Medium Term Expenditure Framework

Treasury Guidelines:

Preparing budget submissions

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National Treasury

Republic of South Africa

2002

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FOREWORD

The 2003 budget process presents us with an exciting opportunity to build on recent reforms aimed at improving the alignment between planning, budgeting and service delivery.

Sound fiscal policy and economic reform over the past six years has laid a good foundation for the successful introduction and implementation of medium-term planning and budgeting. From this foundation we have been in a position to improve the efficiency in the allocation of public funds in support of Government's priorities. The 2002 Budget directs greater public spending towards programmes aimed at reducing poverty and vulnerability, strengthening the fight against crime and stimulating growth in the economy.

We are now in a stronger position to deepen the link between Government's policy choices, its spending plan and the delivery of services.

The tabling in Parliament of strategic plans for 2002 to 2004, together with the *Estimates of National Expenditure* for the corresponding period, provide a basis for the introduction of important enhancements to the 2003 budget process. Greater attention will be given to service delivery achievements, changes to policies and plans, and how these translate into requests for increases in baseline allocations.

We believe that changes in the way that public finances are managed will stand us in good stead as we strive to deliver better services to our people. These changes are a team effort and their success depends on the understanding and commitment of those involved.

The success of the 2003 budget process will depend on a closer working relationship between National Treasury budget teams and departments to improve on the extent and quality of policy, expenditure and service delivery information reflected in budget submissions and documentation.

It is with this purpose that the enclosed Treasury Guidelines for preparing 2003 budget submissions take a broader approach to preparing budget submissions within the medium-term expenditure framework. As in the past, we rely on timely and considered submissions by all departments in order to provide Cabinet with sound budget proposals in preparation of the 2003 Budget.

I look forward to your cooperation in preparing quality budget submissions.

Maria Ramos

Director-General: National Treasury

ABBREVIATIONS

FFC	Financial and Fiscal Commission
FOSAD	Forum of South African Directors-General
GFS	Government Financial Statistics
MEC	Member of the Executive Council (of a province)
MINMEC	Ministerial and Member of Executive Council meeting
MTBPS	Medium Term Budget Policy Statement
MTEC	Medium Term Expenditure Committee
MTEF	Medium-term Expenditure Framework
PFMA	Public Finance Management Act, 1999
PPP	Public Private-Partnership
SITA	State Information Technology Agency
SALGA	South African Local Government Association

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Introduction

This is the second year that treasury guidelines are distributed to national and provincial departments in this format. Since its inception, the 'new-look' guidelines have served two purposes:

?? It details the process and format that departments are requested to follow when preparing their budget documentation, and

?? Key budget reforms are announced and advice is given on 'best-practice' approaches when implementing changes and enhancements in the manner in which public finances are managed.

The central message this year is one of continuity within medium-term budgeting – building on previous reforms aimed at strengthening the alignment between Government priorities, departmental plans, budgeting and service delivery improvement.

The tabling in Parliament of departmental plans for the period 2002 to 2005 also presents an opportunity for a far more rigorous evaluation of 2003 budget submissions.

In keeping with its stated purpose, the Treasury Guidelines (*the red-file*) is updated for the 2003 budget process.

Chapter 2 describes the 2003 budget process and provides a detailed account of the changes that are being introduced this year. The first of these changes is an invitation for Ministers to present Treasury with an early indication of their policy priorities for the new MTEF, in the form of a Ministerial letter that previously formed part of the departmental budget submission. The letter is intended to provide a broad overview of ministerial imperatives that can feed into discussions of key role-players in the budget process. The second change to the budget process provides departments with more time for the preparation of budget submissions, and in turn, allows treasury budget examiners to evaluate and compare past achievements with departmental requests for additional funding.

Chapter 3 details the process and format that departments are requested to follow when compiling their budget submissions. The format of the 2003 budget submission is significantly different from previous years in that it focuses mainly on requests for additional allocations. Once again, the extent to which departments have made an effort to reprioritise within their medium-term baseline allocation will be a major part of MTEC's deliberations and final recommendation. This should be detailed in the Accounting Officer's covering letter, alongside key policy developments, strategic objectives and outputs.

The focus on new priorities also allows for a reduction in the number of expenditure schedules that departments are required to complete.

The 2003 update of the Treasury guidelines makes provision for the later inclusion of a chapter that describes the format for the 2003 Budget, the *Estimates of National Expenditure*. This will be distributed to departments in September.

Each of the annexures is outlined in the table below:

Annexure A	Expenditure schedules 1 to 7
Annexure B	Budgeting within the MTEF
Annexure C	Integrating strategic planning and budgeting
Annexure D	Costing (including Worksheet 1 that should accompany budget submissions where departments request an increase to their medium-term baseline allocation)
Annexure E	Service Delivery Measures
Annexure F	Revised personnel budgeting model (also available in electronic form as a Microsoft Excel file)
Annexure G	National Treasury spending teams and budget analysts

In preparing the 2003 Budget, National Treasury requests that national departments:

?? Submit copies of the draft 2001/2 Financial Statements by **28 June 2002**

?? Submit copies of the draft annual reports for 2001/02 by **26 July 2002**

?? Submit their 2003 budget submissions to National Treasury by **5 August 2002**

?? Present the corporate plans and 3-year budgets of Section 3A entities, agencies and commissions for which they are responsible to National Treasury by **9 October 2002**, in terms of sections 53 and 54 of the PFMA

?? Submit a first draft of the relevant departmental chapter, including database inputs for the *2003 Estimates of National Expenditure* by **6 December 2002**

During June and July, designated budget analysts from NT will be available to work closely with departments in preparing their budget documentation and preparing for the MTEC. This year's budget discussion will focus strongly on department's published strategic plans for the 2002 – 2005 period and possible changes in these plans for the 2003 Budget and subsequent MTEF period.

Changes to programme structure, programme names and/or descriptions will be considered in a separate process following the MTEC hearings and discussions. A department wishing to change its programme structure, programme names and/or description should submit a formal request to National Treasury by **2 September 2002.** National Treasury will evaluate and finalise the request by **30 September 2002**.

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The budget process

Significant changes have been introduced to the 2003 Budget process to enhance medium-term planning and budgeting. Some of these changes include:

?? *Shifting the focus of the medium-term allocation process towards the analysis of new policy priorities that impact on baseline allocations*

?? *Providing more time to departments for the preparation of their 2003 medium-term budget submission*

?? *Deepening the participation of role-players in key decision stages of the process*

?? *Strengthening continuity between overlapping years in medium-term budgeting*

Continuity within medium-term budgeting

Medium-term budgeting is a continuous process that culminates each year in an annual budget that the Minister of Finance tables in Parliament.

The 2002 Budget tabled on 20 February included the foreward estimates for 2003/04 and 2004/05, which together comprise the Medium Term Expenditure Framework for this period. Continuity within medium-term budgeting is enhanced when the outer forecast years become the starting point for the new budget process and is used as a basis to determine the MTEF allocation for the period 2003 to 2006.

Since the introduction of an MTEF, substantial progress has been made in reforming the budget process to optimise the benefits of medium-term budgeting. In addition, budget reforms have enhanced political oversight in the process and improved the alignment of Government's priorities and spending plans. The budget process facilitates the achievement of the above objectives in that it allows Government to:

?? Plan for the period covered by the new Medium Term Expenditure Framework

?? Evaluate changing policy priorities and implementation plans that increase the medium-term baseline allocation (outer years of the previous MTEF)

?? Involve various role-players that provide political and technical insights when faced with having to make trade-offs between equally important political priorities

?? Allocate resources in line with policy priorities and spending plans

?? Seek the required authority from Parliament to spend.

Planning and preparation of departmental budget submissions start early in the budget process - normally in April. At about the same time Cabinet begins to consider priorities for the new MTEF period. When finalising their budget submissions, national and provincial departments are encouraged to pay particular attention to:

?? Improving the alignment between Government's priorities, departmental plans, existing medium-term allocations and expected service delivery milestones and targets

?? Optimising the inclusion of new priorities within baseline allocation through reprioritisation

?? Ensuring the affordability of revised medium-term plans that require an increase to baseline allocations

?? Note the changes introduced to the budget process and the format of the 2003 budget submission.

Besides departments, who are responsible for the preparation of their MTEF budget submissions, the finalisation of budget documentation is the responsibility of several key players in the budget process.

Political involvement in the process is achieved through MinComBud's participation in policy review and budgetary consideration. The Committee considers key policy and budgetary issues that pertain to the budget process makes recommendations to Cabinet.

Key players in promoting intergovernmental co-operation between the spheres of government on fiscal, budgetary and other financial matters in the process include the *Budget Council* and the *Budget Forum*. The *Budget Council* consists of the Minister of Finance and the nine provincial MECs for Finance. The Council is consulted on any fiscal or financial matter affecting provincial government, including proposed legislation or policy that has financial implications at the provincial level.

The *Budget Forum* is the equivalent body for fiscal and financial matters of concern to local government. Its membership includes the Budget Council, five members nominated by the South African Local Government Association (SALGA) and one representative from each of the provincial associations.

Other role-players include the sectoral *MinMecs*, comprising the national ministers and MECs of a concurrent function. These forums meet during the year to review sectoral trends, clarify sectoral priorities and address the budgetary implications of national policies for provincial implementation.

Decisions on Government's medium-term policy and spending priorities are taken by *Cabinet* after consideration of the advice from the *MTEC*, the *Budget Council* and the *Ministers Committee on the Budget*.

2003 Budget process

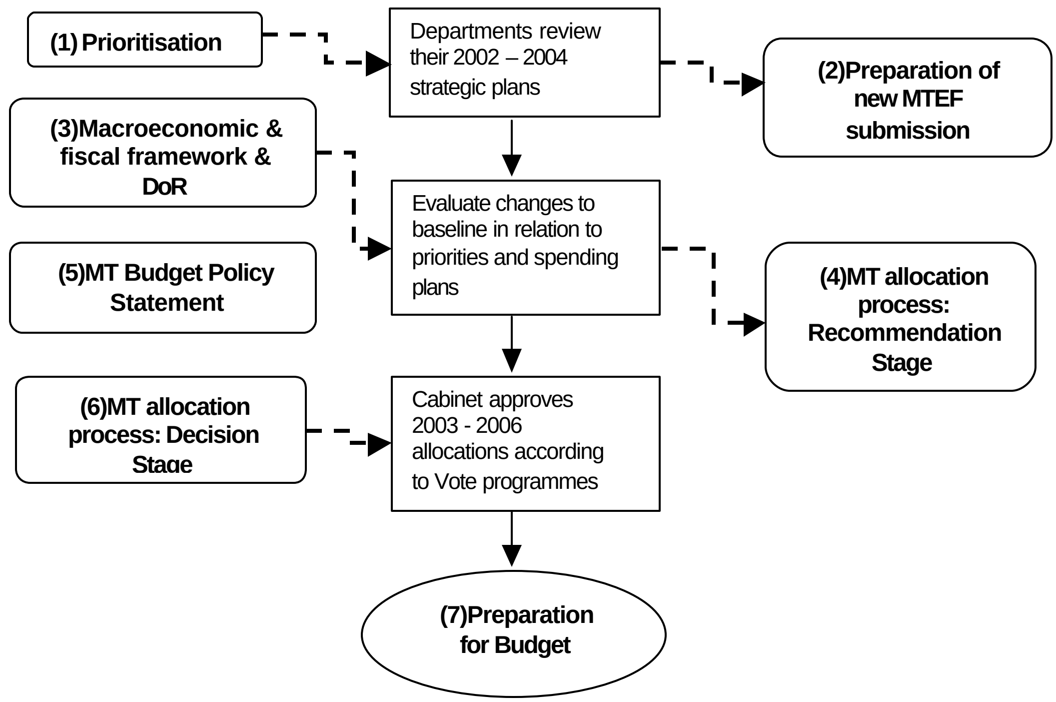
The 2003 process provides for the deepening of continuity within medium-term budgeting.

The tabling of strategic plans in Parliament for the first time this year, provide the point of departure for the 2003 medium-term budget. What provincial and national departments intend achieving over the next three years (2002 – 2004) has been made explicit, together with spending plans for the corresponding period.

Continuity in planning and budgeting over the medium-term is deepened by strengthening the link between the overlapping periods covered by the 2002 – 2004 strategic plan and the new 2003 MTEF.

Viewing the budget process as seven key stages, as illustrated in diagram 1, helps to clarify the above point:

Diagram 1:



Each of the above stages is described in detail with additional responsibilities that apply to departments included in the text boxes.

Prioritisation stage

The 2003 Budget process commences with the Ministers' Committee on the Budget, the Budget Council and Cabinet giving consideration to policy priorities for the new medium-term expenditure period. Locating political inputs early in the budget process ensures political oversight of the budget process.

Political oversight of the budget process is essential to ensure that:

?? The political executive is responsible for policy and budget planning and prioritisation

?? Policy priorities are linked to departmental spending plans and the delivery of services

Budgeting is primarily about the choices and trade-offs that Government has to make in deciding how to meet the agreed set of policy priorities and objectives for service delivery. Political oversight of the budget process allows Government to manage the tension between competing policy priorities and budget realities. This helps to reprioritise spending and make more informed policy choices that are affordable in the medium term.

In the 2003 Budget process the Ministerial letter is separated from the rest of the budget submission. The letter from the respective Minister is due in May and should highlight:

?? Changes to the 2002 strategic plan

?? Key policy priorities to be presented for consideration in the 2003 budget process

?? Specific implications that policy change will have on the outputs of provincial departments.

Political oversight and early consideration of strategic priorities are further enhanced in the 2003 Budget process.

A Ministerial letter will no longer accompany the budget submission as in previous years. Instead, Ministers and Provincial Premiers will be invited to assist the Minister of Finance in preparing for a July Cabinet review of budget priorities.

The Ministerial letter is intended to facilitate an improvement in the manner in which departmental budget submissions are evaluated, and will also assist in:

- Defining critical national, provincial and local spending pressures
- Provide for a more focused discussion at MTEC leading to coherent recommendations for MinComBud to consider.

Preparation and review of MTEF budget submissions

The 2003 budget process is amended to provide more time for the preparation of departmental submissions, and also extends the period of the Medium Term Expenditure Committee to just over six weeks, instead of the usual four weeks.

The 2003 budget submission to be received by National Treasury on **5 August 2002,** is preceded by the draft financial statements and annual report.

When preparing the financial statements, departments should familiarise themselves with the content contained in *'Questions and answers on the format and completion of the financial statements'* and the '*Specimen Annual Financial Statements for Departments for the year ended 31 March 2002'*. Both these documents are available on the Treasury website at http://www.treasury.gov.za/.

The departmental annual report is intended to provide background information that allows the budget examiner to undertake a thorough analysis of the budget submission, and also inform the consideration of possible changes to baseline allocations. When finalising the annual report, departments should take note of the *'Guidelines for the preparation of annual reports for departments*'.

The main 2003 budget submission comprises the Accounting Officer's covering letter, details of reprioritisation within baseline, policy options, departmental receipts and expenditure schedules. The budget submission is due on **5 August 2002**. A detailed description of the format for the main budget document is provided in chapter three.

Table 1 summarises the documents that comprise the 2003 budget submission, due dates and number of copies to be submitted.

Table 1: 2003 budget submission

	Submitted to National Treasury on:	**Number of copies to be submitted:**
Annual Financial Statements (unaudited)	28 June 2002	Ten copies, excluding the copy submitted to the Accountant General
Annual Report (draft unaudited)	26 July 2002	Five copies
Main budget document - AO's covering letter - Reprioritisation - Options - Departmental Receipts - Expenditure tables	5 August 2002	Three copies

The documents listed in the table, except for the Accountant General's copy of the Annual Financial Statements must be submitted to:

Cristina da Silva
Deputy Director: National Budgets
Room HB-03.44
40 Church Square, Pretoria
cristina.dasilva@treasury.gov.za

Review of the macroeconomic and fiscal framework and the Division of Revenue

The macroeconomic and fiscal framework and the Division of Revenue lead to key economic and policy decisions that impact on the national, provincial and local spheres.

The stage focuses on two inter-related but distinct decisions:

?? The overall budget framework, including fiscal policy considerations, overall spending growth, inflation assumptions, and debt interest projections

?? Evaluation of the Division of Revenue between the three spheres of government

Review of the macroeconomic and fiscal framework; the key spending pressures at national, provincial and local government and the main conditional grants to provinces will take place at the Division of Revenue workshop on **Wednesday 7 and Thursday 8 August 2002.** The workshop will be chaired by the Director-General: National Treasury, and will involve national departments, the FOSAD cluster committees, provincial treasuries and local government representatives.

> Key decisions in relation to the division of revenue between the three spheres are formulated at:
>
> ?? Sectoral workshops consider proposals for the expansion of existing grants and/or new grants
>
> ?? Various role-players participate in a discussion on the key spending pressures in the three spheres at the Division of Revenue workshop, and focus particularly on recommendations formulated at each of the sectoral workshops.
>
> ?? Meetings between the relevant Minister and her/his nine provincial counterparts consider the outcome of the DoR workshop
>
> ?? The next step in the division of revenue is the finalisation of related memoranda that are presented to MinComBud, the Budget Council, Budget Forum and the extended Cabinet.
>
> ?? Cabinet considers the draft Division of Revenue bill in January and approves the bill for tabling in Parliament on Budget day.

The 2003 budget process makes provision for early consideration of any new spending pressures, especially where these relate to an expansion to existing and any new conditional grants. Treasuries and national and provincial departments will participate in the relevant technical committees to examine, research and formulate recommendations regarding key provincial spending pressures and the administration and implementation of conditional grants. A consultative process between the National Treasury and organised local government will also take place for local government grants. These joint technical committees will meet in June and July and their recommendations will be forwarded to the Division of Revenue workshop.

The outcome of discussions at the workshop feed into:

?? Joint MinMecs, comprising the national ministers and MECs of a concurrent function including health, education, welfare and housing, which meet during August to review sectoral trends, clarify sectoral priorities and address the budgetary implications of national policies for provincial implementation.

?? Preparations of memoranda on the preliminary macroeconomic and fiscal framework and the Division of Revenue (based on June economic data) that are discussed by the Ministers' Committee on the Budget, the Budget Council and the Budget Forum in August.

The Ministers' Committee on the Budget takes its recommendations to an extended Cabinet meeting, in late September. The extended Cabinet comprises the national Cabinet and the nine provincial premiers.

Cabinet's consideration and recommendations on the preliminary macroeconomic and fiscal framework and the Division of Revenue are taken into account in the preparation of the revised memorandum (based on September economic data) that is considered by Cabinet in mid-October in preparation of the Medium Term Budget Policy Statement.

The Medium-term allocation process: Recommendation stage

The first stage of the *medium-term allocation process – Recommendation stage* – occurs during the Medium Term Expenditure Committee hearings. Discussions at MTEC and prior negotiations between departments and Treasury are within a framework that is guided by the outcome of the *prioritisation stage* and the *review of the macroeconomic and fiscal framework and the Division of Revenue*

The tabling of strategic plans for the 2002 – 2004 period and the revision to the format of the 2003 medium-term budget submission allow a more focused negotiation on reprioritisation within baseline and forecast allocations for the third year. Departments will also be given an opportunity to table 'options' for increases or decreases to their overall medium-term baseline allocations. Departmental inputs at MTEC will take the form of an abridged version of the 2003 budget submission described in chapter 3, with specific focus on:

?? The Accounting Officers covering letter summarising changes to the 2002 – 2004 strategic plan and any changes to programme aims, structures and key outputs

?? Reprioritisation within baseline resulting from increases or decreases to outputs and/or through the implementation of more cost-efficient strategies

?? Consolidation of ongoing negotiations for increases in baseline allocations relating to structural adjustments and/or policy 'options'.

