

BUDGET REFORM PHASES – SUCCESSSES AND CHALLENGES OF SOME OF OUR REFORMS

PEMPAL DELEGATION

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New Government

- 1994 – new challenges
- New constitution – changed structure and distribution of power – implications for way that public finances will be allocated
- New government – critical commitment to improving the quality and coverage of public finances
- New government did not inherit a clean slate
 - '92/93 fiscal year – budget net borrowing requirement = 8.7% GDP
 - '94/95 Public debt rose to more than 47% GDP, up from 30% ten years earlier
 - Little fiscal space to improve equitable delivery of services
- The budget tools and system were inadequate to stabilise fiscal balances and manage required policy shifts

Reasons for introducing the MTEF

- Prior to the introduction of the MTEF and the programme budgeting approach:
 - There was little political oversight over budgeting
 - No transparency about the budget process
 - Poor information systems, inadequate to inform the budget process
 - Hidden spending
 - Lack of accountability by public sector managers
 - Lack of macroeconomic and fiscal sustainability
 - Spending not aligned across departments
 - Resources not appropriately allocated to priorities

What existed in the 1990s

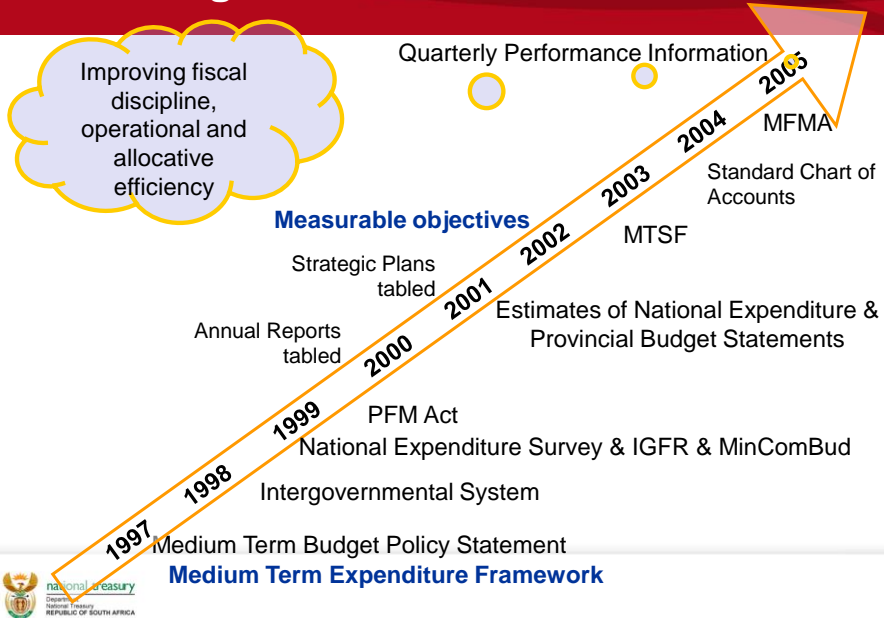
- Departments had to get treasury approval for certain expenditures even if they were on budget
- Budget had two dimensions – programmes and standard items
 - Standard item classification had little economic meaning
 - Budgeting was based on line items
- There were no purpose descriptions, objectives or indicators for programmes
- There was only incremental one year budgeting
- No pre-budget policy statement
- Provincial budgets were made by national departments
 - There was no provincial equitable share and conditional allocations
- Officials, not politicians, had a greater influence in making allocations to departments
- Centralised state tender board existed

