budget, subject to technical adjustments and targeted allocations that respond to the public-sector wage settlement. There may be scope to begin augmenting baselines to support Medium Term Strategic Framework (MTSF) priorities from 2017/18 onwards. The outcome of the public sector wage negotiations has significantly constrained the envelope even in the outer years of the framework. Depending on economic growth and revenue outcomes, it is expected that resource constraints will be less binding from 2018/19 onwards.
5. In this context, government will seek to improve the effectiveness of long-term expenditure planning. Allocations will be restrained in the outer years of the framework to preserve fiscal space for new policy priorities. The 2016 Budget process will give greater focus and structure to identifying these priorities, developing implementation plans and generating realistic cost estimates. In-depth assessments of baseline allocations will also be undertaken to shift resources within existing envelopes.
6. Efforts to contain compensation budgets will receive particular attention. Resources will not be made available for the expansion of funded posts in 2016/17, and possibly beyond. Where non-critical funded posts have not been filled for an extended period of time, resources may