MTEC hearings for national departments will take place between **19 August and 27 September**. Specific dates for departmental hearings will be sent to departments in July. Provincial MTEC hearings will also take place around this time.

The accounting officer, chief financial officer and other senior departmental officials are invited to the MTEC when departmental inputs are considered.

Medium Term Budget Policy Statement

The Minister of Finance tables the *Medium Term Budget Policy Statement* (MTBPS) before Parliament at the end of October each year.

The MTBPS is a significant step forward in public transparency and accountability as it sets out Government's medium-term macroeconomic and fiscal position and its broad policy and spending priorities over the next 3-year period three months before the detailed Budget is presented to Parliament. Parliament and the public are therefore able to actively engage with Government's medium-term priorities and spending plans.

The Minister of Finance is scheduled to table the Statement before Parliament on **Tuesday 29 October**, together with the Adjustments Estimate for 2002/03.

The Medium-term allocation process: Decision stage

The *Decision stage* of the *medium-term allocation process* follows tabling of the MTBPS in November. The Minister of Finance reviews the recommendations of the Medium Term Expenditure Committee on changes to the three-year allocations of national votes, and tables these before the Ministers' Committee on the Budget.

Simultaneously, the Minister of Finance reviews the final allocations to provincial and local government, including conditional grants, and tables these before the Budget Council and Budget Forum.

The recommendations of the Ministers' Committee on the Budget, the Budget Council and the Budget Forum are submitted to Cabinet for further consideration.

Cabinet's decision on changes to the MTEF allocations of national votes, provincial and local government are set out in Treasury allocation letters to departments and provincial treasuries in mid November. These detail the rationale and conditions of the final allocations for national votes and provinces for the new MTEF period. Once final allocations letters have been received, departments are required to revise their plans for the 2003 – 2006 period, and pay particular attention to priority policies and strategies and the affordability of their planned outputs.

Preparation for the Budget

The final stage in the budget process involves the preparation of budget documentation that the Minister of Finance tables before Parliament on Budget Day and the budget documentation that provincial MECs for Finance table before provincial legislatures. The Budget that the Minister or MEC for Finance has proposed is taken thereafter through a legislative process that reviews, analyses and discusses Government's proposed spending plans in relation to stated Government policy priorities over the medium-term period.

In the preparation for budget stage, national and provincial departments play a significant role in drafting and finalisation of the 2003 Budget.

The process leading to the finalisation of the 2003 Budget will undergo certain changes. This may result in certain changes to the budget format. The changes will serve two purposes. Firstly, it strengthens the link between the various activities within the budget process and the final product – national and provincial medium-term estimates of expenditure. Secondly, format changes are intended to provide the relevant legislature with sufficient detail of what a department intends achieving and why, how it will achieve its objectives and what funds have been allocated for this purpose. The PFMA requirement for the inclusion of measurable objectives is also a legal requirement for the 2003 Budget.

Although the final format for national and provincial budgets will be communicated to departments in September, departments should not wait until then to start compiling their inputs for the 2003 Budget. The national budget – *2003 Estimates of National Expenditure*, and provincial budget documentation are based on departmental budget submissions, and should reflect the outcome of a process that considered priorities, evaluated the alignment of policy, programmes and spending plans, and made the necessary 'trade-offs' leading to the new Medium Term Expenditure Framework.

In the case of national departments, the first draft of their chapter of the *2003 Estimates of National Expenditure* should be submitted by **Friday 6 December 2002,** together with the database inputs containing programme, standard item and economic classification of their medium-term allocations**.**

The Minister of Finance will table the *2003 Estimates of National Expenditure* before Parliament on Budget Day, **Wednesday 26 February 2003**.

Provincial MECs for Finance will table the 2003 provincial budgets before their respective provincial legislatures between **February and March 2003**.

3

Compiling the budget submission

Significant changes are introduced to the format of the 2003 budget submission. The main change is that the submission takes the department's previous strategic plan as its point of departure. The main budget document that is described in this chapter shifts the focus towards an analysis of new priorities and related spending pressures.

Evaluating changes to baseline

The main reform implemented in 2002 is the tabling of departmental strategic plans in Parliament or the relevant provincial legislature after the Minister or relevant MEC for Finance has tabled the annual budget. Departmental plans that are tabled cover the period 2002 to 2004, and also correspond with the 2002 Medium Term Expenditure Framework.

Linking the submission of departmental strategic plans with the tabling of the annual budget is part of Government's attempts to improve the process and allocation of public resources in support of social and economic goals and priorities. Improving the alignment of strategies and medium-term allocations also contributes to better budgeting within the MTEF as departments are able to:

?? Sequence programme expenditure with policy implementation plans, thereby reducing roll-overs

?? Make known the long-term financial implication of existing and new policies

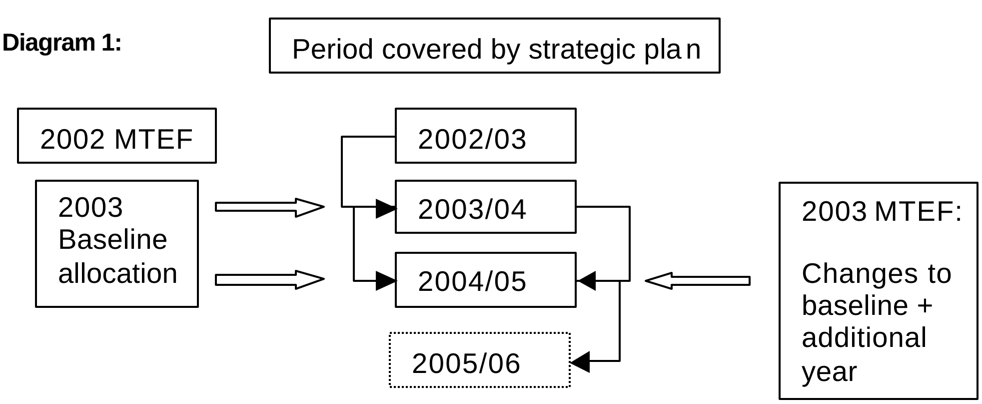
?? Implement service delivery outputs in the most cost-efficient manner

?? Improve the monitoring and evaluation of expenditure programmes in relation to Government's socio-economic policy priorities.

Strategic plans tabled in Parliament or the relevant provincial legislature provide programme (main division) objectives, outputs and targets to be achieved in the next three-years. The 2002 MTEF allocation described in departmental chapters of the *Estimates of National Expenditure* for the corresponding period represents available resources to achieve these objectives. The tabling of strategic plans for 2002 – 2004 and the *Estimates of National Expenditure* for this period therefore provides a good basis for the preparation of the 2003 budget submission.

Diagram 1 illustrates the relationship between departmental strategic plans, the 2002 MTEF, and how both these documents relate to the 2003 MTEF:

Diagram 1:



The diagram shows that the new MTEF should not be viewed as a process that starts from a zero base, but instead expands on existing medium-term priorities and spending plans. The bulk of expenditure in the first new years of the 2003 MTEF is committed for the achievement of plans identified in the previous budget process. Described as a rolling plan, medium-term budgeting is enhanced when it focuses on reviewing existing plans and new spending priorities.

When preparing the 2003 budget submission, departments should therefore review their 2002 – 2004 strategic plans with particular attention to changes that are likely to impact on allocations to year two and three of the 2002 MTEF.

The following are possible reasons that could contribute to changes to baseline allocations:

?? Compensation for a higher than expected depreciation of the rand

?? Increasing the priority status of a particular objective that cannot be accommodated within the baseline allocation

?? Extending the subsidy to a public entity beyond the budgeted period

?? New short-term priorities that cannot be accommodated within budgeted amounts, such as the deployment of a peace-keeping mission to another country.

The new format for the 2003 medium-term budget submission enables a more focussed discussion in instances where the above reasons, or others of a similar nature, are put forward. In addition, it provides a greater opportunity for the relevant department to present new information, in the format of the 2003 budget submission. The main budget document that is submitted on 5 August is as follows:

?? The main part of the submission is the covering letter from the Accounting Officer. The letter highlights changes to the department's 2002 – 2004 strategic plan and proposed amendments to baseline allocations

?? The Accounting Officer's covering letter also provides a clear and concise description of changes to programme aim, strategic objectives, structure and outputs, and related policy developments

?? More detailed descriptions are provided on changes to baseline allocations resulting from increased outputs and/or new policies.

The 2003 Budget submission therefore provides an opportunity to further enhance the alignment of planning and budgeting, and more specifically, makes provision for a focused discussion of strategic priorities and policy developments that result in proposed changes to baseline.

Format of the budget submission

The format of the budget submission is set out here. The accounting officer's covering letter should be attached to the budget submission. The budget submission includes sections on:

?? Baseline medium-term allocation

?? Programme expenditure trends and 1st quarter reports

?? Reprioritisation within baseline

?? Proposed options

?? Departmental receipts

?? Public entities reporting to the responsible Minister

?? Annexures to the Vote submission (schedules)

Accounting Officer's covering letter

The Accounting officer's covering letter should report on the departmental planning process leading to the formulation of the medium-term budget submission and provide a concise summary of:

?? Key strategic objectives and outputs to be achieved over the medium-term period that contribute towards achieving the desired socio-economic outcomes or results.

?? Proposed changes to the department's 2002 – 2004 strategic plan tabled in Parliament after the Minister of Finance tabled the 2002 annual Budget

?? Proposed changes to programme aim, strategic objectives and outputs

?? Policy options that are proposed in line with departmental medium-term policy priorities

?? Reprioritisation within baseline and the addition of spending plans for the third year of the new medium-term period

Further material on the process should not be included in the budget submission, but should be available to National Treasury.

Baseline medium-term allocation

The baseline medium-term allocation for the Vote submission as in table 2 below reflects the baseline allocation for each year of the new medium-term period, 2003/04 to 2005/06, denoted in rand thousands. Departments should insert their 2003 baseline medium-term allocation (in rand thousands) in the table below.

Table 2: Vote [number]: [name]: 2003 medium-term baseline allocation

2003/04	2004/05	2005/06
R'000s	R'000s	R'000s
0	0	0

The baseline estimates for 2003/04 and 2004/05 are the forward estimates for these years published in the *2002 Estimates of National Expenditure*. The baseline for total expenditure in the third year of the medium-term expenditure period, 2005/06, is 6,0 per cent above the baseline for 2004/05. This is based on a preliminary National Treasury inflation forecast of 4,4 per cent for 2005/06, shown in table 2.

It is important that departments note that they should budget for salary increases of 7,0 per cent for 2003/04 and 5,2 per cent for 2004/05. These salary increases come into effect on 1 July of each year, or 1 January in respect of senior management staff.

Table 3 Inflation projections, 2002/03 to 2005/06

	2002/03	2003/04	2004/05	2005/06
GDP inflation	**6,9**	**5,8**	**4,7**	**4,4**

Programme expenditure trends and 1st quarter reports

Expenditure trends for each programme are reviewed separately for the period 1999/00 to 2001/02, including 1st quarter expenditure for 2002/03 (year 0 of the new MTEF period), and focus specifically on the following developments:

?? Policy developments and legislative changes that have had a significant influence on expenditure over the past three years, especially those which will impact on future expenditure

?? A concise summary of 1st quarter expenditure (April – June 2002), especially where such expenditure illustrates reasons for reprioritisation and/or request for additional funding.

Reprioritisation within baseline

The rationale for reprioritisation within medium-term baseline allocations should be described under the appropriate programme heading. When a saving is reprioritised, a concise description should indicate whether the saving is brought about through a reduction or discarding of specific strategies, outputs or activities, or achieved through the application of more cost-efficient methods. The rationale for reallocating a saving, where this has occurred, should also be described.

The following should also be noted when finalising reprioritised amounts:

?? Policy or structural changes that are presented as options, which result in upward adjustments to the medium-term baseline, are unlikely to be supported unless there is evidence of rigorous reprioritisation within baseline allocations.

?? Savings derived from the discarding of low priorities and/or the application of more cost-effective strategies should firstly cover costs associated with increases in existing outputs, and secondly, to reduce the costs of new policies.

?? Policy options will be more favourably considered if their costs have been partially accommodated through reprioritisation.

Reprioritised outputs or activities should be summarised in table 4, together with the amount being reprioritised.

Table 4: Reprioritisation, 2003/04 – 2005/06

Programme	2003/04 R'000	2004/05 R'000	2005/06 R'000
1. Administration			
- specify output / activity			
2. Programme			
- specify output / activity			
3. Programme			
- specify output and activity			
TOTAL			

Options

An option sets out a possible change to a department's medium-term baseline allocation that is related to strategic priorities of the department. The option may increase or reduce the baseline allocation – or even increase/ reduce/ leave it unchanged in different years.

A maximum of four options should be described in detail here under the appropriate programme name(s), and should not exceed two pages. The description that is provided should be consistent with the content of the DG letters that accompanies the 2003 submission.

Before submitting an option, departments should examine their existing baseline medium-term allocations and priorities carefully to determine whether the option can be accommodated through reprioritisation of existing resources. An option may, for example be:

?? A proposal for a new policy that cannot be accommodated within the baseline allocation or would lead to a reduction in the baseline allocation required

?? A proposal for a change in the level of output associated with an existing programme or subprogramme which changes the baseline allocation

?? A rephasing of a programme or a project, which sees an increase in the baseline in some years and a reduction in others

?? A saving, for example, from greater efficiency (due maybe to implementation of a public - private partnership), or from discarding a (sub)-programme that is no longer a priority.

Details of the alignment between the proposed option(s) and changes to the strategic plan for 2002 – 2004 should be provided, and also summarised in **table 5**.

Table 5: Options, 2003/04 – 2005/06

Programme	2003/04 R'000	2004/05 R'000	2005/06 R'000
1. Administration			
- specify option			
2. Programme			
- specify option			
3. Programme			
- specify option			
TOTAL			

Table 5 should be completed in conjunction with Schedule 1(A): *Summary of options per economic classification* and Worksheet 1, described in Annexure D.

Departmental receipts

Departments are requested to provide detail of any estimated departmental receipts that are deposited into the National Revenue Fund for 2002/03 and for the medium-term expenditure period in terms of sections 27.3 (i) and 28.1(a) of the PFMA. Departments should itemise the receipts as indicated in table 6 below, and indicate in terms of which Acts or regulations the receipts are collected.

Table 6: Departmental Receipts

	Revenue outcome				Medium-term revenue estimate		
	Audited	Audited	Preliminary outcome	Adjusted appropriation			
R thousand	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Tax revenue							
Non-tax revenue							
Property income							
Sales of goods and services							
Fines, penalties and forfeits							
Voluntary transfers							
Miscellaneous							
Transactions in non-financial assets (capital revenue)							
Financial transactions (recovery of loans and advances)							
Total departmental receipts							

Public entities reporting to the responsible Minister

A list of all public entities reporting to the responsible Minister for the Vote should be provided here. Examples of these entities include the National Roads Agency, Telkom, the science councils, and the Unemployment Insurance Fund.

More detailed information should be presented for those entities that are primarily funded by taxation, whether transferred from the National Revenue Fund (for example, the Independent Electoral Commission) or transferred directly to the body itself (the Unemployment Insurance Fund), including key financial and service delivery information for the spending of public money. The relevant Treasury official will also indicate for which entities departments should provide more detailed information.

Annexure to the Vote submission

Standard schedules of spending data should accompany each Vote submission. These include:

?? Schedule 1: Summary of expenditure programmes and options

?? Schedule 1(A): Summary of options per economic classification

?? Schedule 2: Summary of expenditure per economic classification and standard item

?? Schedule 3(A): Conditional grants to provinces

?? Schedule 3(B): Conditional grants to local government

?? Schedule 4: Infrastructure Expenditure

?? Schedule 5: Project loans

?? Schedule 6: Donor grant funding

?? Schedule 7: Information and communication technology expenditure per programme

Schedule 1: Summary of expenditure programmes and options

The first table in schedule 1 shows 7-year expenditure trends and estimates for:

?? Each programme in the Vote

?? The sub-total for these programmes

?? The total for the Vote

Column 1 shows programme names according to the programme structure approved in the 2002 Budget.

Column 2 and 3 shows audited expenditure for 1999/00 and 2000/01, respectively (in rand thousands).

Column 4 shows the preliminary outcome for 2001/02(in rand thousands).

Column 5 shows budgeted expenditure for 2002/03 (in rand thousands).

Columns 6 to 8 show data for 2003/04. Column 6 shows the medium-term baseline allocation for 2003/04 for the relevant programme.

Column 7 shows the change to the baseline estimates (in rand thousands) that the department is proposing in its reprioritisation within baseline. That is, the amount by which the programme is expected to increase or decrease when compared to the baseline estimate.

Column 8 shows the proposed reprioritised baseline. That is, the result of how the department proposes to re-allocate resources to programmes in line with policy priorities if it receives its medium-term baseline allocation. (Note that column 8 = column 6 +7).

Columns 9 to 11 show the corresponding data for 2004/05.

Columns 12 to 14 show the corresponding data for 2005/06.

Column 15 shows the annual average growth rate over the 3-year period 1999/00 to 2002/03.

Column 16 shows the annual average growth rate over the 3-year period 2002/03 to 2005/06.

These columns are used in most of the other schedules.

The second part of the schedule – the summary of options table sets out summarised information for each policy option proposed by the department for a change to the medium-term baseline allocation of the Vote.

Column 1 lists the names of each option. A maximum of four options may be proposed.

Columns 2 and 3 show the estimated cost of the option (in rand thousands) for 2003/04 and the National Treasury budget analyst or spending team recommendation (in rand thousands).

Columns 4 and 5 show the estimated cost of the option (in rand thousands) for 2004/05 and the National Treasury budget analyst or spending team recommendation (in rand thousands).

Columns 6 and 7 show the estimated cost of the option (in rand thousands) for 2005/06 and the National Treasury budget analyst or spending team recommendation (in rand thousands).

Schedule 1(A): Summary of options per economic classification

Schedule 1(A) should be completed in conjunction with table 5: Options 2003/04 – 2005/06 and Worksheet 1 in annexure D. The schedule shows information by economic classification for each option.

Column 1 shows the name of the option followed by the programme where expenditure will occur. Expenditure is allocated between current and capital. Current expenditure is disaggregated into personnel, transfer payments and other current. Capital expenditure is disaggregated into transfer payments and acquisitions of capital assets.

Columns 2 to 7 shows the departmental option request and the National Treasury recommendations in terms of rand thousands for the new MTEF period. Departments are only required to complete columns 1, 2, 4 and 6.

Schedule 2: Summary of expenditure per economic classification and standard item

The first table in schedule 2 shows expenditure information by economic classification. This is based on international standards for classification of Government Financial Statistics (GFS) developed by the International Monetary Fund. While government expenditure in South Africa is more commonly classified according to a system of "standard items", progress has been made in converting standard item information into broad Government Financial Statistics classifications.

The table disaggregates current expenditure into spending on personnel, transfer payments and other current expenditure.

Personnel expenditure is disaggregated into salaries and wages, and other.

Current transfer payments are disaggregated further into subsidies to business enterprises, transfer payments to other levels of governments, to households and non-profit organisations, and to foreign countries and international credit institutions.