Achievements of these reforms

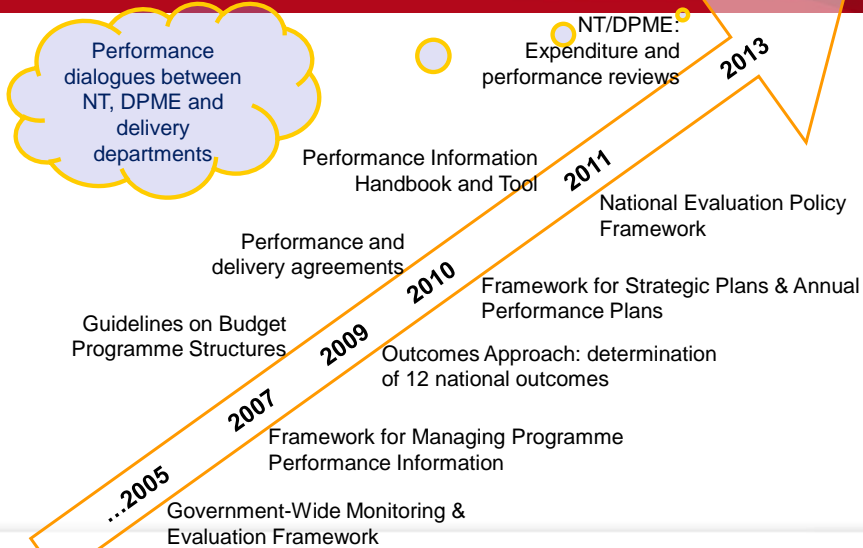
- political oversight is enhanced and focus is on key policy priorities
- 1 central budget process, starting from allocation of division of revenue
- enhance consultation and cooperation with stakeholders
- multi year budgeting, with 3 year framework
- top-down budgeting discipline
- budget stability and predictability for departments
- reprioritisation over time
- transparency
- value for the money spent
- planning, budgeting, reporting and policy are aligned AT PROGRAMME LEVEL to get better service delivery within budget
- information used strategically to improve public policy development, funding choices and enable accountability, across budgeting dimensions



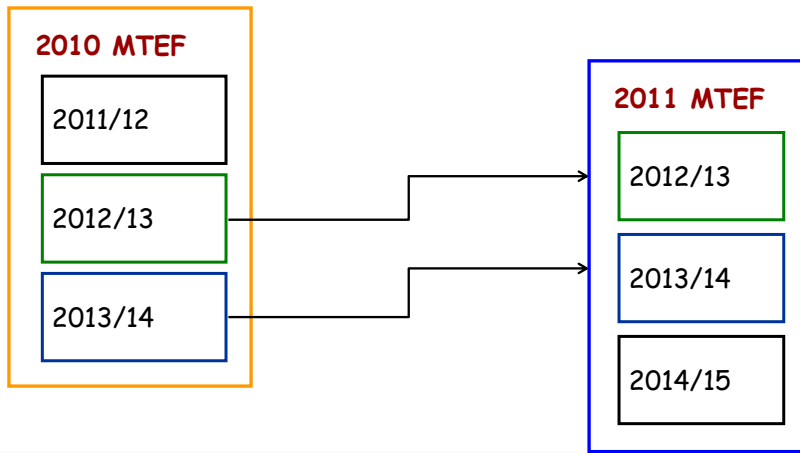
Budget Reforms in South Africa



Budget Reforms in South Africa



Medium Term Expenditure Framework



The Value for Money Agenda

- PFMA implementation plans included performance management
- PFMA gave departments responsibility to spend within approved budgets and against policy/performance commitments
- PFMA requires measurable objectives by programme
- VFM is arguably the hardest thing to achieve through the budget
- NT has no direct say in how a department spends its money or how services are delivered, and cannot impose sanctions for poor spending
- Our philosophy has been that if we force departments to report on performance alongside spending, then parliament, the public, the media can play a role in improving the quality of spending
 - It's all about accountability, which is not a financial management issue but a political issue
- Many budget reforms deal with reporting on performance in some way
 - Parliament not always equipped to deal with these reports
- The value for money agenda is an area where we have made progress, this is the area where the Treasury spends most of its resources and is the area of major focus in budget reform agenda

Example: Policing

- Under line item budgeting, the police budget be:

Item	Budget
Personnel	Rxx billion
Vehicles	Rxx billion
IT systems	Rxx billion
Fuel	Rxx million
Uniforms	Rxx million
Firearms	Rxx million

- With this type of budget, we cannot make sound decisions on priorities
- We cannot increase training, because we don't know how much we spend on training
- We cannot increase the number of detectives because we don't have the information
- Similarly, we cannot move personnel from one area to another

Example: Policing

- Under programme-based budgeting, we can see the main activities of the police service
- We can make sound decisions on priorities

Table 23.3 Vote expenditure estimates by programme and economic classification

Programmes								
1. Administration								
2. Visible Policing								
3. Detective Services								
4. Crime Intelligence								
5. Protection and Security Services								
Programme	Revised estimate	Average growth rate (%)	Expenditure/total: Average (%)	Medium-term expenditure estimate			Average growth rate (%)	Expenditure/total: Average (%)
R million	2014/15	2011/12 - 2014/15		2015/16	2016/17	2017/18	2014/15 - 2017/18	
Programme 1	15 304.0	6.4%	20.7%	16 294.2	17 133.3	18 114.7	5.8%	21.1%
Programme 2	37 043.8	7.6%	51.2%	38 855.0	41 155.3	44 107.3	6.0%	51.0%
Programme 3	15 133.0	8.2%	21.1%	15 816.0	16 716.2	17 943.2	5.8%	20.8%
Programme 4	2 880.8	6.4%	4.0%	3 110.4	3 328.8	3 572.3	7.4%	4.1%
Programme 5	2 145.6	7.5%	2.9%	2 331.5	2 482.1	2 635.2	7.1%	3.0%
Total	72 507.2	7.4%	100.0%	76 377.1	80 815.6	86 372.7	6.0%	100.0%

Example: Policing

Programme based budgeting

- Also included standardised economic classifications

	Revised estimate	Average growth rate (%)	Expenditure/total: Average (%)	Medium-term expenditure estimate			Average growth rate (%)	Expenditure/total: Average (%)
R million	2014/15	2011/12 - 2014/15		2015/16	2016/17	2017/18	2014/15 - 2017/18	
Economic classification								
Current payments	68 766.5	7.7%	94.2%	72 664.4	76 924.1	81 376.1	5.8%	94.8%
Compensation of employees	54 449.0	8.8%	74.3%	57 884.9	61 549.1	65 238.3	6.2%	75.7%
Goods and services	14 317.5	3.9%	19.9%	14 719.6	15 375.0	16 137.8	4.1%	19.2%
of which:								
Computer services	2 747.2	-6.2%	3.8%	2 891.1	3 045.5	3 193.7	5.1%	3.8%
Contracts	1 193.2	11.2%	1.6%	1 201.7	1 268.8	1 331.7	3.7%	1.6%
Inventory: Fuel, oil and gas	2 197.1	9.6%	3.5%	2 462.6	2 542.5	2 654.4	6.5%	3.1%
Operating leases	2 396.0	7.5%	3.3%	2 462.9	2 591.4	2 719.0	4.3%	3.2%
Property payments	924.6	1.0%	1.4%	991.6	1 047.5	1 104.3	6.1%	1.3%
Travel and subsistence	971.4	12.2%	1.2%	864.7	901.3	942.7	-1.0%	1.2%
Transfers and subsidies	852.0	19.7%	1.1%	911.9	919.2	966.0	4.3%	1.2%
Provinces and municipalities	33.4	9.7%	-	37.0	38.7	40.4	6.5%	-
Departmental agencies and accounts	134.7	33.8%	0.1%	142.0	149.4	161.8	6.3%	0.2%
Non-profit institutions	1.0	-	-	-	-	-	-100.0%	-
Households	682.9	18.2%	0.9%	732.9	731.1	763.7	3.8%	0.9%
Payments for capital assets	2 888.8	-1.3%	4.7%	2 860.8	2 972.3	4 030.6	11.7%	4.6%
Buildings and other fixed structures	984.9	-7.3%	1.2%	998.7	1 051.4	1 103.9	3.9%	1.3%
Machinery and equipment	1 896.5	2.5%	3.5%	1 866.5	1 915.3	2 926.1	5.5%	2.7%
Biological assets	5.4	183.8%	-	5.5	5.7	0.6	-51.8%	-
Total	72 507.2	7.4%	100.0%	76 377.1	80 815.6	86 372.7	6.0%	100.0%