Transfer payments to other levels of government are broken down into transfers to social security funds, to universities and technikons, to extra-budgetary institutions, to provincial government and to local government.

Capital expenditure is disaggregated into transfer payments, spending on moveable capital and spending on fixed capital.

Capital transfer payments are disaggregated into transfers to other levels of government and other capital transfers.

Expenditure on moveable capital is broken down into spending on motor vehicles (transport), computer equipment, other office equipment and other (miscellaneous) spending on moveable capital.

Expenditure on fixed capital is disaggregated into spending on land, buildings, infrastructure and other (miscellaneous) fixed capital spending.

The second table in schedule 2 shows expenditure information by standard item.

Standard item expenditure is disaggregated into spending on personnel, administration, inventories, equipment, land and buildings, professional and special services, transfer payments and miscellaneous spending.

Schedule 3(A): Conditional grants to provinces and Schedule 3(B): Conditional grants to local government

Conditional grants are divided into separate schedules for transfers to provinces and local government.

Departments are requested to provide expenditure and policy framework information on existing conditional grants, and proposals for new grants, as part of their 2003 budget submissions.

Specifically, schedules 3(A) and 3(B) on conditional grants to provinces and local government requests:

?? Historical audited expenditure for 1999/00 and 2000/01
?? The preliminary outcome for 2001/02
?? Budgeted expenditure for 2002/03
?? Medium-term baseline allocations, disaggregated by province or municipality
?? Requested changes to the baseline allocation, including proposals for any new grants

It is important to note that changes to baseline allocations or proposals for new grants that are funded from reprioritisation within the medium-term baseline allocation of the Vote should be detailed in the schedules.

Where there is an 'option' proposed for additional funding over and above the conditional grant baseline allocation, departments should indicate how the additional funding, if approved, would change the grant framework. It is also important to note that any change in policy should not jeopardise the planned programme of provinces by reducing their grant baseline allocations. Reductions in grant baseline allocations should only be proposed if performance has been taken into consideration, which will have to be strongly motivated for in the grant framework.

In completing schedules 3(A) and 3(B), departments should note:

Column 1 shows the name of the conditional grant.

Column 2 lists the nine provinces and an unallocated category for each grant

Columns 3 and 4 show audited expenditure on the conditional grant (broken down by province, in the case of provincial grants) for 1999/00 and 2000/01, respectively.

Column 5 shows the preliminary outcome for expenditure on the conditional grant (broken down by province, in the case of provincial grants) for 2001/02.

Column 6 shows the budgeted expenditure on the conditional grant (broken down by province, in the case of provincial grants) for 2002/03.

Column 7 shows the medium-term baseline allocation for the conditional grant (broken down by province, in the case of provincial grants) for 2003/04.

Column 8 shows the change to the baseline allocation of the grant reflected by reprioritisation of the baseline allocation for 2003/04, shown in column 9.

Columns 10 to 12 and columns 13 to 15 show the same information for 2004/05 and 2005/06, respectively.

Schedule 4: Infrastructure expenditure

Column 1 shows information on capital works projects for state-owned property (Public Works). Three categories are provided, namely, works to be completed (2002/03), works-in-progress and new works. The three categories are broken down further into capital expenditure; professional fees; planned maintenance and municipal services; rates and taxes.

Column 2 shows the budgeted amount for 2002/03

Column 3 shows the medium-term baseline allocation for the project in 2003/04.

Column 4 shows the change to the medium-term baseline allocation for the project in 2003/04 reflected by reprioritisation shown in column 5.

Columns 6 to 8 show the same information for 2004/05.

Column 9 shows the projected expenditure for 2005/06.

Columns 10 to 15 show the same information for projects that extend beyond the 2003 medium-term period.

Schedule 5: Project loans

The budget submission must include details of project loans, long-term lease agreements or any other financing arrangements for specific expenditure plans. The associated expenditure forms part of a department's medium-term expenditure allocations.

Project loans, therefore, do not increase the amount available for expenditure, but instead may – through the loan terms, and/ or through associated technical assistance – provide better value than financing through the general state debt programme.

National Treasury issued a guidance note on the procedures associated with project loans and their approval by National Treasury in 2000. Departments should refer to this guidance note for further details.

Departments are requested to provide all relevant information on project loans in schedule 5. Implementation of a project by provincial or local government should be indicated in the schedule as a footnote to the project name.

The first table in schedule 5 shows information for project loans that have been agreed to by the department.

The table shows the name of the project loan; the programme and subprogramme under which it is classified; whether or not the loan has been included in the medium-term baseline allocation; the donor(s); and the expenditure information for the seven year period, 1999/00 to 2005/06.

The second table shows information for project loans that are under consideration by the department. The table shows the name of the proposed project loan; the programme and subprogramme under which it is classified; whether or not the loan will be included in the medium-term baseline allocation; the donor(s); whether or not the loan has been discussed with National Treasury; the status of the project loan; and expenditure information for the period 2002/03 to 2005/06.

Schedule 6: Donor grant funding

Unlike project loans, donor grant funding is additional to the medium-term baseline allocation for the Vote. Departments are requested to complete schedule 6, showing information on all existing donor grant funding and projects under consideration. Transfer of a donor grant to provinces should be indicated as a footnote to the name of the grant.

This information will be used to provide perspective on the use made of donor funding, and to prepare budgetary data.

Some donor grant funding is received as cash to departments. But other donor grant funding does not involve actual payment of cash from the donor to departments, but is provided "in kind" – for example, through the donor directly funding a project in support of the department or the donor paying a consultant. The estimated cost to the donor of such support should be indicated in schedule 6.

The first table shows information for existing donor grants. The table shows the programme and subprogramme name; whether the donation is in cash or in kind; the name of the donor(s); and the estimated cost to the donor over the period 1999/00 to 2005/06.

The second table shows information for donor grants under consideration by the department. The table shows the name of the programme and subprogramme; whether it was received or is expected to be received in cash or in kind; the name of the donor(s); the status of the proposed donor funding; and the estimated cost to the donor over the period 2002/03 to 2005/06.

Schedule 7: Information and communications technology expenditure per programme

Schedule 7 shows information and communications technology related expenditure by programme.

Column 1 shows the name of each programme.

Columns 2 to 4 shows the preliminary outcome for the period 2001/02 for technology and IT services and the total of the two.

Columns 5 to 7 shows separate budgeted expenditure for technology, IT services and the total of the two.

Columns 8 to 16 shows the same information for the new MTEF period.

Annexure A

2003 budget submission schedules 1 to 7

?? Schedule 1: Summary of expenditure programmes and options

?? Schedule 1(A): Summary of options per economic classification

?? Schedule 2: Summary of expenditure per economic classification and standard item

?? Schedule 3(A): Conditional grants to provinces

?? Schedule 3(B): Conditional grants to local government

?? Schedule 4: Infrastructure Expenditure

?? Schedule 5: Project loans

?? Schedule 6: Donor grant funding

?? Schedule 7: Information and communication technology expenditure per programme

Annexure B

Budgeting within the Medium Term Expenditure Framework

The Medium Term Expenditure Framework (MTEF) details three-year rolling expenditure and revenue plans for national and provincial departments.

Provincial spending plans in the MTEF take account of transfers to provinces from the National Revenue Fund and revenue that provinces receive from their own sources, such as license fees. The MTEF also includes transfers from national and provincial spheres to local government, extra-budgetary agencies, funds and commissions, and universities and technikons.

Medium-term budgeting has the following advantages:

?? Greater certainty as policy priorities are set out in advance, allowing departments to plan and budget for delivery of services in line with policy priorities

?? Affordable spending in the medium-term as departments plan and spend on programmes according to an agreed 3-year expenditure envelope

?? Strengthened political decision-making and accountability as policy choices may be linked more effectively to spending plans and to the delivery of services

?? Improved management of public finances as Government's medium-term fiscal targets, tax policy and debt management may be linked to agreed spending commitments

Budgeting within the Medium Term Expenditure Framework is based on a set of basic principles that revolve around:

?? Fiscal policy and the budget framework

?? Policy priorities and public expenditure

?? Political oversight of the budget process

?? Budgeting for service delivery

Fiscal policy and the budget framework

Medium-term spending plans of national and provincial departments are prepared within the context of the Government's macroeconomic and fiscal framework set out in the previous budget. The framework set out in the previous budget outlines the 'resource envelope' within which budget submissions are prepared.

The macroeconomic projections and fiscal framework are revised during the year, as updated economic data become available. Macroeconomic projections are drawn from the National Treasury macroeconomic model.

As in the previous year, the overall framework for the 2003 national Budget includes the revenue and expenditure of social security funds – the Unemployment Insurance Fund, the Road Accident Fund and the Compensation Funds – and estimates of foreign grants and technical assistance to government agencies.

Incorporating all these elements into the budget framework improves transparency and accountability, giving a clearer picture of tax and spending.

The framework also includes a contingency reserve to provide for unanticipated expenditure and macroeconomic uncertainty as well as any new spending priorities. In the nature of a three-year rolling budget process, each year the budget framework is revised. Additional resources for available expenditure are made up of the funds released by the draw-down of the contingency reserve and changes to the macroeconomic forecast.

Table 1 below shows the consolidated national budget framework set out in the 2002 Budget. The projections will be revised and extended to include estimates for 2005/06 once economic projections have been updated.

Table 1: Main budget framework, 1998/99–2004/05

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
	Outcome	Outcome	Outcome	Revised	Medium-term estimates		
R million				Estimate			
Revenue (National Revenue Fund)							
Tax revenue (gross)	184 664	200 641	220 273	252 205	268 506	291 863	316 392
Other receipts & Repayments	4 462	4 719	3 715	4 447	4 970	5 600	6 100
RDP Fund grants[1]	456	–	–	–	–	–	–
Less: SACU transfers	-5 577	-7 197	-8 396	-8 205	-8 259	-8 755	-9 280
Total revenue	**184 005**	**198 162**	**215 592**	**248 447**	**265 217**	**288 708**	**313 211**
Percentage of GDP	*24.4%*	*24.1%*	*23.7%*	*25.1%*	*24.5%*	*24.5%*	*24.5%*
Percentage increase	*12.6%*	*7.7%*	*8.8%*	*15.2%*	*6.7%*	*8.9%*	*8.5%*
Statutory appropriations							
State debt cost	42 669	44 290	46 321	47 515	47 503	49 845	52 434
Provincial equitable share	84 342	89 095	98 398	107 460	119 452	128 466	137 089
Skills development funds	–	–	1 184	2 750	2 950	3 150	3 370
Other[2,3]	286	324	347	603	382	489	412
Appropriated by vote							
Current expenditure[4]	64 169	72 328	77 607	90 652	97 308	104 678	110 684
Capital expenditure	9 951	8 713	10 085	13 609	17 014	19 603	21 573
Contingency reserve	–	–	–	–	3 300	5 000	9 000
Total expenditure[5]	**201 416**	**214 750**	**233 942**	**262 590**	**287 909**	**311 231**	**334 561**
Percentage of GDP	*26.7%*	*26.2%*	*25.7%*	*26.5%*	*26.6%*	*26.4%*	*26.2%*
Percentage increase	*6.0%*	*6.6%*	*8.9%*	*12.2%*	*9.6%*	*8.1%*	*7.5%*
Deficit(-)	**-17 411**	**-16 588**	**-18 350**	**-14 143**	**-22 692**	**-22 523**	**-21 350**
Percentage of GDP	*-2.3%*	*-2.0%*	*-2.0%*	*-1.4%*	*-2.1%*	*-1.9%*	*-1.7%*
Gross domestic product	*753 829*	*821 144*	*910 500*	*990 000*	*1 082 800*	*1 178 900*	*1 277 500*

1. From 1999/00, foreign grants received in the RDP Fund do not flow through the National Revenue Fund.

2. Salaries of Members of Parliament, salaries of judges and standing appropriations (claims on guarantees and subscriptions to funds of the World Bank, African Development Bank and International Monetary Fund)

3. Includes a transfer to the Umsobomvu Fund of R855 million in 1999/00.

4. Includes conditional grants to provinces and local government. (Prior to the introduction of the provincial Equitable share in 1998/99, voted amounts included the full transfers to provinces.)

5. A recovery from pension funds of R1 158 million in 1998/99 in lieu of the negotiated reduction in the employer's contribution is deducted from total expenditure.

The 2002 Budget seeks to balance several broad fiscal policy goals and objectives:

?? Providing for social and developmental expenditure to overcome poverty and provide safety and security

?? Raising investment in infrastructure and maintenance of Government's capital stock

?? Reducing the overall burden of tax, so as to lower the costs of investment and job creation while releasing household spending power

?? Stabilising the level of debt and reducing the budget deficit to contribute to lower interest rates and fiscal policy goals.

Over the past decade, fiscal policy – together with industrial restructuring, trade reform and financial liberalisation – has facilitated fundamental restructuring of our economy and contributed towards stabilisation of the macroeconomic environment. Public expenditure reforms have seen expenditure reprioritised towards Government's broad social and economic priorities, including education, health, social security and protection services.

Policy priorities and public expenditure

Strengthening the link between Government's policy priorities and public expenditure is at the core of medium-term budgeting. Public expenditure translates Government's policy priorities into the delivery of services to communities, and is therefore a key tool for accomplishing public goals.

Implementation of medium-term planning aligned to 3-year budgeting reinforces the link between the policy choices that Government makes, its budget and the delivery of services.

In formulating the 2002 Budget, Government sought to ensure that public expenditure is directed towards social and economic priorities and transformation. Competing resource needs were balanced against the budget constraints determined by the economic environment and by macroeconomic policies in the achievement of:

?? Poverty reduction

?? Increased spending on social grants, municipal infrastructure and housing

?? An enhanced programme to address the impact of HIV/Aids

?? Strengthening the fight against crime

?? A step up in assistance to communities to improve access to affordable basic services.

Economic growth and job creation require an appropriate set of sustainable and predictable macroeconomic policies. Government has adopted a macroeconomic policy framework aimed at improving competitiveness, reducing inflation and creating a more favourable investment climate.

The 2002 Budget once again targets significant resources for investment in new infrastructure and the maintenance and rehabilitation of existing infrastructure. The purpose of infrastructure investment is to lower the costs of production, consumption, transportation, and communication. This will enhance the economy's competitiveness and strengthen the foundations on which sustainable growth is built.

Departments and provinces are encouraged to leverage in private sector investment to support this drive for infrastructure. National Treasury has published Guidelines on Public-Private Partnerships to assist identification and preparation of such projects. Well structured private involvement facilitates efficiency gains, as a result of an enhanced output focus, innovative use of assets, managerial expertise, and effective risk management.

In reinforcing long-term growth, Government's focus is on human development, with significant resources being channelled into education and training, while also seeking to ensure that the quality of spending on the development of human capital is enhanced. Skills development will gain momentum as new learnership programmes are introduced in 2002 and will form a key priority of Government in the coming medium-term expenditure period.

Government is committed to reducing inequality and promoting social development over the medium to long term. The system of social grants delivered by provincial welfare departments is the largest single redistributive programme. These grants, including old age, disability and child support grants, provide income support to more than 4 million South Africans every month. These significantly reduce the impact of poverty among people living in rural areas.

Government's land redistribution and agricultural policies are also designed to ensure that rural poverty is reduced by providing access to land, investing in rural infrastructure and broadening access to markets.

These policies and poverty reduction priorities, evident in the provision of resources to subsidise basic services, are integral parts of the new Integrated Rural Development Strategy and the Urban Renewal Strategy that Government has adopted.

Spending on public education and health services is strongly redistributive. The 2002 Budget sees Government strengthening investment in schools and prioritising programmes for early childhood learning programmes over the medium term.

Raising spending capacity and improving its quality in the justice system are also critical concerns. To the extent that crime is also a deterrent to increased investment, spending additional resources should also raise the growth and employment prospects of the economy. In addition, since crime, particularly violent crime, tends to impact disproportionately on poorer people, improving policing, justice and prisons should reduce the vulnerability of the poor.

Political oversight of the Budget

The key to strengthening the link between Government priorities and spending plans lies in enhancing political oversight of the budget process. Cabinet, supported by the Ministers' Committee on the Budget, the Budget Council and the Budget Forum, plays a leading role in guiding the alignment of resource allocation with national priorities. At the provincial level, the MECs for Finance and the Executive Councils play a parallel role in guiding the alignment of resource allocation with provincial priorities. The Budget Forum also plays a role in advising Cabinet on the resource allocation for the local sphere.

Political oversight of the budget process is essential to ensure that:

?? The political executive is responsible for policy and budget planning and prioritisation

?? Policy priorities are linked to departmental spending plans and the delivery of services

The 2003 Budget process commences with the Ministers' Committee on the Budget, the Budget Council, Budget Forum and Cabinet giving consideration to policy priorities for the new medium-term expenditure period, 2003/04 to 2005/06.

Budgeting is primarily about the choices and trade-offs that Government has to make in deciding how to meet the agreed set of policy priorities and objectives for service delivery. Political oversight of the budget process allows Government to manage the tension between competing policy priorities and budget realities. This helps to reprioritise spending and make more informed policy choices that are affordable in the medium term.

Other significant co-operative governance forums play important roles in the political decision-making and budgeting process. In particular, the sectoral MinMecs provide a joint forum for national and provincial office bearers to debate policy issues that affect both spheres of government. The local sphere participates in the process through the Budget Forum and the local government MinMec.

Budgeting for service delivery

Strengthening the link between Government's priorities and spending plans is not an end in itself. The goal is to improve delivery of services and ultimately the quality of life of people throughout South Africa.

Budgeting for service delivery is enhanced by the Public Finance Management Act (PFMA), No. 1 of 1999, which sets out a framework for modernising the financial management of national and provincial departments, government agencies and public enterprises. The Act gives managers greater flexibility while holding them accountable for the use of resources to deliver services to communities.

The 2002 Budget took a significant step forward in implementation of the financial reforms required in terms of the PFMA. The *2002 Estimates of National Expenditure* extends the scope and quality of information on Government's spending plans that is tabled in Parliament and made available to the public.

Better information on service delivery shows how public money is being spent. This is good practice in terms of transparency and accountability. It informs departmental managers, policy- and decision-makers and the public about what progress departments are making towards their objectives. It helps departments plan, budget and manage programmes better. It improves accountability and control. And it assists Government policy- and decision-makers direct funds to where they are needed most and to where they will best meet Government's priorities.

Annexure C

Integrating Strategic Planning and Budgeting

Integrating strategic planning and budgeting enhances better budgeting in the public sector. There are six key steps:

?? *Preparing strategic plans and prioritising planned objectives*

?? *Assessing costs and resource implications in preparation of the MTEF budget submission*

?? *Finalising medium-term allocations and preparing budget documentation*

?? *Developing processes to facilitate in-year monitoring and reprioritising of spending when strategic or operational plans change*

?? *Monitoring and evaluating the performance and delivery of programmes in relation to clearly defined priorities, objectives, key performance measures, indicators and targets*

?? *Finalising annual financial statements and reports that review performance and achievements against the strategic plan set out at the start of the financial year.*

These steps are inextricably linked and reinforce the benefits of integrated planning and budgeting, contributing to improved financial management in the public sector.

Reforms enhance better budgeting

The main reform introduced in 2001 was the integration of strategic planning into the budget process. Development of strategic plans and their integration into the budget process enhances better budgeting within the Medium Term Expenditure Framework (MTEF). Integrated strategic planning therefore complements and consolidates recent reforms in public finance management.

In particular, integrating strategic planning, budgeting and monitoring of service delivery performance, coupled with effective financial information and advice, strengthen the link between the services that departments provide and the benefits and costs of those services.

While integrated strategic planning poses a challenge to both the public and private sectors, it is particularly difficult in the context of medium-term budgeting. Budgeting and resource allocation processes are deeply rooted routines of government that involve the distribution of limited resources to meet competing social and economic needs.

Integrated strategic planning addresses the process and allocation of public resources in support of government's social and economic goals and priorities. As such, integration should not be viewed as a mere technical process that may be achieved through regulation. Rather, it requires a systemic approach that impacts on organisational structure, financial and performance management systems and institutional management.

This chapter aims to assist national and provincial departments in their efforts to integrate strategic planning and budgeting within the MTEF. In particular, the chapter highlights those components that impact on integration and sets out six steps that may enhance integration, contributing to better budgeting over the medium term.

Strategic planning and the Medium Term Expenditure Framework

The Medium Term Expenditure Framework provides a firm foundation for the integration of planning and budgeting:

?? Policy priorities are set in advance allowing departments to plan and budget for service delivery in line with government's agreed commitments

?? Departments plan and spend on programmes according to an agreed three-year expenditure envelope, contributing to certainties and affordability over the medium term.

In turn, aligning strategies and medium-term allocations contributes to better budgeting within the MTEF as departments and provincial governments are able to:

?? Accurately programme expenditure in line with policy implementation plans, thereby reducing requests for roll-overs

?? Forecast medium to long-term financial implications of existing and new policies

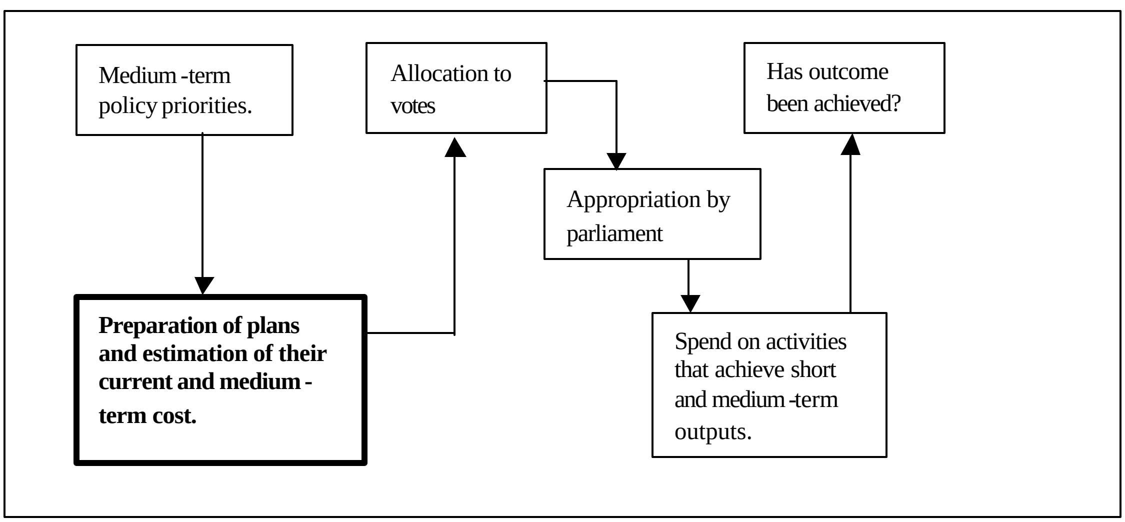
?? Implement programmes that achieve service delivery outputs in the most cost-efficient manner

?? Improve monitoring and evaluation of expenditure programmes in relation to Government's socio-economic policy priorities

The interdependency of strategic planning and medium-term budgeting is a key feature of the MTEF prioritisation and resource allocation process. It is depicted in figure 1 below.

Strategic plans and costing of activities are prepared in line with Government's medium-term policy priorities. These guide preparation of departmental budget submissions and reprioritisation within 3-year allocations. Departmental budget submissions are evaluated in line with Government's priorities and recommendations on medium-term allocations made to Cabinet or the relevant provincial executive council. Once appropriated by Parliament or the relevant provincial legislature, budget allocations may be spent on activities that achieve specified outputs in support of Government's priorities.

Figure 1: MTEF prioritisation and resource allocation process



This chapter aims to unpack the specific components and requirements of the second stage of the process illustrated above, that is, preparation of strategic plans, estimation of their current and medium-term cost in relation to medium-term expenditure allocations.

Legislative requirements

Part 3, Chapter 5 of the *Treasury Regulations, 2001*, issued in terms of the PFMA, require that strategic plans should cover a period of three years and be consistent with the medium-term baseline allocation of the institution. The Regulations also require that plans should include:

?? The measurable objectives and outcomes for the institution's programmes

?? Details of proposed acquisitions of fixed or movable capital assets, planned capital investments and rehabilitation and maintenance of physical assets

?? Details of proposed acquisitions of financial assets or capital transfers and

?? Plans for the management of financial assets and liabilities

?? Multi-year projections of income and projected receipts from the sale of assets

?? Details of the Service Delivery Improvement Programme

?? Details of proposed information technology acquisition or expansion in line with an agreed information plan

The regulatory framework, set out above, outlines the link between institutional plans and budgets. This is not sufficient to ensure appropriate integration. Institutions need to adapt their management systems, processes, and functions to ensure effective integration of strategic planning and budgeting, contributing to better budgeting and service delivery over time.

Institutional requirements

The changing roles of Operational and Financial Managers

In traditional budgeting systems financial managers frequently play the central role in allocation of financial resources. Financial decisions are often made without the manager being aware of whether these resources are spent in an efficient and effective manner. Similarly, operational managers are often uninformed of the cost of activities that they have planned and implemented.

The separation of strategic planning and policy implementation on one hand, and budgeting and accounting for expenditure of financial resources on the other, reduces the ability of government to deliver services efficiently and effectively to communities.

Successful integration of strategic plans and budgets requires that operational or line managers be held accountable for the inputs that are allocated to resource their strategic plans. Better budgeting, in terms of the PFMA, extends accountability not only to expenditure of inputs, but more importantly, to the efficient and effective achievement of outputs in line with strategic priorities.

'Letting managers manage' therefore entails considerable changes to the customary functions and responsibilities of public sector financial and operational managers, illustrated in table 1 below.

Table 1 Changing roles of financial and operational managers

	Financial Manager	Operational Manager
Accountability	The provision of financial information that assists the operational manager with the implementation of policies.	Management of objectives and activities that lead to the institutions outputs. The resources made available for this purpose, and The effective, efficient and economical achievement of these objectives.
Costing[1]	Promote costing systems and skills in order to support the operational manager in this regard.	Responsible for key decisions that relates to costing, such as, the type and quality of services to be provided.
Monitoring and evaluation	Support operational managers in monitoring & evaluating expenditure in relation to budgets and objectives.	Monitor and evaluate expenditure in relation to budgets and objectives. Monitor and interpret output and outcomes of service delivery.
Revenue and expenditure	Link revenue and expenditure to programme objectives and overall output of institution.	Take corrective management decisions where financial information reveals possible deviation in expenditure, projections and plans.
Cash flow	Manage and monitor cash flow and procurement	Provide information on cash flow implications of programme and projects.
Reports	Prepare monthly and annual reports for all of the above.	Prepare monthly and annual reports for all of the above.

These responsibilities give effect to the provisions for financial management set out in the PFMA. While the Act assigns responsibilities to accounting officers, it is expected that financial matters will be delegated to the Chief Financial Officer (CFO). In terms of the *Treasury Regulations, 200l,* all departments were due to appoint a CFO at senior management level by April 2001.

The key role of the CFO is to combine timely, materially accurate, relevant, complete and suitably presented financial results and trends, with interpretative professional advice. Meeting this challenge requires the CFO to, among others:

?? Maintain a close liaison with the accounting officer and all operational (or line) managers

?? Respond to changing needs for financial information and advice

?? Make a contribution to the financial aspects of the strategic planning process

?? Undertake output and service costing tasks

?? Meet reporting requirements, including monthly reports under the PFMA and the Division of Revenue Act, annual financial statements and annual reports.

In turn, the responsibilities set out above also give effect to enhanced accountability of operational or line managers for the use of resources and the achievement of outputs as set out in the PFMA.

Changing roles and responsibilities of financial managers and operational or line managers point to the need for closer engagement within the senior management team. In particular, integrated planning and budgeting calls for financial and operational or line managers to work more closely together, sharing critical information and feedback in a way informs and links the policies, budgets and activities of the department.

[1] Costing is a skill that managers need to acquire.

Integrating Performance Management and Financial Management Systems

A second institutional requirement for successful integration is the implementation of an appropriate performance management system that contains financial and operational management data.

Existing systems are most often designed to support financial managers as they prepare budgets, execute expenditure plans, account for and audit expenditures. Little if any interface exists with those systems that support operational managers as they prepare strategic plans and policies, select and implement appropriate interventions and service delivery programmes, and monitor and evaluate programme performance and delivery.

Development and implementation of appropriate systems or interfaces that link financial and performance management information support medium-term budgeting as departments and provincial governments are encouraged to:

?? Constrain spending within the agreed three-year expenditure envelope – *fiscal discipline*

?? Allocate and spend their resources on prioritised objectives – *allocative efficiency*

?? Promote efficiency in the use of resources – *operational efficiency*

?? Report on programme performance and delivery in respect of departmental objectives and key output performance measures and service delivery indicators – *effectiveness*

Several national and provincial departments have identified the need for further systems development to interface financial and performance management information. A number of departments, such as Defence and the Mpumalanga provincial health department have made significant progress in this regard, illustrating that systems integration, while difficult to manage, is possible.

This chapter does not attempt to detail systems integration. Rather, it suggests that successful systems development in support of integration depends critically on department level planning and implementation, guided by external support.

Integration Steps

Six key steps may be identified in the preparation of strategic plans and their integration into the budget process. These are:

?? Preparing strategic plans and prioritising planned objectives

?? Assessing the costs and resource implications in preparation of the MTEF budget submission

?? Finalising medium-term allocations and preparing budget documentation

?? Developing processes to facilitate in-year monitoring and reprioritising of spending when strategic or operational plans change

?? Monitoring and evaluating the performance and delivery of programmes in relation to clearly defined priorities, objectives, key performance measures, indicators and targets

?? Finalising annual financial statements and reports that review performance and achievements against the strategic plan set out at the start of the financial year.

Before engaging in extensive strategic planning exercises, departments should undertake a careful examination of Government's overarching socio-economic policy priorities and medium-term spending plans. This helps to frame and contextualise the preparation of strategic plans and their integration into the budget process. The pre-planning exercise should examine:

?? Government's overarching medium-term policy and expenditure priorities

?? Alignment of the departmental strategic mission to these overarching priorities

?? Relevant and effective contribution of departmental outputs towards Government's socio-economic goals and desired outcomes

The exercise locates and positions departmental strategic planning exercises and their integration within the broader strategic policy prioritisation process. Consistency between overarching

Government policy priorities and departmental strategic plans contributes to more appropriate allocation of resources at the sector and programme level, and therefore more effective delivery of services to communities.

Alignment of departmental strategic plans to broader Government strategic priorities is in accordance with Government's planning framework for managing policy priorities within the context of a broader Medium Term Strategic Framework. The planning framework aims to link policy, planning and budgeting frameworks and processes for government as a whole.

Step 1: Preparing strategic plans and prioritising planned objectives

Preparing strategic plans and prioritising planned objectives are the first steps towards integrating strategic planning and budgeting.

What is strategic planning?

Strategic planning charts the direction of a department or institution over the next three (to five) years, while the medium-term budget allocation provides the resources to implement the plan.

Planning guides the budget process as it establishes key areas, objectives and strategies on which a department or institution should focus in support of Government's medium-term policy priorities. It sets out an explicit map that guides a department or institution towards achieving its goals and objectives by focusing on organisational purpose, objectives, structure, expenditure programmes, available resources, deliverable outputs, and output performance measures or service delivery indicators and targets.

Strategic planning should not be confused with operational planning, which is directed at specific short-term objectives and contributes to the implementation of the strategic plan in the first year.

Planning informs budget preparation

Strategic planning and prioritisation are the starting point for preparing departmental medium-term expenditure estimates as they guide departmental reprioritisation within medium-term baseline allocations and provide the rationale for policy options for changes to baseline allocations over the next 3-year period.

Planning and budgeting are interactive. Planning guides preparation of the MTEF budget submissions that are submitted to the relevant treasury at the end of June each year. Departmental budget submissions are evaluated in line with Government's priorities and recommendations on medium-term allocations made to Cabinet or the relevant provincial executive council.

Once departments or institutions have received their final medium-term allocations in November, more detailed strategic and operational (first year) plans may be prepared within their approved medium-term allocations. These are tabled before Parliament or the relevant provincial legislatures within 15 working days after the Minister or relevant MEC for Finance has tabled the annual budget.

Strategic planning process

The process of preparing a strategic plan and prioritising objectives is set out in figure 2 below. The flowchart draws attention to the interactive link between planning and budgeting.

Before engaging in strategic planning exercises, it is important to review performance or service delivery monitoring and evaluation results of the previous period. These results provide feedback for strategic planning for the new medium-term expenditure period.

Assessing service delivery performance against targets and examining departmental strategic objectives against broader Government policy and spending priorities frame the following queries:

?? Are departmental strategic objectives and planned outputs aligned with the core functions and mandates of the department?

?? Are planned outputs and deliverables still relevant?

?? Have service delivery commitments and targets been met?

If there is a high degree of alignment between:

?? Government priorities and departmental objectives and outputs

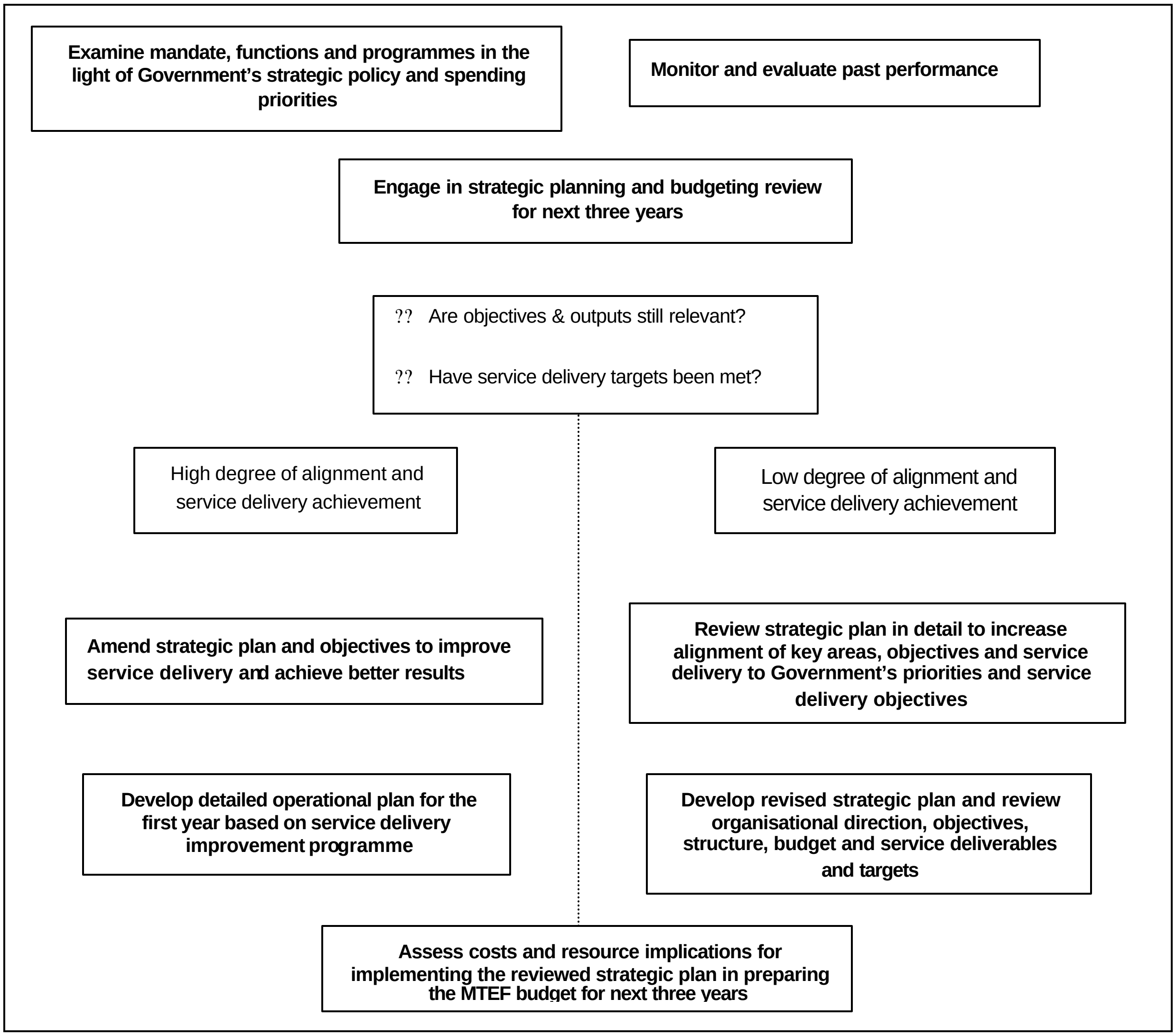
?? Service delivery performance against targets

Then the department or institution should explore whether strategic plans and objectives might be updated to improve service delivery and achieve better results over the next three years. Detailed operational planning for the first year of the strategic plan is useful to develop an 'action' or service delivery improvement programme to achieve service delivery goals and targets.

If there is a low degree alignment, *then* the department or institution is advised to review its objectives, strategies, structure, capacity, outputs, service delivery measures and targets and available budget in detail against Government's medium-term policy and spending priorities. The available budget affects what may be achieved and helps set priorities for resource allocation and service delivery objectives and targets.

The final stage in the process is to assess the cost and resource implications of the revised strategic plan in terms of the departmental medium-term budget allocation. This may lead to significant reprioritisation of the medium-term budget to support achievement of the best possible results within the available budget.

Figure 2: Strategic planning process



The Department of Trade and Industry provides an interesting case study of a department which undertook an extensive strategic planning and budgeting review over the past year, responding to the challenge to develop an action plan that stimulates economic growth and development in South Africa.

> Government's economic action plan to stimulate growth of the South African economy was emphasised in the President's 2001 State of the Nation Address: "While continuing to focus on the maintenance of the correct macro-economic balances, we have decided to pay detailed attention to the critical micro-economic issues."
>
> Taking a cue from the Presidential focus on the economy, senior management of the Department of Trade and Industry undertook an extensive strategic planning exercise to align the department's strategies, programmes and outputs in line with Government's economic agenda and priorities.
>
> Led by the Director General, senior programme managers and the financial management team rigorously examined departmental policies, programmes organisational structure and budget allocations.
>
> The strategic review led to substantial departmental restructuring. Five new divisions were created. These focused on domestic investment, regulatory support, small business promotion, economic empowerment and industrial strategy.
>
> Each of these divisions was assessed in terms of their *strategic priority (contribution to the value chain)*, *product ranges and product outlets.* The *value chain* and *product outlets* are terms that are commonly used by the private sector in the analysis of each organisational component to determine its contribution (value) towards the final product (output). This type of analysis facilitates detection of organisational weaknesses that may adversely affect the final product. In the Department of Trade and Industry exercise, *product outlet* refers to a provincial office or public entity where the services and products of the Department are delivered.
>
> The exercise enabled senior managers of the Department of Trade and Industry to identify critical operational areas that may require strategic interventions and/or additional resources in order to improve service delivery within the Department.
>
> A further prioritisation exercise ranked each of the divisions in terms of SMME support, domestic investment, regional development, empowerment, regulatory support and the capacity to deliver.
>
> The five divisions submitted their bids for funding within the confines of the available MTEF budget, and these were evaluated in terms of the stated criteria. Additional requests above baseline were initially obtained through reallocation. Funding shortfalls for new objectives were presented as *options* in the 2002 budget submission.
>
> In summary, the strategic planning process undertaken by the Department of Trade and Industry illustrates the value of strengthening the link between Government's priorities, departmental strategic planning and the allocation of resources.