Policing performance Information

- Using various indicators in conjunction with financial information, it is then only possible to assess optimality of resource allocation
- Different levels of indicators are useful for different purposes
- For our concerns the following indicators will be of use: crime rates, cases to court, number of police officers, number of officers having completed specific training courses
- Optimal resource mix may differ from one geographical area to another

Policing performance Information

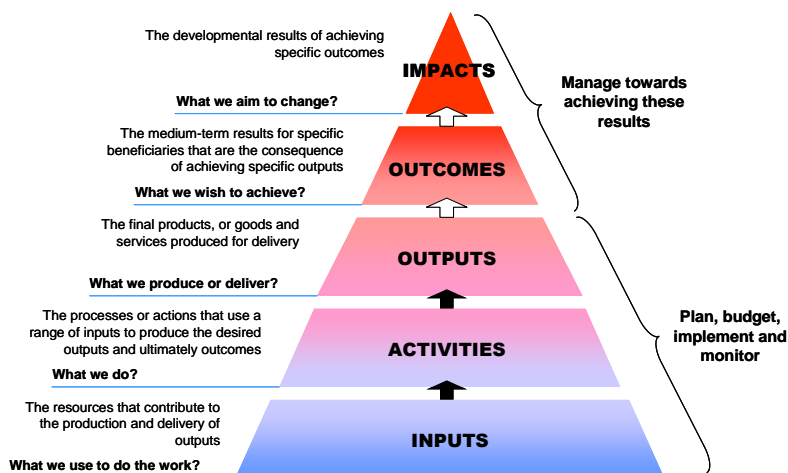
Table 23.1 Performance indicators by programme and related outcome

Indicator	Programme	Outcome	Past			Current	Projections		
			2011/12	2012/13	2013/14	2014/15 ¹	2015/16	2016/17	2017/18
Percentage of crime related hits reacted to ² as a result of the movement control system screening of - wanted persons - circulated stolen or robbed vehicles	Visible Policing		100% (32 805)	100% (3 435)	100% (3 159)	100%	100%	100%	100%
Percentage of medium to high risk incidents stabilised ³ in relation to requests received	Visible Policing		100% (14 056) ⁷	100% (15 762) ⁷	100% (16 107)	100%	100%	100%	100%
Detection rate ⁴ for serious crimes per year	Detective Services	Outcome 3: All people in South Africa are and feel safe	40 669 ⁹ (876 810)	39 619 ⁹ (851 851)	38 149 ⁹ (834 538)	41 009 ⁹ (858 405)	41 059 ⁹	41 079 ⁹	41 109 ⁹
Percentage of final ready case dockets ¹⁰ for serious crimes per year	Detective Services		50 739 ⁹ (187 781)	68 42% (253 971)	68 389 ⁹ (260 797)	68 509 ⁹ (261 109)	69 009 ⁹	69 049 ⁹	69 089 ⁹
Percentage of final ready case dockets for crimes dependent on police action for detection	Detective Services		41 58% (62 058)	61 80% (115 233)	64 40% (138 141)	64 50% (138 278)	65% ¹¹	65 04% ¹¹	65 09% ¹¹
Percentage of final ready case dockets for serious commercial crime related charges per year ¹¹	Detective Services		50%	56 5%	54 9%	44%	53% ¹¹	53% ¹¹	53% ¹¹
Number of network operations ¹² conducted	Crime Intelligence		49 019 ¹²	37 188 ¹²	34 534 ¹²	32 507 ¹²	759 ¹²	833 ¹²	875 ¹²
Percentage of national key points evaluated in compliance with the National Key Points Act (1980)	Protection and Security Services		98% (171175)	96 2% (175182)	101% (199) ¹³	100% (167)	100% (204)	100% (204)	100% (204)