Step 2: Assessing costs and resource implications in preparing MTEF budget submissions

The second step calls for the department or institution to assess the costs and resource implications of the revised strategic plan against the medium-term budget allocation. This informs preparation of the departmental budget submission that is submitted to the relevant treasury at the end of June each year in preparation of the Budget the following February.

What is an MTEF budget?

The Medium Term Expenditure Framework (MTEF) details 3-year rolling expenditure and revenue plans for national and provincial departments. The MTEF matches the overall resource envelope, estimated through 'top-down' macroeconomic and fiscal policy processes, with the bottom-up estimation of the current and medium-term cost of existing departmental plans and expenditure programmes.

Preparing the MTEF budget submission

Preparing the departmental MTEF budget submission involves bottom-up estimation of the costs and resource implications of the revised departmental strategic plan in relation to the medium-term budget allocation.

Costing the revised strategic plan may require a combination of incremental costing (or budgeting) of existing policies and zero-based costing (or budgeting) of new policies or programmes.

Incremental costing (budgeting) starts from the present baseline budget of the programme or activity. It asks whether this is best increased, reduced or left the same in order to attain the programme's objectives subject to the available budget. For example, if a programme is processing 50 000 applications a year, would the department's overall objectives be served best if that number were increased to 55 000 – reducing spending on other activities – or if it were reduced to 45 000 – releasing resources to be spent elsewhere? Or – assuming the output was left at 50 000 applications – is there a way of cutting costs or of getting a better quality, more useful product by increasing spending on the programme?

Zero-based costing (budgeting), on the other hand, takes an in-depth look at a programme or activity, evaluating the type and quantity of output produced and how those outputs are attained. This involves questioning the amount and type of inputs that support the programme or activity and re-assessing them as if starting from a blank sheet of paper – from "zero" as it were.

Incremental costing (budgeting) is most often used when estimating the costs of existing policies and programmes for the new medium-term expenditure period. Incremental costing relies on estimation based on the cost drivers of the policy or programme. *Cost drivers*, examples of which are illustrated in table 2 below, are factors that influence changes in the costs of a particular programme or activity over time. Managers may need to update information on the relevant cost drivers to estimate the costs of the policy or programme for the new medium-term expenditure period

Table 2: Cost drivers in the health, education and land sectors

Sector	Cost driver	Influencing factors
Health	Number of patients treated	Demographic cost drivers are influenced by factors such as population growth or decline or geographical migration, to name a few
Education	Teacher/Pupil ratio	Changes in education policy and demographic factors contribute to shifts in the teacher:pupil ratio
Land	Number of urban restitution claimants offered a settlement package	Pressure for redress is influenced by government prioritisation, pressure by affected citizens, and delivery capacity

When significant increases in the output of existing policies are planned, closer examination of implementation strategies, using zero-based costing techniques, may be necessary. Hard budget constraints may prevent increases in funding in relation to expected increases in output or service delivery. In this instance, the department or institution should explore more cost-effective implementation strategies that are able to achieve the same results at a lower estimated cost.

Unlike costing of existing policies, costing of new policies, legislation and programmes most often relies on zero-based costing (budgeting) techniques. Costing new policies, legislation and programmes is essential to assess:

?? Budgetary and expenditure implications for all affected stakeholders over the medium to long term

?? Cost-effective achievements of the desired results in comparison to alternative policies, programmes or implementation strategies

?? Net benefits or results that justify the expenditure of additional resources over the medium-term.

The costing should be dynamic, taking into account the resource implications and cost-savings over three years or longer. All direct and indirect costs and that of any new capital or non-recurrent costs and operating costs required to provide the output specified by taken into account.

The method of costing and identified risks (for instance, planning and implementation risk on a capital project) that may impact on expenditure and service delivery should be described in detail in the costing report.

The costing should also identify any interdepartmental linkages that implementation of the new policy or programme would require. These may include:

?? Complementary expenditure programmes (or savings on such) in other departments, agencies, provincial or local government

?? The views of stakeholders, including provincial and local government, other departments, agencies, public entities, which may be affected by implementation of the option

?? Elements or activities of the new policy or programme which involve transfers to other bodies, such as provinces, local government, public entities, agencies, commissions or non-governmental organisations.

The recent costing of the Child Justice Bill, described in the textbox below, is an innovative exercise that assesses the direct and indirect costs of implementing new legislation and policies that address children in conflict with the law. The Bill has been subject to rigorous economic evaluation with a view to ensuring that its core implications are fully understood and accommodated in budgets before statutory commitments are made. Costing of new policies is likely to be emphasised in future, as it is key to prioritising, planning and implementing policy initiatives in an affordable and sustainable manner.

Costing implementation of new policies: The Child Justice Bill

In recent years, South Africa has made significant progress in drafting legislation and developing appropriate policies aimed at socio-economic redress and transformation. Numerous legislative acts and policies have been drafted and promulgated in the challenge to transform the socio-economic landscape.

Few, if any, however, have been costed to assess the resource implic ations of implementation. This has contributed to fragmented and ineffectual implementation of key legislation and policies aimed at improving the quality of life of people across South Africa.

In an effort to facilitate effective implementation of new legislation, the South African Law Commission recently requested an assessment of the costs and budgetary implications, including potential cost-savings and other benefits of implementing the proposed Child Justice Bill.

The Child Justice Bill aims to introduce an explicit focus on restorative justice in the way children in conflict w ith the law are treated and managed within the integrated justice system. In particular, the Bill introduces preliminary inquiry and assessment of the case and the wider use of diversion out of the criminal justice system and alternative sentencing.

The costing, undertaken by AFReC, explores and compares the costs and restorative justice outcomes of the current system as opposed to the new system proposed by the Child Justice Bill.

The costing methodology relies on two kinds of variables: process and cost variables. *Process variables* refer to the nine stages that children in conflict of the law are taken through in the integrated justice process. The stages include police action w ith respect to children in conflict with the law, prosecution, preliminary inquiry, trial,
pre-sentencing, sentencing, serving sentence and the appeal or review stage. Each stage is a potential cost driver, the cost of which is influenced by the number of children in the system.

Cost variables refer to key elements or cost-drivers of each activity. These include average time, average personnel cost, the distance travelled and cost per child processed in each of the nine stages.

The costing exercise generated scenarios to compare the costs of the current child justice system with that proposed by the Child Justice Bill. The scenarios facilitated comparative analysis of the expected process outputs of the existing and new child justice systems, including the number of children likely to be diverted out of the system or sentenced to prison, and the likely expenditure at each stage for each scenario.

Policy implications of the comparative analysis are significant. While the extent of projected savings across the integrated justice sector is questionable, the costing does highlight the impact of reprioritisation of resources w ithin the sector on improving efficiency and effectiveness of expenditure in relation to juvenile justice outcomes in the medium to long term. [2]

Costing of existing and new policies and service delivery programmes set out in the revised strategic plan informs preparation of the departmental MTEF budget submission. This step sees the joint operational and financial senior management team reviewing the resource and expenditure implications of the revised departmental strategic plan in relation to the available budget. Where estimated costs exceed available resources, senior management may decide to:

?? Plan more cost-effective implementation strategies

?? Reprioritise resources to priority programmes and/or objectives within the medium-term baseline allocation

?? Discard certain low priority programmes or objectives

?? Present changes to baseline that result from increases in output or creation of new policies as an *option* in the main budget submission.

An option sets out a possible change to a department's medium-term baseline allocation that is related to strategic priorities of the department. The option may increase or reduce the baseline allocation – or even increase/ reduce/ leave it unchanged in different years.

2 Barberton, C. with Stuart, J. (1999), Costing the Implementation of the Child Justice Bill: a Scenario Analysis, AFReC Monograph No. 14.

An option may, for example be:

?? A proposal for a new policy that cannot be accommodated within the baseline allocation or would lead to a reduction in the baseline allocation required

?? A proposal for a change in the level of output associated with an existing programme or subprogramme which changes the baseline allocation

?? A rephasing of a programme or a project, which sees an increase in the baseline in some years and a reduction in others

?? A saving, for example, from greater efficiency (due maybe to implementation of a public - private partnership), or from discarding a (sub)-programme that is no longer a priority

Before submitting an option, departments should examine their existing baseline medium-term allocations and priorities carefully to determine whether the option could be accommodated though careful reprioritisation of their existing allocation.

Format of budget submission

Departments and institutions are responsible for preparing their MTEF budget submissions in the format prescribed by the relevant treasury's annual budget circular or guidelines to departments.

This is a key stage in the budget process as it determines the quality and extent of information provided to the budgetary decision-makers. It is important, therefore, that departments prepare and present the best possible policy, budget and service delivery information in their MTEF budget submissions.

The format emphasises integrated strategic planning, budgeting and monitoring of service delivery performance. Strategic planning guides departmental reprioritisation within medium-term baseline allocations and provides the rationale for policy options regarding changes to baseline allocations over the next three-year period. Information on service delivery trends and achievements shows how departments and institutions translate budgeted resources into outputs and service deliverables. Service delivery progress and achievements measured against strategic priorities and service delivery targets will form a greater emphasis of MTEF budget submissions in future.

Step 3: Finalising MTEF allocations and preparing budget documentation

Departmental MTEF budget submissions are submitted to the relevant treasury at the beginning of August in preparation of the Budget the following February. The third step describes the process followed in finalising medium-term allocations to departments and preparing budget documentation ahead of Budget Day.

Review of submissions

The budget process in July and August sees treasury spending teams and budget examiners engage in rigorous review and evaluation of departmental MTEF budget submissions in regular consultation with departments. This includes negotiation of allocations, reprioritisation and funding levels of programmes, including savings therein, and critical assessment of policy options against departmental strategic priorities and service delivery achievements.

Medium-term allocation process: Recommendation stage

The Medium Term Expenditure Committee (MTEC) hearings and discussions at national and provincial level between September and October marks the beginning of the allocation stage. The MTECs are technical committees that formulate recommendations to executive decision makers on the changes to the medium-term allocations of departments, given the division of revenue between the three spheres of government.

Budgeting within a three-year framework strengthens the credibility of the medium-term baseline allocations that departments receive. The MTEC hearings and discussions are therefore focused mainly on reprioritisation within baseline allocations and allocations for the third year of the medium-term expenditure period.

The MTECs make recommendations to the Minister of Finance or the relevant MEC for Finance on changes to the 3-year allocations for departments, taking into account:

?? Government's broad policy and spending priorities for the next three years, guided by political discussion at the start of the budget cycle

?? Departmental strategic priorities and plans and progress in meeting service delivery objectives and targets

?? The estimated change to the national and provincial shares based on the preliminary macroeconomic and fiscal framework and the division of revenue between the three spheres of government.

Medium Term Budget Policy Statement

The Minister of Finance tables the *Medium Term Budget Policy Statement* (MTBPS) before Parliament at the end of October each year.

The MTBPS is a significant step forward in public transparency and accountability as it sets out Government's medium-term macroeconomic and fiscal position and its broad policy and spending priorities over the next 3-year period four months before the detailed Budget is presented to Parliament. Parliament and the public are therefore able to actively engaged with Government's medium-term priorities and spending plans even though they are not involved in compiling the actual Budget itself.

Medium-term allocation process: Decision stage

In November, following the tabling of the MTBPS in Parliament, the Minister of Finance reviews the recommendations of the Medium Term Expenditure Committee on changes to the 3-year allocations of national votes, and tables these before the Ministers' Committee on the Budget.

Simultaneously, the Minister of Finance reviews the final allocations to provincial and local government and tables these before the Budget Council and the Budget Forum.

The recommendations of the Ministers' Committee on the Budget, the Budget Council and the Budget Forum are submitted to Cabinet for further consideration.

Cabinet's consideration on changes to the MTEF allocation of national votes, provincial and local government takes account of Government's overarching medium-term policy priorities, departmental strategic priorities and plans, and progress in meeting service delivery objectives and targets.

Final MTEF allocations are set out in Treasury allocation letters to departments and provincial treasuries in mid November. These detail the rationale and conditions of the final allocations for national votes and provinces for the new medium-term expenditure period.

Preparation for the Budget

The final stage of the budget process involves preparation of the budget documentation that the Minister of Finance tables before Parliament on Budget Day and the budget documentation that provincial MECs for Finance table before provincial legislatures. The Budget that the Minister for Finance or the MEC for Finance has proposed is taken thereafter through a legislative process that reviews, analyses and discusses Government's proposed spending plans, service delivery objectives and targets in relation to stated Government priorities over the medium-term period.

Departments play a significant role in the preparation for the budget stage, drafting and finalising budget documentation in collaboration with the national and provincial treasuries.

At the national level, departments are responsible for submitting the first draft of the relevant departmental chapter for the *Estimates of National Expenditure* and working with national Treasury spending teams and budget examiners to finalise the documentation.

The new national budget format, the *Estimates of National Expenditure* outlines departmental strategic priorities, policy developments, legislation and other factors affecting expenditure alongside departmental spending plans. Details of departmental outputs, measurable objectives, output performance measures or service delivery indicators and targets are provided as another step towards setting "measurable objectives" in line with the Public Finance Management Act.

The *Estimates of National Expenditure* follows a similar format to that of the MTEF budget submission. As such, it emphasises integrated strategic planning, budgeting and monitoring of service delivery performance. And similarly, service delivery progress and achievements measured against strategic priorities and service delivery targets will form a greater emphasis of budget documentation in future.

Step 4: Monitoring and reprioritising spending when plans change

The first three steps, detailed above, focus on integrating strategic planning and budgeting in the forthcoming medium-term expenditure period ahead of the Budget that is tabled in Parliament in February each year. The new financial year of Government starts on 1 April each year, signalling the implementation of the first year of the medium-term budget. Step four gives attention to the expenditure "in-year" of the medium-term budget and the related strategic and operational planning decisions that impact on resource allocation.

Letting managers manage

Managers often misinterpret 3-year MTEF budgets to be rigid expenditure plans that may not be amended to reflect changing strategic and operational plans. Misguided rigidity within medium-term budgeting contributes to underspending and high rollovers that may have been avoided with early detection and management intervention.

Allowing managers to manage within the ambit of the PFMA should also permit them to utilise resources in a way that best supports their departmental objectives. A greater degree of flexibility enables managers to monitor in-year expenditure and reprioritise resources in line with changes to strategic and operational plans.

The Public Finance Management Act ushers in a suite of public sector reforms that enhance managerial flexibility and accountability with regard to the use of public resources. Managers have the flexibility, within the confines of public sector law, to produce outputs that will address Government's priorities. This includes monitoring in-year expenditure trends and reprioritising resources in line with changing strategic or operational plans.

In-year monitoring and reprioritisation

The PFMA emphasises the importance of regular monitoring and reporting of departmental spending and delivery performance against expenditure plans and service delivery targets. While the Act specifies regular monthly management reports for submission to the executive authority and to Treasury, the primary purpose of these reports is to assist managers to discharge their responsibilities.

The national Treasury guide on in-year management, monitoring and reporting requirements of the PFMA is aimed at assisting managers improve the quality of information that is available to them.

The specified formats for monthly reporting require managers to indicate and explain variances between the actual result for the period and that budgeted, and a revised projection of expenditure to the end of the financial year.

Being able to respond proactively to changes in strategic and operational plans or in response to certain events requires that managers ask themselves three key questions of in-year monitoring. These are:

?? What has happened so far?

?? In the light of what has happened so far, what is likely to happen to the plan for the rest of the financial year?

?? What actions, if any, need to be taken to achieve the agreed plan?

The in-year monitoring, management and reporting format gives effect to sections 30 and 43 of the PFMA. Section 43 enables an accounting officer to utilise a saving under a programme (main division) towards the defrayment of excess expenditure under another programme, without prior approval of the legislature, provided that the amount transferred does not exceed eight per cent of the appropriated amount in the main Appropriation Bill. In terms of section 30(2)(f) of the PFMA, shifting of funds between programmes must be reflected in the Adjustments Estimate.

In terms of section 30(2)(f) of the PFMA, the Adjustments Estimate may provide for further shifting of funds (unlimited) between and within votes, *for approval by the legislature*.

After the finalisation of the Adjustments Appropriation Bill, the accounting officer may again shift up to eight per cent of savings under a programme to defray expenditure under another programme. The shifting of funds should be reflected in the annual financial statements, which are tabled in the legislature for discussion.

In-year monitoring, management and reporting processes are illustrated by the response of the Department of Land Affairs to expenditure monitoring and policy changes in the land restitution and redistribution programmes in 2000/01.

Manage, monitor and reallocate: Department of Land Affairs

The Department of Land Affairs is the key agent responsible for developing and implementing South Africa's land reform programme.

Land reform comprises three focal areas. *Restitution of land rights* restores land and provides suitable compensation to victims of forced removals. *Redistribution of land* makes land available to individuals or communities for ownership or settlement. *Tenure reform* enables individuals or communities to gain legal tenure of land.

In July 2000, following the land crises in Zimbabwe, coupled with the slow pace of restitution, land claimants and non-governmental organisations placed the Department of Land Affairs under substantial pressure to increase land delivery in both the restitution and redistribution programmes.

A combination of factors, including the stabilisation of leadership within the Commission on Restitution of Land Rights, created the possibility for substantial increases in restitution delivery that would have extended expenditure beyond the baseline allocation of the restitution programme for 2000/01.

Pressure on the restitution programme coincided with estimated underspending of over R100 million on the land redistribution programme due to the review and development of the new policy for land redistribution.

Following extensive negotiations amongst senior managers and discussions with the Minister for Agriculture and Land Affairs, interim departmental approval made the saving on the redistribution programme available for expenditure on restitution, subject to the fulfilment of prescribed requirements.

The line manager for the restitution programme worked intensively to determine the estimated costs of the envisaged increase in output in restitution delivery, and therefore the percentage of the saving could be effectively utilised. The exercise involved an examination of restitution claims that were at an advanced stage and where agreement had been reached with all affected parties. The initial result indicated that an amount in excess of R250 million would be needed if all claims falling within the identified criteria were settled.

Further prioritisation was undertaken using criteria prescribed by the Restitution Act, and a request for additional expenditure of R114 million was submitted to the senior managers, the Director General, and the Minister. Based on the detailed submission, the Minister and Department of Land Affairs recommended to Treasury that R114 million be transferred from the redistribution programme to restitution.

As the amount of R114 million represented 41 per cent of the appropriation for the redistribution programme, the recommendation was presented to Treasury Committee and thereafter to Parliament for approval in the 2000 Adjustments Estimate. The amounts were appropriated in December and made available for expenditure in the last quarter of the 2000/01 financial year. The additional allocation was fully spent by the restitution programme, in line with the Department's commitment to accelerate land restitution.