Performance Information Framework

- Framework provides for:
 - Structures, systems and processes required for performance information
 - Roles and responsibilities for performance information: Departments, Presidency, National & Provincial treasuries, Stats SA and Public Service and Administration, among others
 - Promoting accountability and transparency by providing Parliament, with timely, accessible and accurate performance information
 - Standardising terminology on performance information

Performance Information Framework Concepts



Performance indicator definitions

<p>INDICATOR TITLE Identifies the title and whether it is an outcome or output indicator.</p> <p>SHORT DEFINITION Provides a brief explanation of what the indicator is, with enough detail to give a general understanding of the indicator.</p> <p>PURPOSE/IMPORTANCE Explains what the indicator is intended to show and why it is important.</p> <p>SOURCE/COLLECTION OF DATA Describes where the information comes from and how it is collected.</p> <p>METHOD OF CALCULATION Describes clearly how the indicator is calculated.</p> <p>DATA LIMITATIONS Identifies any limitations about the indicator data, including factors that may be beyond the department's control.</p> <p>CALCULATION TYPE Identifies whether the information is cumulative or noncumulative.</p>	<p>REPORTING SCHEDULE Identifies if an indicator is reported quarterly or annually</p> <p>NEW INDICATOR Identifies whether the indicator is new, has significantly changed, or continues without change from the previous year.</p> <p>DESIRED PERFORMANCE Identifies whether actual performance that is higher or lower than targeted performance is desirable (e.g., a disease rate lower than targeted is desirable).</p> <p>INDICATOR RESPONSIBILITY Identified the individual/organisation responsible for the definition, data analysis, interpretation and reporting in connection with the indicator.</p> <p>INDICATOR DATA ADMINISTRATOR Identifies the individual/organisation responsible for ensuring the data for the indicator is collected and assembled according to the schedule defined.</p> <p>INDICATOR ROLL-OUT DATE Expected date for start of data collection for the indicator.</p> <p>INDICATOR STANDARD Identifies the standard level of performance</p>
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Performance Information Assessment

Performance information:

- Reforms post 2005:
 - 2007 Framework for Measuring Programme Performance Information
 - 2009 Budget Programme Structure guidelines
 - 2010 Strategic Plan and Annual Performance Planning guidelines
 - 2009 Department of Performance Monitoring and Evaluation
- Success:
 - Trial and formalised later
 - Simple framework
 - Comprehensive
 - Strong central control
 - Political support
 - Ability to make it count
- Challenges:
 - Quality of some data
 - Data availability limitations

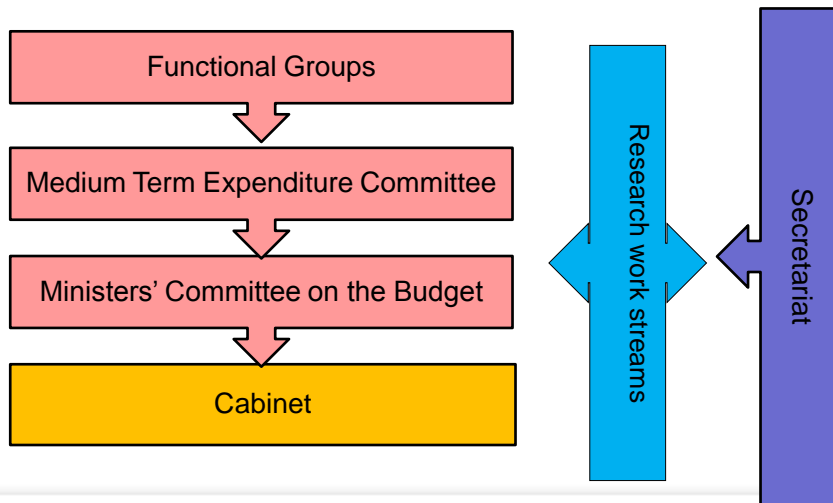
A New Functional Approach to Budgeting

- Give effect to closer cooperation and coordination among all public institutions towards the attainment of 12 government outcomes
- Functional budgeting groups government activities according to broad policy purpose or type of expenditure
- Functional budgeting enhances transparency and cooperation in the budget process, as it spans across the different spheres of government
- Approach was linked to the International Monetary Fund's classification of the functions of government but has been modified for the South African context
- There were nine functional categories:
 - Economic affairs
 - Education and skills development
 - Health services
 - Social protection
 - Housing and community amenities
 - Public order and safety
 - Defence
 - General public services
 - Recreation and culture

Functional classification of national departments* and related outcomes

Functional Classification	Department(s)	Outcome(s)
Economic affairs	Government Communication and Information System [9], Public Enterprises [11], Agriculture, Forestry and Fisheries [26], Economic Development [28], Energy [29], Environmental Affairs [30], Mineral Resources [32], Rural Development and Land Reform [33], Science and Technology [34], Tourism [35], Trade and Industry [36], Transport [37]	Outcome 4: Decent employment through inclusive economic growth Outcome 5: A skilled and capable workforce to support an inclusive growth path Outcome 6: An efficient, competitive and responsive economic infrastructure network Outcome 7: Vibrant, equitable and sustainable rural communities with food security for all Outcome 10: Environmental assets and natural resources that are well protected and continually enhanced
Housing and community amenities	Human Settlements [31], Water Affairs [38]	Outcome 4: Decent employment through inclusive economic growth Outcome 7: Vibrant, equitable and sustainable rural communities with food security for all Outcome 8: Sustainable human settlements and improved quality of household life Outcome 9: A responsive, accountable, effective and efficient local government system
Education	Basic Education [15], Higher Education and Training [17]	Outcome 1: Improved quality of basic education Outcome 5: A skilled and capable workforce to support an inclusive growth path
Health	Health [16]	Outcome 2: A long and healthy life for all South Africans
Social protection	Women, Children and People with Disabilities [8], Labour [18], Social Development [19]	
Recreation, culture and sport	Arts and Culture [14], Sport and Recreation South Africa [20]	Outcome 12: An efficient, effective and development orientated public service and an empowered, fair and inclusive citizenship
Public order and safety	Correctional Services [21], Independent Complaints Directorate [23], Justice and Constitutional Development [24], Police [25]	Outcome 3: All people in South Africa are and feel safe Outcome 11: Create a better South Africa and contribute to a better and safer Africa and World Outcome 12: An efficient, effective and development orientated public service and an empowered, fair and inclusive citizenship
Defence	Defence and Military Veterans [22]	Outcome 3: All people in South Africa are and feel safe Outcome 11: Create a better South Africa and contribute to a better and safer Africa and World
General public service	Presidency [1], Parliament [2], Cooperative Governance and Traditional Affairs [3], Home Affairs [4], International Relations and Cooperation [5], Performance Monitoring and Evaluation [6], Public Works [7], National Treasury [10], Public Service and Administration [12], Statistics South Africa [13], Communications [27]	Outcome 9: A responsive, accountable, effective and efficient local government system Outcome 11: Create a better South Africa and contribute to a better and safer Africa and World Outcome 12: An efficient, effective and development orientated public service and an empowered, fair and inclusive citizenship

Medium Term Expenditure Committee (MTEC)