The experience of the Department of Land Affairs illustrates that reprioritisation and changes in the operational plan of a department should drive in-year reallocation of expenditure in the same way that policy prioritisation drives allocation of resources when developing the department's medium-term budget.

It is important, however, that while procedures for the shifting of funds exist, adhoc and arbitrary reallocation of funds should be avoided as this creates uncertainty and confusion with departments and negatively affects service delivery.

Step 5: Measuring performance and service delivery

The fifth step in the integration of strategic planning and budgeting centres on monitoring and measuring performance and service delivery achievements against departmental or institutional strategic priorities and service delivery targets.

Whilst the PFMA focuses on financial reporting, accounting officers are expected to include non-financial information to the executive authority on a quarterly basis from April 2002. This facilitates a focus on performance against budget and against service delivery plans, and will alert the managers where corrective action is required. The onus to take such actions is placed on managers themselves and not on the relevant treasury. Greater managerial responsibility and accountability is therefore accompanied by a move away from the micro-control, which required even mundane matters to be referred to Treasury.

Service delivery information and performance measures were first introduced in the 1999 Budget. The *1999* and *2000 National Expenditure Surveys* set out the policy and aims of national departments; budgeting and spending trends over a seven-year period, including medium-term expenditure estimates; and indicators of services delivered by national departments. The *1999 Intergovernmental Fiscal Review* detailed similar information on provincial spending and service delivery trends.

The *2001 Estimates of National Expenditure* enhances the scope and quality of budget documentation. Policy developments, legislation and other factors affecting expenditure are outlined alongside departmental spending plans. Details of service delivery indicators and output or performance measures represent further progress towards tabling "measurable objectives" for each expenditure programme, in line with the PFMA.

Monitoring and measuring performance and service delivery is a key element of medium-term budgeting. Better information on service delivery shows how public money is being spent, complementing financial information for monitoring and reporting purposes. This is good practice in terms of transparency and accountability, and assists Government direct funds to where they are needed most and to where they will best meet Government's service delivery priorities.

Monitoring and measuring performance and service delivery progress should not be viewed only as an exercise prescribed by legislation. The process provides valuable information to managers, contributing to better planning and budgeting within departments and enhancing service delivery to communities. Monitoring and measuring performance benefits integrated strategic planning and budget as it:

?? Provides invaluable feedback for the next round of departmental strategic and operational planning

?? Alerts managers to where corrective action is required to ensure service delivery targets are met

?? Facilitates assessment of the impact of departmental outputs and service deliverables on Government's key socio-economic priorities and objectives

Step five focuses on the final stage of integrating strategic planning and budgeting. Emphasis is placed on the need to ensure that output performance measures and service delivery indicators are developed as integral parts of the planning and budgeting process, and that the systems and processes can provide the relevant information.

Figure 3 below illustrates the relationship between inputs, outputs and outcomes in the planning and budgeting process:

?? *Inputs* are the resources, such as labour, materials, equipment and supplies that are used to produce outputs

?? *Outputs* are the final goods and services produced or delivered to external clients or customers

?? *Outcomes* reflect the socio-economic effects or results achieved by producing the outputs or group of outputs, for instance reducing crime or poverty

The relationship or link between inputs, outputs and outcomes maybe described in terms of:

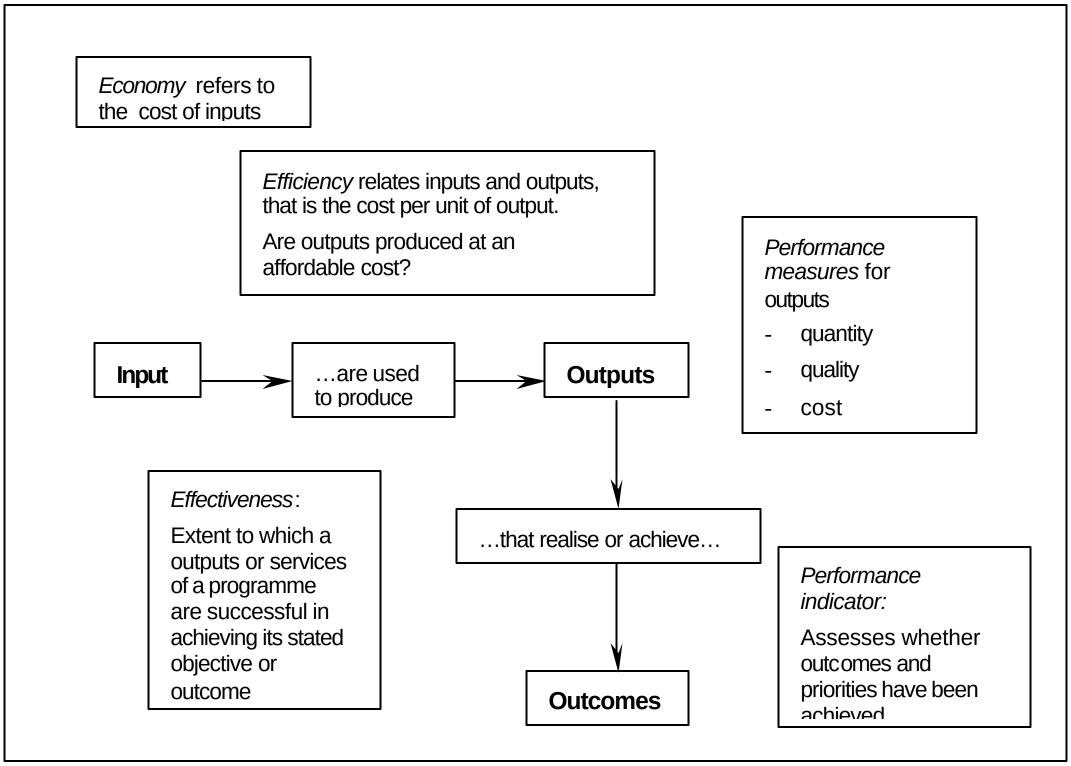
?? *Economy*, which refers to the cost of the inputs that are used to produce outputs

?? *Efficiency*, which relates inputs to outputs, that is the cost of the inputs used per unit of output

?? Effectiveness, which illustrates the extent to which the outputs or services of a programme are successful in achieving stated objectives or priorities.

These aspects are important interdependent elements of monitoring and measuring service delivery and performance. In particular, *output performance measures* and *service delivery indicators* play a key role in planning and budgeting as they are used to measure and assess how efficiently, economically and effectively resources are used to achieve departmental strategic priorities and service delivery targets. *Outcome performance measures and indicators* complement output performance measures and service delivery indicators as they assess whether the outputs produced have achieved the desired socio-economic effects or results.

Figure 3: Measuring performance and monitoring service delivery progress



Output performance measures can be organised into the following characteristics or dimensions of performance[3]:

?? The *quantity*, volume, or level of outputs or services to be delivered

?? The *quality* at which the outputs are to be delivered

?? The *cost* of supplying the outputs

?? The *timeliness* or timing required for delivery of the outputs

The specific output measures or characteristics applied will differ according to the nature of the outputs measured. Certain outputs are better measured by quantitative measures while others should rather be measured using qualitative measures. Some outputs may have measures that balance all four dimensions of performance, described above.

Developing performance measures

Developing suitable performance measures is a complex task. Drawing from the departmental strategic plan, managers should:

?? Agree on the results that the department or institution intends to achieve

?? Decide on the outputs that are to be measured

?? Set realistic output performance targets against which to measure achievement

?? Determine the process and format of performance reporting

?? Establish processes and mechanisms to facilitate corrective action when required

[3] KwaZulu-Natal Provincial Treasury, 2000, Measuring Performance and Service Delivery: A Guideline for use by Departments in the KwaZulu-Natal Provincial Government

Some managers are experienced at developing and using performance measures. For many managers, however, performance monitoring and measurement are new activities which require learning and practice in 'getting it right'.

A guide[4] to selecting performance measures is that they should be:

?? *Simple*, *clearly expressed* and *specific*

?? *Relevant* and *reliable*, that is the measure should be strongly related to the output that it is intended to measure and not used simply because information is readily available

?? *Economic* and *easily measurable* – there should be easy access to and availability of regularly updated data for the measure at reasonable cost

?? *Adequate* and *manageable* – while, selecting a few good measures to monitor is better than selecting too many, it is important that the measures chosen provide a *sufficient* basis for assessment of performance

?? *Monitorable*, that is the measure should be amenable to independent scrutiny, thereby enhancing accountability of performance

An example of output performance measures and targets for the housing subsidy scheme is set out in table 3 below. The example reflects the five criteria of developing and selecting good performance measures, outlined above.

Table 3: Example of output performance measures and targets

Programme	Sub-programme	Objective	Output	Measure
Programme management	Housing subsidy scheme	Implement the housing normalisation programme at provincial and local level in order to achieve the phasing out of old housing subsidies by December 2002.	Provincial and local implementation strategies in place.	A 50% phasing out of the old housing subsidies listed on provincial housing databases

An important consideration in developing and selecting performance measures is that the rule of *"one size fits all"* does not apply. As mentioned, the specific performance measures applied will differ according to the nature of the outputs measured. This contributes to varying emphasis on the dimensions of quantity, quality, cost and timeliness for selected measures. It is more important that managers clearly understand departmental strategic objectives and supporting policies and their relation to planned outputs when developing and selecting output performance measures.

Step 6: Finalising annual financial statements and reports

The sixth and final step takes a look at the process of finalising year-end financial statements and the annual report, completing the accountability cycle.

The annual report should 'fairly present' the department's state of affairs, financial results and position at the end of the year. It reviews performance and achievements against the plan approved by the legislature at the start of the year. It includes the year-end financial statements of the department, together with its achievements against the output performance measures or service delivery indicators and targets agreed at the time of the budget. The report should also quote the 'audit' opinion of the Auditor General, based on the external audit. These requirements and linkages are set out in the national Treasury guideline on preparing annual reports.

[4] Schiavo-Campo, S and Tomamasi, D: Strengthening "Performance" in Public Expenditure Management, Asian Development Bank

Year-end financial statements are to be prepared accounting standards, which will be defined by the Accounting Standards Board. Until then, the *Treasury Regulations, 2001* specify that departments should prepare a set of cash-based statements, including a balance sheet, income statement, cash flow statement, and notes to the annual financial statements. The statements should be accompanied by the audit opinion of the Auditor-General. The Accountant-General has issued guidelines and a series of practice notes, dealing with such matters as the closure of accounts that will assist departments in preparing year-end financial statements.

The PFMA reduces the period for the submission of year-end financial statements to the Auditor-General for auditing and to the relevant treasury to prepare consolidated financial statements to two months. The accounting officers is thereafter required to submit the annual report, including audited year-end financial statements and the Auditor-General's report on these statements within five months of the end of the financial year. The reduced timeframes will enhance accountability and will result in actual figures and performance information being available in time to influence the strategic planning and preparation of budget submissions in the next budget cycle.

Once published, the annual report will be tabled in the relevant legislature, and will be available for scrutiny by the relevant public accounts committee. Portfolio Committees should also consider the annual reports of departments to ensure that accounting officers address any issues raised in the audit report or any recommendations of the public accounts committee.

Completing the accountability cycle

The six steps outlined above take departmental management teams through the complete accountability cycle from developing 'forward looking' strategic plans and medium-term budgets to implementing expenditure plans, monitoring and measuring service delivery and performance and compiling 'past review' annual financial statements and reports.

These steps are inextricably linked, reinforcing the benefits of integrated planning and budgeting and contributing to improved financial management in the public sector.

Annexure D

Costing

Various costing techniques are used in the public sector in order to determine reasonably accurate information of expenditure at different levels of the institution. The more common costing techniques that have been employed are:

?? *Zero-based costing*

?? *Incremental costing, and*

?? *Activity-based costing*

Each of these is applicable to various situations and should not necessary replace the other because it is fashionable to do so. The decision to use either or a combination of the three should be applied only when all related factors pertaining to the policy or programme is taken into account.

A choice of costing techniques

The budget process leading to the 2003 Medium Term Expenditure Framework will require that departments develop accurate estimates of the costs of their revised strategic plans. To assist departments in this regard, a choice of three costing techniques is discussed in this section. The technique that is chosen and how it is applied will depend on relevant capacity, the type of programme being analysed, the presence of supporting legislation and systems, and also the availability of historical costs. The choice and application of costing techniques should therefore be taken only once the context that is briefly described in table 1 is fully examined:

Table 1: costing options

	Zero-based	**Incremental**	**Activity-based**
Best suited for:	New policy	Increase in existing output	– Reengineering workflows – Implementing cost-efficiency strategies
Information req. (cost)	Historical costs. Will require the development of activity unit costs.	Historical cost information	Baseline information on a wide range of departmental strategies, policies, programmes, etc.
Financial system requirements	Line item combined with programme and sub-programme budget information	Line item combined with programme and sub-programme budget information	System that supports full-cost of outputs and activities
Capacity req.	Programme & financial managers	Programme & financial managers	Accounting knowledge and/or contracted consultants.
Accounting system	Cash based	Cash based	Accrual

Specific departmental requirements will also impact on the costing technique employed and is likely to differ between departments that provide administrative services and policy advice, and those that produce quantifiable outputs. It is highly likely that the technique that is applied will be a combination of the three.

This annexure provides an outline of zero-based, incremental and activity-based costing techniques and practical steps that can be used when developing an estimation of the financial implications of new resource requirements. It also describes **Worksheet 1**, which must be completed by departments that submit options.

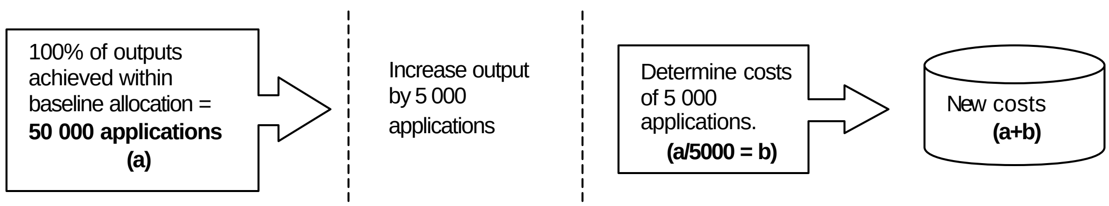
Techniques to cost new policy and legislation will not be covered at this stage. Many departments have used external consultants for this purpose and certain groundbreaking costing work has been undertaken to facilitate further developments in this regard. To complement existing projects, National Treasury plans to undertake a comprehensive study this year that is aimed at developing an appropriate costing model.

Costing techniques

Costing techniques used in the public sector range from zero-based and incremental through to the more modern approach of activity-based costing. A brief description of each of these methods will be provided in this section.

Incremental costing (budgeting) starts from the present baseline budget of the programme. It asks whether this is best increased, reduced or left the same in order to attain the programme's objectives subject to the available budget. For example, if a programme is processing **50 000 applications** a year, would the department's overall objectives be served best if that number were increased to 55 000 – reducing spending on other activities – or if it were reduced to 45 000 – releasing resources to be spent elsewhere? Or – assuming the output was left at 50 000 applications – is there a way of cutting costs or of getting a better quality, more useful product by increasing spending on the programme? This is further illustrated in diagram 1.

Diagram 1: Incremental costing



Incremental costing concerns itself with the major new inputs required to increase the output. This is considered to be one of its critical shortcomings. Because it assumes that the organisational infrastructure already exists, incremental costing tends to underestimate costs that are of a general administrative nature. This point is further clarified:

- Overhead costs are not factored into the final calculation that determines total output costs
- Its usage is limited to outputs that are not a major component of the organisations overall cost structure[5]. This further adds to the weakness in incremental costing, as most 'line-function' programmes depend on a central administrative support division where varying percentages of overhead costs are hidden.
- The absence of any form of evaluation of existing activities and related costs diminishes the likelihood of detecting and eliminating financial inconsistencies. These are left in the system as part of historical costs.

Zero-based costing (budgeting) is defined as a budgeting approach whereby the expenditure amount for each line item is examined in its entirety each year, regardless of prior funding. This involves questioning the amount and type of inputs that support the programme or activity and re-assessing them as if starting from a blank sheet of paper – from "zero" as it were. When significant increases in

[5] UNAIDS (2000), Costing Guidelines for HIV Prevention Strategies

the output of existing policies are planned, closer examination of implementation strategies, using zero-based costing techniques, may be necessary. Hard budget constraints may prevent increases in funding in relation to expected increases in output or service delivery. In this instance, the department or institution should explore more cost-effective implementation strategies that are able to achieve the same results at a lower estimated cost.

Activity-based costing (ABC) is an accounting technique that allows an organisation to determine the actual cost associated with each product and service produced by the organisation without regard to the organisational structure[6]. It is considered to be an accepted element of accounting and control systems of industrial and service firms, and is increasingly being applied to governmental as well as not-for-profit organisations.

The key benefits of activity-based costing can be summarised as follows:

?? It provides the structure for the establishment of a true management-orientated accounting system, in that it associates costs with activities that are linked to an accountability framework

?? ABC can assist in reducing waste by identifying all activities associated with a particular product or service, and ultimately improving the allocation of resources between low and high priority outputs.

?? ABC arranges information into a form that describes to the user, not only how money is spent, it also tells them what to do with the money

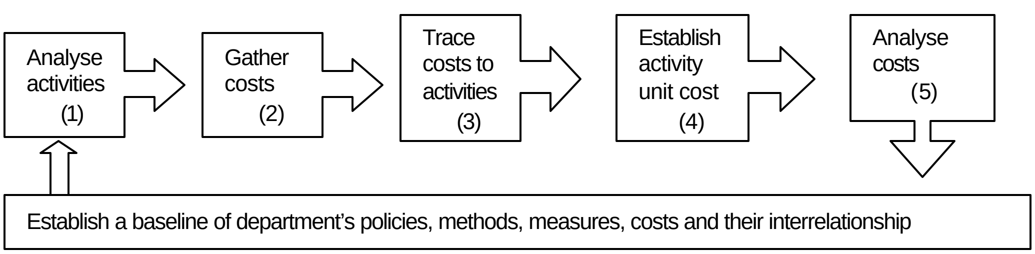
?? Baseline information of the various types of resources that contribute to the achievement of a product or service is known. The cost implications related to the expansion, reduction or elimination of an output can be determined more easily once baseline information is known

?? International best practice has shown that *activity-based costing* is a tool for measuring business performance, determining the cost of business process outputs, and also used as a means of identifying opportunities to improve business process effectiveness and efficiency[7].

Although ABC can contribute to the overall improvement in financial management of a department, the wholesale replacement of previous costing methods, in favour of ABC, is not recommended. Several related decisions, including legislative and systems changes may be required before such a bold step can be taken. There are also various approaches for designing and implementing an ABC system, and no "one approach fits all' solution.

One such approach is depicted in diagram 2:

Diagram 2: Stages in activity-based costing



Prior to performing activity-based costing, a baseline of the department's policies, methods, measures and costs need to be established. Once a baseline has been established, the five stages proposed in diagram 1 can be applied.

[6] Office of Information Technology (1995), Business Process Improvement
[7] Office of Information Technology (1995), Business Process Improvement

Analyse activities

The first stage will entail identifying the scope of activities to be analysed. Such an analysis should aim to determine if the activity is directly related to the client's requirements, as opposed to an internal output that services the needs of the department. With this information the department can assess whether funds are appropriately allocated to its various activities – between primary and secondary outputs. Activities linked to an output that directly service an outside client are considered to be of a higher value than outputs that service the internal organisation.

This is probably the most intensive part of the ABC technique, and it is advised by many costing experts that one or two outputs be selected for a pilot study. The exercise can be expanded to the rest of the department once the benefits have been realised and sufficient commitment and capacity exist.

Gather costs

The next stage will require that cost be gathered for those activities that have been identified, such as the costs of salaries, computers, workshops, consultant fees, etc. Once established, these costs are used as the baseline activity costs. As most costing techniques require a certain degree of baseline information, it is likely that many departments already have access to this type of information.

Trace costs to activities

Stage three brings together analysed activities and gathered costs in order to determine total input cost for each activity. For example, if one of the activities analysed is TB treatment then this stage matches the activity with all its inputs, such as staff time, drugs, clinic upkeep, etc. A simple formula for costs is provided – outputs consume activities that in turn have consumed costs associated with resources. This leads to a simple method to calculate total costs consumed by an activity.

Z=X*Y, where:

Z = total costs consumed by an activity

X = percent of time spent on each activity by an entity

Y = total input costs (staff time, drugs, clinic upkeep, etc)

Establish activity unit costs

In the previous stages information was compiled on each activity, which inputs and their costs contribute to the activity, and the total input costs consumed.

In stage four the activity unit cost is calculated. Activity unit cost is calculated by dividing the total input cost by the primary activity output quantity. This step is only possible if the output is measurable and its volume or quantity is obtainable.

Once the unit cost has been calculated it can be added to the total costs consumed by the activity to get the total cost for the activity.

Analyse costs

Provision is now made for the department to decide how it plans to use the information that ABC has developed.

This stage should provide baseline information that shows each activity that is linked to outputs included in the exercise, the unit cost for each output, the amount that each activity is consumed and total activity costs. The usefulness of the information goes beyond providing accurate estimates of departmental outputs. It also enables the department to decide on the implementation of more cost-efficient strategies, reducing allocations to certain outputs, and where necessary, eliminate redundant activities.

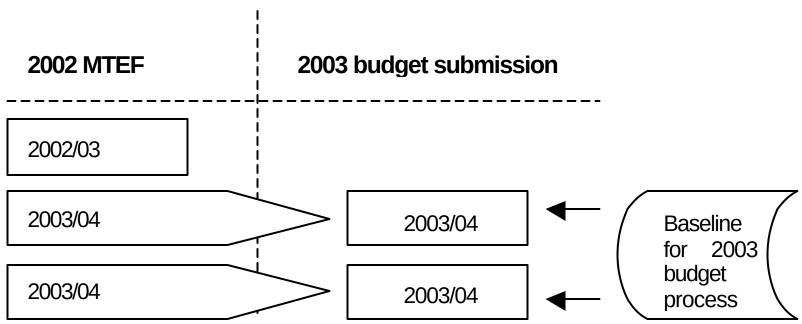
Costing the 2003 budget submission

For the purpose of the 2003 budget submission, it is not required that departments 'zero-cost' programme budgets. Departments are only required to review their 2002 medium-term allocation, as contained in the departmental chapter of the ENE, compare the allocation with changes to their strategic plan for the corresponding period, and determine the financial implications of new resource requirements.

Costing the 2003 budget submission need only focus on changes within baseline and new resource requirements.

Before describing how departments should go about developing more accurate financial information relating to baseline changes, lets first develop an understanding of a medium-term *baseline*, as described in diagram 1, and then highlight those factors that bring about additional funds for public expenditure:

Diagram 3:



As stated previously in the guide, the two outer forecast years of the 2002 MTEF become years 1 and 2 of the 2003 MTEF. In any medium-term budgeting system, allocations in forecast years are likely to change from one MTEF to the next. In South Africa, adjustments to budget estimates and changes to medium-term baseline allocations are made possible from a draw down of the contingency reserve, changes to the macroeconomic outlook and fiscal aggregates and/or reduction in debt service charges.

Lets now look at ways to costs request for additional funds.

Reprioritisation

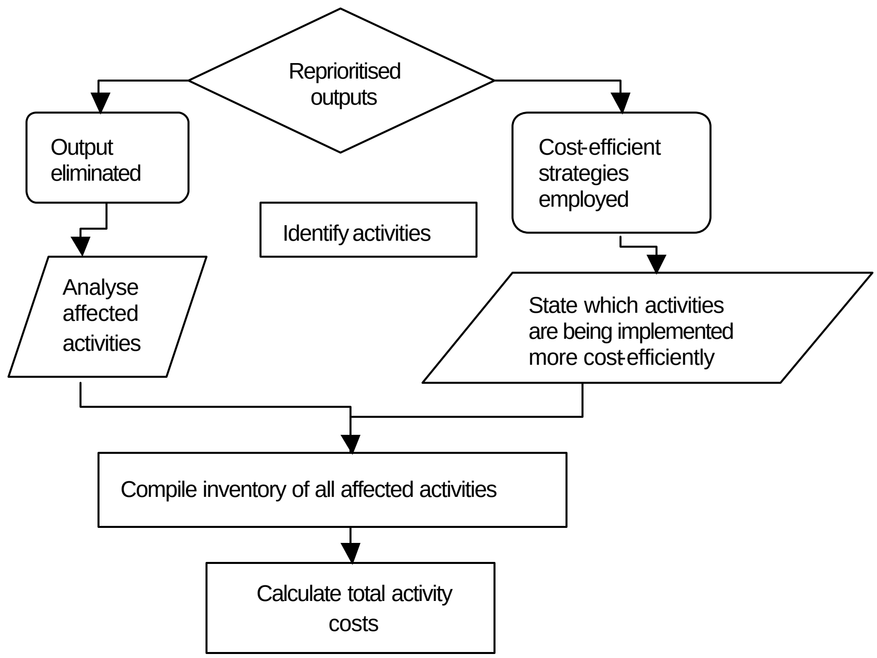
Lets take an example where a certain department has determined that a new policy will costs R25 million in the first year and R17 million in the next two years of the MTEF. It is also decided that the policy will be implemented across programmes 4 and 5, as shown in the table below:

New policy

	Programme 4 R'000	Programme 5 R'000
Total allocation	60 000	50 000
Portion of new policy in each programme	14 000	11 000
Savings allocated	3 000	800 (how are these two amounts determined?)
Shortfall	11 000	10,200

The purpose will be to determine how much savings, resulting from the discarding of low priority outputs and/or the implementation of more cost-efficient strategies, is available. In order to do this, certain aspects of activity-based costing can be applied, as illustrated by diagram 4:

Diagram 4:



The first step is to identify outputs where likely savings can be obtained. Although it is not necessarily the only section where savings should be located, it is recommended that the same programmes that implement the new policy should also be the first to generate savings. Savings are derived from two main sources – discarding outputs or achieving outputs more cost-efficiently. Certain activities related to the output can also be implemented more cost-efficiently.

The second step involves an analysis of those activities linked to the output being discarded or where more cost-efficient activities are being implemented. In the final step the most suitable costing technique should be applied. This can either be incremental or and adapted version of ABC.

The results should be captured on **worksheet 1(part A).**

Reprioritisation – increase in baseline

Reprioritisation can increase the medium-term baseline allocation in instances where existing outputs need to be increased in order to satisfy new service delivery targets. Currency depreciation will also necessitate the need for technical adjustments to a baseline, such as in the case of the Department of Foreign Affairs in the 2002 Budget. It must however be noted that these types of adjustments are usually balanced between the implementation of cost-efficient strategies on the one hand, and only increasing allocations where there is evidence of a baseline that cannot generate further savings.

Costing the financial implications that result from an expansion of existing outputs or necessary technical adjustments should follow the same steps described when determining the total saving that can be reprioritised.

An increase in baseline should, irrespective of the reason for the increase, be reduced through savings. The balance that remains can then be presented in the form of a request for additional allocation. How savings are allocated towards baseline increases must be shown on **worksheet 1(part B)**

Completing worksheet 1

Departments who wish to submit an option that changes their medium-term baseline allocation are required to complete table A and B of worksheet 1. The worksheet is saved on the enclosed diskette.

Table A show the savings resulting from reprioritisation, and should be completed as follows:.

?? Each option should be represented on a separate worksheet and information supplied for each year of the new MTEF, where applicable

?? The name of the option and each of the programmes where savings will be located must be included in *row 1*

?? Outputs or activities to be discarded in each of the programmes must be described in *row 2*

?? Estimated savings resulting from the discarding of the above outputs included in *row 3*

?? Key activities that are implemented more cost-efficiently must be described in *row 4*

?? Estimated savings resulting from the discarding of the above outputs included in *row 5*

?? The total savings is calculated automatically in *row 6*.

Table B show the allocation of savings and the balance that is required to cover an increase in baseline:

?? Each programme allocated a portion of the additional amount requested should be listed in *row 7*

?? The 2003 MTEF baseline allocation for each of the programmes must be include in *row 8*

?? Where departments request an increase in baseline relating to the expansion of an existing output or the result of a technical adjustment, this information should be included in *row 9*

?? Amounts related to policy options should be included in *row 10* over the MTEF period in proportions allocated to each programme

?? How savings in *row 6* (table 1) is allocated to each of the programmes must be shown in *row 11*

?? The shortfall, ie the amount that increases the medium-term baseline should is automatically calculated in *row 12*.

Annexure E

Service Delivery Measures

Monitoring and measuring service delivery and performance enhances better budgeting and service delivery as "what gets measured gets done"

The focus is on:

- ?? *Getting the terminology right' as this helps clarify how service delivery and performance measurement terms and tools are used.*
- ?? *Assisting departments to specify appropriate measurable objectives and outputs, develop robust output performance measures or service delivery indicators and set realistic targets.*

Budgeting for service delivery

Better budgeting enhances service delivery. This is the main message underlying recent reforms in public finance management. In particular, integrated planning, budgeting and monitoring of service delivery performance strengthens the link between the services that departments provide and the benefits and costs of these services. These reforms give effect to the emphasis on improved transparency and accountability for the management and use of public resources in both the *Treasury Regulations, 2001* and the *Public Service Regulations, 2001*.

Monitoring and measuring service delivery performance play an important role in enhancing the quality and quantity of service delivery to communities. These activities pose considerable challenges to public sector management, as financial and operational managers need to engage with new management tools and a different style of management. Successful implementation will take time, effort and a change of mindset within the public service.

Better financial management and improved service delivery, however, do not occur simply through the passing of legislation and regulations. Implementation of reforms, such as monitoring and measuring service delivery and performance, requires appropriate training of managers and recruitment of additional management skills into the public services. It means an overhaul of information systems and information analyses. It necessitates building of capacities and understanding about new concepts and systems. And it calls for a different style of management across the public service.

In particular, better budgeting and improved service delivery are enhanced when departments:

- ?? Undertake integrated strategic planning and budgeting in line with Government's broad policy priorities
- ?? Ensure appropriate reprioritisation of resources to reflect changes in priorities and implementation of more cost-effective delivery of services
- ?? Build capacity to monitor and measure service delivery performance, informing planning and budgeting processes

The previous chapter reviews the components that impact on integrated strategic planning and budgeting and sets out six steps that may enhance integration. This chapter takes a closer look at monitoring and measuring service delivery within the public sector. This chapter aims to build consensus and understanding around the concepts and tools of service delivery and performance measurement and to assist departments and provincial governments in their efforts to develop robust service delivery and service delivery and performance measures and targets.

Why monitor and measure service delivery and performance?

Monitoring and measuring service delivery and performance are critical to the overall management of departments, ensuring that objectives are met through the delivery of outputs. **What gets measured, gets done**!

Integrating service delivery and performance information into planning and budgeting processes contributes to better budgeting and enhanced service delivery. The quality of decision making within departments is improved as managers move away from focusing on inputs and the amount of resources allocated and utilised towards the outputs the monies will 'buy' and the impact thereof on communities.

Monitoring and measuring service delivery and performance may be viewed as a process of assessing progress towards achieving predetermined goals. The process may be used as a tool for self-assessment, goal-setting, monitoring of progress and to facilitate communication of objectives and service delivery targets and progress to external customers.

The benefits of monitoring and measuring service delivery and performance are many. However, they do not substitute for more detailed analysis and evaluation, which are required to determine causal relationships and corrective steps of action. Service delivery and performance information merely provides an indication or a 'gauge' of performance.

The potential benefits of monitoring and measuring service delivery and performance are:

?? *Improved quality of service and outputs* – evaluating service delivery and performance will assist managers in identifying problems and improving on programme delivery. This will provide specific insights into the quality of output delivery allowing managers to plan corrective action.

?? *Greater accountability and control* – monitoring service delivery progress provides an unbiased way to assess the performance of government departments and officials. Service delivery and performance measures signal what is important and what departments should focus on to achieve their objectives. Involving officials in evaluating service delivery may also help them to understand their role and contribution in achieving the department's objectives and service delivery targets.

?? *Improved management practice* – service delivery and performance information provides invaluable feedback to managers, allowing them to prioritise objectives and approaches and correct plans and activities to improve individual and overall departmental performance.

?? *Enhanced planning and budgeting* – service delivery and performance measurement enhances integrated planning and budgeting as it assists managers to account for the use of resources and to reprioritise resources to priority areas. It also provides quantitative information on policy implementation that may support the need for possible revision of policies and expenditure programmes.

?? *Improved equity in distribution and accessibility of service* – management, the public and the relevant legislature are more informed about service delivery performance and impact on communities. This helps to raise awareness of and advocacy for improved programme design and access to services, improving equity in distribution in the future.

?? *Better communication* – monitoring and measuring service delivery and performance serves as a key communication tool to the public, providing critical information on how public resources are being used to improve the social and economic wellbeing of communities. This is essential where a government is faced with significant social and economic challenges and constrained by limited resources.

Getting the terminology right

Monitoring and measuring service delivery and performance introduce managers to a wide range of new concepts and tools. The terminology that is used and implementation of the tools varies widely. 'Getting the terminology right' is therefore the first step and will enhance consistency in service delivery and performance measurement across the public sector.

Service delivery and performance information in the budget documentation focuses on six key terms. These are:

?? Outcomes

?? Measurable objectives

?? Outputs

?? Outcome measures and indicators

?? Output performance measures and service delivery indicators

?? The 3-E's: economy, efficiency and effectiveness

A brief description of each term will help clarify understanding regarding the concepts and tools of service delivery and performance measurement.

Outcomes

Outcomes are the end social and economic result of public policies or programmes. *Outcomes* mainly refer to changes in the general state of wellbeing in the community. Examples include a *safe and secure environment, healthy citizens, reduction in repeat offenders, reduced poverty levels and stable and self-sufficient families*.

Government's policy priorities and objectives are framed in terms of the *outcomes* or *results* it would like to achieve over the medium term. These key *outcomes* or *results* form the basis on which Cabinet and ministers make decisions about the outputs that departments should deliver in order to contribute towards meeting Government's stated objectives. *Outcomes* may therefore be described as the '*why*' departments deliver goods and services to communities.

Outcomes may be influenced by a wide range of factors and do not fall entirely within the control or accountability of one department or institution. The achievement of an *outcome* may require the co-ordination and integration of specific programmes across different departments, institutions and spheres of government. *Outcomes* may also be influenced by external factors and are therefore not possible to predict and are not fully within the control of government activity.

Measurable objectives

Measurable objectives specify how departments *expect to contribute* towards meeting the key outcomes or results that frame Government's policy priorities over the medium term.

Measurable objectives are often confused with outputs. A quick test to assess whether the objectives are appropriately specified asks whether the objective:

?? Is stated as a verb

?? Includes statements of acceptable levels of performance

?? Sets out the conditions under which tasks should be performed

Table 1 below applies the test to the following measurable objective – *to train and accredit district health workers to facilitate HIV/Aids training programme at health centres in the Tzaneen district.*

Table 1: Specifying measurable objectives

Measurable objective	To train and accredit district health workers to facilitate HIV/Aids training programme at health centres in the Tzaneen district		
Test	Usually stated as a verb	Includes the level of acceptable performance.	Sets out the conditions under which tasks should be performed.

Outputs

Outputs are the *final* goods and services produced or delivered by departments to customers or clients that are external to the departments. Outputs may be defined as the '*what*' that departments deliver or provide, contributing towards meeting the outcomes or results that government wants to achieve, and must be measurable.

Key elements of robust outputs to watch out for include:

?? An *external focus* – that is, outputs are *final* goods and services that are consumed by *external* clients. These external clients may be another sphere of Government that implements policy of national departments.

?? *Accountability* – that is, outputs should fall within the control and accountability of the department or institution. Departments or institutions may only be held accountable for outputs for which they are directly responsible. They cannot be held accountable for outputs that fall beyond their scope or mandate.

?? *Comprehensiveness* – that is, specified outputs should be as comprehensive as possible and cover a range of more detailed, related activities. Comprehensive outputs tend to be fewer and more manageable when measuring and tracking service delivery and performance than long lists of detailed activities that the department undertakes. Monitoring and measuring activities is important for detailed management information rather than integrated planning and budgeting.

Grouping outputs into different output categories may help departments and institutions to distinguish between final goods and services that are provided to external customers and those that are internal outputs that service the needs of the department itself. These categories include:

?? *Final goods and services* that are provided to external customers, such as the service offered by a provincial hospital or prescribed textbooks distributed to public schools. These include tangible goods and services, the administration of concessions, grant payments and other programmes, and goods and services that are delivered under outsourced arrangements but for which the department is accountable.

?? *Policy advice*, such as the co-ordination of the budget process by Treasury. This is an output that assists the government to make informed decisions on policy choices. Government 'buys' the capacity to provide policy advice. The output is usually in the form of briefing notes, policy reviews, cabinet memoranda, to name a few. Policy advice outputs normally involve the processes of researching and monitoring, analysing and evaluating alternative options, discussions and negotiations and the issuing of instructions about policy issues.

?? *Ministerial services* that are provided to the responsible Minister, where significant departmental personnel time and resources are utilised for the preparation of ministerial speeches, responses to questions from Parliament and other Ministers, question time briefs, key issue briefs, correspondence and administration.

?? *Administration of legislation and regulation on behalf of government* includes outputs related to compliance monitoring and the assessment and enforcement of regulation.

In comparison, *internal outputs* are goods and services that one section within a department delivers to another section(s) within the same department. Examples include a department's financial management, human resource management, information technology services, legal services, advisory services to management, provisioning administration, transportation, internal audit, Parliamentary services and other centralised office support services. Other *internal outputs* include steps or intermediate processes that contribute towards producing a final output that is consumed by external clients or customers.

Internal outputs and management processes are often dealt with as overheads and their costs allocated across final outputs based on benefit from or usage thereof when determining the costs of final outputs.

Outcome measures and indicators

Outcome measures assess the impact of departmental outputs or services delivered on the outcomes or desired results that the government wishes to achieve. Examples of outcome measures include the *proportion of the population who are healthy, the percentage of the population who feel safe from crime*, etc.

As noted above, outcomes may be influenced by a wide range of factors and do not fall entirely within the control or accountability of one department or institution. However, departmental outputs contribute significantly towards achieving desired outcomes or results. Measuring outcomes or results provides critical information about the possible impact of outputs and expenditure programmes.

Outcome indicators are an alternative to outcome measures. *Indicators* are proxies that are used to measure certain outcomes, particularly where the result is difficult to measure or the information is costly to gather, and tend to be expressed in quantitative or numerical terms such as percentages, ratios and rates.