MTEC process

- Stage 1: Workgroups make recommendations on the proposed budget baselines and non-recurrent expenditure for the Medium Term Expenditure Framework (MTEF) by function (disaggregated by votes within a function) and by economic classification
- Align current budgets to the outcomes identified for each department
- Examine the following areas to identify funding that can be reprioritised:
 - Non core service delivery expenditure items
 - Underperforming or non-performing programmes/ projects/ entities
 - Surpluses housed at entities
 - Revenue raising/ cost recovery efforts
- Stage 2: Workgroups make recommendations on the MTEF additional expenditure proposals by departments in their submissions to the National Treasury
- Ensure that the recommendations proposed to the MTEC fall within the available spending envelope for the particular sector that is within the net change indicated for the sector

Portfolio/Functional Budgeting Assessment

Performance information:

- Reforms post 2005:
 - None specifically leading to functional budgeting
 - Many in respect of improving performance management and financial management
- Success:
 - Managed to do budgeting on a functional basis within 8-9 months
 - Peer learning amongst stakeholders
- Challenges:
 - Not planned
 - Not simple
 - Not well understood
 - Not tried
 - Changed decision making forums
 - Contested
 - Engendered gaming

Deepening public participation

- Questioning of the assumption that citizens understand what funding is on budget, and what service delivery is planned to take place against this funding
- Enhancing citizens' rights to access information and participation in policy platforms

What existed post-1994:

- National Treasury consults through formal structures with major civil society organisations and other institutions, e.g. at NEDLAC
- Public consultations also exists through:
 - Policy and budget road shows
 - Social media
 - Local government engagements on development of plans e.g. Integrated Development Plans and the Growth and Development Strategies
- Numerous policies and laws that promote public involvement and the right to access information exist, in respect of all three pillars of the state i.e. Executive; Judiciary and the Legislature

Improvements over the past year

New successes in public participation

- Budget outreach programme to universities
- Stronger ties with Civil Society Organisations (CSOs), through the CSO budget coalition
- CSOs did a People's guide for our mid-year adjustments budget
- Steward of the Global Initiative on Fiscal Transparency (GIFT)
- Comment on budgeting assessment design changes – eg PEFA, IMF code

Challenges

- Out of government domain, so there are different relationships
- Logistical concerns with demands for step-by-step involvement in budgeting
- Concerned with maintaining budget process confidentiality
- Concerned about allegations of institutional capture by certain CSOs
- Concerned about misunderstanding of Treasury's powers in government
- Concerned about CSO commitment to genuine citizen empowerment
- Concerned about lack of analytical rigour in CSO work
- Concerned about lack of cohesion in CSO sector

Conclusion: supports reform success

- Democratic transition and a new Constitution
- Strong political buy-in: reforms were championed by the Minister of Finance, who carried broad political support
- Good international practices were emulated, but customised to suit the South African situation (self-determined)
- Simple frameworks used
- Consultation with relevant stakeholders when reforms are introduced
- Where relevant, pilot before full implementation
- Comprehensive implementation
- Recently, collaboration of the departments at the centre of government to collectively improve performance of government

Challenges in implementing budget reforms

- Some Departments are better equipped than others to implement new reforms
- Easier to introduce new reforms to Departments than Public Entities as they differ in size and function
- Central government cooperation and CSO cooperation present different environments for reform
- The impact of some of the reforms can only be realised over the long term
- Some of the challenges are only identified during implementation

Thank you

The structure of government's accounts

- National/main budget
 - Revenue: General taxes plus departmental receipts (incl. mining royalties) less SACU payments
 - Expenditure: 50% at national level, 43% transferred to provinces and 7% transferred to local government
- Consolidated national government
 - = main budget
 - + social security funds (UIF, RAF and Compensation Funds)
 - + RDP funds
- Consolidated national and provincial government
 - = Consolidated national government
 - + Provincial own revenue (i.e. from gambling taxes, vehicle licenses and some charges in health)
- Consolidated government
 - = Consolidated national and provincial government
 - + Entities of national and provincial government departments
- Consolidated general government
 - = Consolidated government
 - + local government and its entities