Examples of *outcome indicators* include *the rate of car-hijackings, number of reported cases of tuberculosis, rate of repeat offenders being jailed, and rate of families that depend entirely on social welfare grants.* The information that is provided by the indicator gives an assessment of the outcomes or results that have been achieved. For example, the number of reported case of tuberculosis provides an indication of an improvement or decline in the general wellbeing of a community.

Output performance measures and service delivery indicators

Output performance measures and *service delivery indicators* measure how well an expenditure programme (or main division of a vote) is delivering its output and contributing towards meeting the outcomes or results that government wants to achieve.

Output performance measures and service delivery indicators play a key role in planning and budgeting as they are used to measure and assess how efficiently, economically and effectively resources are used to achieve departmental strategic priorities and service delivery targets.

Output measures refer to the tabulation, calculation or recording of an activity or effort, representing the level of service provided. Examples include the number of grants provided, the number of cheques processed, the number of operations performed, the number of graduates enrolled each year. *Output measures* therefore may be used when the measurable output may be ‘counted’.

Similarly to outcome indicators, *service delivery indicators* are proxies that are used to measure certain aspects of output performance which are difficult to measure or the information is costly to gather, and tend to be expressed in quantitative or numerical terms such as percentages, ratios and rates.

Output performance measures and service delivery indicators encompass one or more of the following characteristics or dimensions of performance:

?? The *quantity*, volume, or level of outputs or services to be delivered

?? The *quality* at which the outputs are to be delivered

?? The *timeliness* or timing required for delivery of the outputs

?? The *cost* of supplying the outputs

Quantity measures describe outputs in terms of how much or how many and require a unit of measurement to be defined. They are the simplest types of output measures as they focus on measuring what is produced or delivered, and may reflect the number of discrete deliverables or the capacity to deliver a certain level of output.

It is important to distinguish between *workload statistics* and *quantity measures*. Workload statistics tell us about the inputs or activities of a programme whereas output quantity measures describe the performance of the output. Quantity measures often include criteria or benchmark that may be used in measuring progress. These measures are therefore often expressed in terms of percentages, ratios, rates, and in certain cases, absolute numbers, and in many instances refer to a measurable time period.

For a given output, there may be a number of quantity measures that may be used. Departments should take care to select the most appropriate and robust measures.

Table 2 below illustrates an example of a quantity measure for the output "*Implementation of PFMA in all national and provincial departments*" .

Table 2: Example of quantity measure

Output	Measurable objective	Quantity measure
Implementation of PFMA in all national and provincial departments.	To introduce PFMA implementation plan in national departments and provincial governments to ensure a critical improvement in financial management and complianc e	Number of PFMA workshops hosted for national departments and provincial government

Quantity measures should be estimated where the precise specification is difficult in instances where the quantity demanded is largely outside the control of the departm ent, or the output is new and there is little historical data on which to base quantity measures.

It is important that *quantity measures* are not the only measure used to describe service delivery and output performance, as increasing output does not always represent value for money.

Quality measures, on the other hand, usually reflect service standards based on customer needs. They are an important element of measuring service delivery and performance as they impose discipline on providers to ensure that outputs are delivered to meet client or customer needs and contribute towards meeting government's objectives and outcomes.

Quality measures balance efficiency with effectiveness, ensuring that price or the level (volume) of service delivery, are not the sole determinants of good performance. They may address:

?? Service delivery standards that are to be met

?? Coverage and access to services

?? Customer focus or targeting

?? Compliance with legal standards

?? Risk coverage

?? Timing issues related to customer service

Quality measures and *indicators* complement quantity measures, providing a more complete picture of output performance and service delivery achievements when viewed against departmental strategic priorities and measurable objectives.

Table 3 below illustrates an example of a quality measure for the output, *HIV/Aids training* of the Department of Health.

Table 3: Example of a quality measure

Output	Measurable objective	Quality measure
HIV/AIDS training	To train and accredit district health workers to facilitate HIV /AIDS training programme at health centres in the Tzaneen district	Percentage of district health workers that have been accredited to facilitate HIV/Aids training programmes

Access to services measures and indicators are often important when measuring quality of outputs, particularly in the South African context. Access measures and indicators measure how well a service is reaching people. Who is benefiting from the service? How accessible is the service for those most in need? Is the service well targeted to historically disadvantaged groups, people in rural areas, the poor and vulnerable including women, children, the elderly and those with disabilities?

Examples of access measures and indicators include:

?? The average travel time to school for learners

?? The proportion of the elderly that are eligible for state old age pensions that receive pensions

?? The average time spent collecting water by women living in rural areas

?? The average distance of households from a primary health care facility

?? The number of new historically disadvantaged contractors that have been awarded government tenders

Quality measures are also important when measuring service standards based on customer needs. Monitoring and measuring service delivery and performance against service standards gives effect to the eight Batho Pele principles, outlined in textbox below.

Batho Pele **– People first**

The eight principles of *Batho Pele* are contained in the Government's White Paper on Transforming Service Delivery, which all national and provincial departments are required to introduce. *Batho Pele* (people first) envisages an improvement in the delivery of public services by:

- Consulting citizens about the level and quality of the public services that they receive and, wherever possible, should be given a choice about the services that they are offered.
- The public should be told what level and quality of public services they will receive, so that they are aw are of what they can expect.
- All citizens should have equal access to the services they are entitled to.
- The public should be treated with courtesy and consideration.
- The public should be given full, accurate information regarding the services they are entitled to receive.
- The public should be told how national departments and provincial administrations are run, how much they cost, and who is in charge.
- If the promised standard of service is not delivered, the public should be offered an apology, a full explanation, and a speedy and effective remedy; and when complaints are made, the public should receive a sympathetic and positive response.
- Public services should be provided economically and efficiently, in order to give the public the best possible value for money.

The *Batho Pele* principles pose an interesting challenge to the both national and provincial departments as they requires a significant shift in the manner in which departments conduct their business.

Timeliness measures are a further type of measure that is appropriate for measuring output performance where a turnaround time or a waiting or response time is significant. They provide the parameters for how often or within what time frame outputs will be delivered.

Table 4 below illustrates an example of a *timeliness measure* for the output, *passports and travel documents* of the Department of Home Affairs.

Table 4: Example of a timeliness measure

Output	Measurable objective	Timeliness measure
Passports and travel documents	To issue and process passports and travel documents correctly within the targeted period	Percentage of requested doc uments processed correctly within the targeted delivery period of six weeks

Wherever possible, reporting against timeliness is to be done separately, but these measures may sometimes overlap with timing aspects of quality measures, as illustrated in the example used in table 4.

Lastly, *cost measures* may reflect the total cost, average cost and the unit cost of producing outputs and delivering services.

Table 5 below illustrates an example of a *cost measure* for the output, *prisoner daily nutritional needs* of the Department of Correctional Services.

Table 5: Example of a cost measure

Output	Measurable objective	Cost measure
Prisoner daily nutritional need	To provide adequately for daily nutritional needs of prisoners	Average annual cost of daily nutrition provided to prisoners

Cost measures assess whether the output/s were achieved within appropriated amounts. They may be dis-aggregated to specific programmes or activities or aggregated to reflect the cost of departmental outputs. Detailed costing information is useful to assess how efficiently resources are being used, whereas aggregated output cost information may prove useful for comparative reasons, for instance, the costs of administration with operational output costs.

3-E's: Economy, Efficiency and Effectiveness

The output performance and service delivery indicators described above will differ when applied to specific output measures according to the nature of the outputs measured. Certain outputs are better measured by quantitative measures while others should rather be measured using qualitative or timeliness measures. Some outputs may have measures that balance all four dimensions of performance, described above.

These performance dimensions are best captured by the catchphrase 'the 3-E's' which refers to measures of *economy*, *efficiency* and *effectiveness*:

?? *Economy*, which refers to the cost of the inputs that are used to produce outputs

?? *Efficiency*, which relates inputs to outputs, that is the cost of the inputs used per unit of output

?? *Effectiveness*, which illustrates the extent to which the outputs or services of a programme are successful in achieving stated objectives or priorities.

Economy and *efficiency* measures assess the extent to which public resources are utilised optimally to produce outputs. An efficient operation produces the maximum outputs for any given set of resource inputs or it has minimum inputs for any given quantity and quality services provided. Efficiency measures most often, therefore, refer to cost or timeliness measures and indicators.

Effectiveness measures the extent to which departmental, objectives, programmes or outputs have been achieved through the outputs it delivers. Effectiveness, therefore, is most often measured using output quantity and quality measures and indicators. Outcome measures and indicators are also measures of effectiveness as they assess the impact of departmental outputs or services delivered on the outcomes or desired results that the government wishes to achieve.

Economy, efficiency and effectiveness are therefore important interdependent elements of monitoring and measuring service delivery and performance.

Developing output performance measures and service delivery indicators

Even the best service delivery and performance information is of limited value if it is not used to identify service delivery and performance gaps, set targets and work towards better results. Each type of measure provides a slightly different perspective on organisational performance and therefore will be important to certain audiences. Selecting the appropriate measure will depend upon the intended audience and their particular information requirements.

Determining the proper type of measure will also depend upon the output that is being measured. The choice of measures will largely depend upon the intended audience and what they want to know. The primary focus of a government's performance measures is public reporting. Therefore, the foremost consideration is that the measures and the information they provide be clear and easy to understand.

A guide to selecting output performance measures and service delivery indicators is that they should be:

?? *Simple*, *clearly expressed* and *specific*

?? *Relevant* and *reliable*, that is the measure or indicator should be strongly related to the output that it is intended to measure and not used simply because information is readily available

?? *Economic* and *easily measurable* – there should be easy access to and availability of regularly updated data for the measure or indicator at reasonable cost

?? *Adequate* and *manageable* – while, selecting a few good measures or indicators to monitor is better than selecting too many, it is important that the measures or indicators chosen provide a *sufficient* basis for assessment of performance

?? *Monitorable*, that is the measure or indicator should be amenable to independent scrutiny, thereby enhancing accountability of performance

Developing suitable performance measures is a complex task. Six key steps may be identified in the preparation and development of performance measures. These are:

Drawing from the departmental strategic plan, managers should:

?? Agree on the results that the department or institution intends to achieve

?? Specify the outputs that are to be measured

?? Select the most important output measures and indicators

?? Set realistic output performance targets against which to measure achievement

?? Determine the process and format of performance reporting

?? Establish processes and mechanisms to facilitate corrective action when required

Step 1: Agree on what is to be achieved

The first step in specifying outputs and developing robust output performance and service delivery indicators is to agree on the outcomes or results that the department wishes to contribute towards achieving and to specify the measurable objectives and outputs that the departments intends to deliver.

Measurable objectives, linked to specified outputs, are contained in the departmental strategic plans that are tabled in the relevant legislatures within 15 working days after the Minister or relevant MEC for Finance has tabled the annual budget.

Well-defined objectives help to enhance the output and provide a better basis on which to develop appropriate output performance measures and service delivery indicators. A strong link is therefore required between departmental outputs, measurable objectives and performance measures and service delivery indicators.

Table 6 below illustrates the link between the specified output of the Department of Education, an *HIV/AIDS training programme*, and the specified measurable objective *to introduce HIV/AIDS subject in three pilot provinces through the use of accredited trainers and approved assessment formats*.

Table 6: Developing measurable objectives

Introduce HIV/AIDS subject	in three pilot provinces through the use of accredited trainers	and approved assessment format
An observable, measurable goal stated as a verb.	The condition under which the task should be performed.	The level of acceptable performance.

Once a department has decided what it wants to achieve, it then needs to decide what it wants to deliver in order to best meet its intended achievements.

Step 2: Specify the outputs that are to be delivered

The second step is often the most difficult – specifying the outputs that will contribute towards meeting the department's measurable objectives and intended outcomes.

Specifying outputs is a key step as it defines the best possible services that may be delivered within the available resources to achieve the social and economic outcomes that the department aims to contribute towards. This is often a stage that involves significant policy debate, as it requires that departments make choices regarding the different policy alternatives that may contribute towards the same outcome, taking into account their spending responsibilities and capacity to deliver.

For instance, children in conflict with the law may be put in prison or places of safety, removing them from society or they may be 'diverted' out of the criminal justice system into alternative forms of sentencing. In another example, a department may choose to operate an in-house government garage service or contract the function out to a private contractor. Public-private partnerships may be used to benefit from the expertise of the private sector, while sharing some of the risk. The strategic planning exercise undertaken by the Department of Trade and Industry, which is described on page 13 of the previous chapter, provides a good example of radical changes that were made to departmental outputs when strategic objectives of the department were aligned with Government's priorities.

Departments should take time and effort to ensure that they grapple with the policy choices and alternatives, select and specify the outputs that will best contribute towards meeting the intended outcomes. Selection and specification of outputs should also take into account their measurability, described below.

Step 3: Select the most important output measures and indicators

There is no need to measure every detailed aspect of output performance and service delivery. *Fewer measures may deliver a stronger message*. Departments should therefore only identify output performance measures and service delivery indicators that communicate progress towards meeting Government's strategic outcomes or results. Those developed by line or operational managers are often most appropriate as they best know their operations.

When selecting robust measures and indicators, it is important to consider the following elements:

?? *Communicative power* – the measure or indicator should communicate how well the department is achieving its outputs and should be understandable to both internal and external clients of the department. Measures, such as *'the number of projects, number of claims processed and number of bills reviewed'*, do not communicate whether the objective has been achieved or not.

?? *Proxy power* – the measure or indicator chosen should be able to serve as a proxy indicator for other measures and provide the most accurate and clear account of output performance

?? *Data power* – there should be regularly available data for the measure or indicator chosen in order to compare what has been achieved with what was intended.

?? *Manageability* – the number of measures and indicators utilised should be three or four for each output to ensure that departments have the capacity to collate and analyse measurement data.

Step 4: Set realistic output performance targets

When developing output performance measures and service delivery indicators, there is always a temptation to set unrealistic targets and impossible standards for achievement.

Departments may doubt the usefulness of monitoring and measuring performance and service delivery and there may be poor accountability of management if the set target is not achieved. The setting of targets is therefore critical as it allows for a comparison between existing levels of performance and what is considered to be an acceptable standard of output delivery. Monitoring and measuring output performance against a realistic target is more useful than merely measuring performance for performance sake.

When setting targets consideration should be given to both historical and forecast information that is related to the final service rendered or product produced. When this is applied to the earlier example of introducing an HIV/Aids awareness programme in schools, historical baselines taken from the assessment results in traditional subjects may be used. The forecast baseline could relate to the documented improvement in traditional subjects within a stipulated period, as illustrated in table 7 below.

Table 7: Setting realistic targets

	Historical data (from 1994)	*Data compared over a 5 year period*
Traditional subject	X% of all matriculants enrolled in the subject passed.	A Y% improvement in the pass rate of matriculants.
HIV/AIDS aw areness	XY% of students enrolled in the HIV/AIDS course fulfils the requirements, as outlined in the approved assessment, and continues to the next level.	

Setting realistic targets using historical data to forecast allows departments to:

?? Communicate the results that may be achieved if the current policies and expenditure programmes are maintained

?? Raise questions regarding the appropriateness of current policies and/ or expenditure programmes

?? Compare output performance on a regular basis using data that is collected on a monthly, quarterly or annual basis.

Step 5: Determine the process and format of reporting on service delivery and performance

Regular monitoring and reporting of departmental spending and delivery performance against expenditure plans and service delivery targets is a requirement of the PFMA. The previous chapter highlights the reporting requirements in terms of the *In-year monitoring, management and reporting format*.

Reporting requirements will therefore not be repeated in this chapter. However, it is important to note that service delivery and performance information is only useful once it is analysed and fed back into management, planning and budgeting processes to ensure that the appropriate corrective action may be taken. This means getting the right information to the right people at the right time. Departments should therefore determine the purpose and intended audience for the service delivery and performance information to ensure that it is analysed and presented in a way that is best understood by the target audience.

Step 6: Establish processes and mechanisms to facilitate corrective action when required

The last step is identical to the actions required in the fourth step to integrating planning and budgeting, described in the previous chapter.

Regular monitoring and reporting of departmental spending and delivery performance against expenditure plans and service delivery targets, as specified in the PFMA, helps ‘managers to manage’ by informing them of progress against set targets.

The PFMA gives managers greater flexibility to use resources and reprioritise them in line with changes to plans. Service delivery and performance information informs managers as to whether any changes in strategic or operational plans are required in order to meet their targets.

Being able to respond proactively to changes in plans or in response to service delivery and performance results requires that managers ask themselves three key questions. These are:

?? What has happened so far?

?? In the light of what has happened so far, what is likely to happen to the plan for the rest of the financial year?

?? What actions, if any, need to be taken to achieve the agreed plan, objectives and targets?

Monitoring and measuring service delivery and performance may therefore enhance management and contribute towards better budgeting and enhanced service delivery.

Annexure F

Personnel budgeting model

The National Treasury personnel budgeting model is a guide to assist departments in budgeting for personnel costs. The final accountability for personnel budgeting and expenditure rests with departmental accounting officers. Departmental use of the model in preparing their 2002 budget submission is optional.

The guidelines include the electronic personnel model on computer disk. The model comprises of two separate spreadsheets:

?? The "update for model" spreadsheet

?? The "Personnel Budget" spreadsheet

Users of the model are requested to save the two spreadsheets in the same electronic folder.

The "update for model" spreadsheet consist all the variables that can be affected by policy changes as well as economic variables that is used within the model (spreadsheet "Personnel Budget").

The "update for model" will be managed by National Treasury, and will be e-mailed to all users whenever something in the variables changes. This spreadsheet also contains all the assumptions that are used within the model.

The advantage of this is that all the departments will use the same assumptions and variables when doing their personnel budgeting.

Using the model for the first time

When opening the "Personnel Budget" spreadsheet a dialogue box will appear with various options on macros. Select the option "enable macros". This will "open" the model.

Select the button "View assumptions of the model" on the "Selection Page" – "Other Selections".

From any cell on the sheet, select "edit"" from the excel toolbar and then "links".

In the dialogue box select "Change source". This will allow you to select the "Update for model" file where you have saved it.

Close the model, and save changes, then reopen it this time a second dialogue box will appear that will ask you whether you what to update the model. Choose "yes". This will link the two separate spreadsheets. You will only need to do this step the first time you open the model.

Please email, Kuben Naidoo, Director, Personnel Budgeting, National Treasury, Budget Office (kuben.naidoo@treasury.gov.za) to enable National Treasury to build a contact database of persons to whom the "update to model" sheet may be emailed if there are any changes in the model assumptions. This will facilitate automatic update of your model.

Guidelines to use this model

The personnel budgeting model replaces the version distributed to departments in April 2001. The guidelines below describe how departments should apply the electronic version of the model, which is saved on the enclosed diskette

The model consists of two parts, the Baseline calculation (Step 1) and Future projections (Step 2).

Step 1: Base Year Calculation

Step 1 consists of Step 1A and Step 1B

Step 1A: SMS personnel can be appointed in one of 3 ways, that is in terms of the Public Service Act, the Defense Act and those who do not participate in the Motor Finance Scheme. In this step, select the nature of the appointment of the options that is relevant to your department.

Step 1B: Is applicable to budget information relating to salary levels 1 to 12 and consist of the following:

?? Salaries include: Salaries, wages, service bonus and pension contribution

?? Housing subsidy varies with interest rates

?? Medical contribution varies with CPI: medical care and health expenses and is about 5% higher than CPI

Other include for example:

?? Performance awards

?? Allowances

?? Uniform and protection clothing

?? Other Bonuses

?? Complementary compensation, overtime pay etc.

?? Casual workers

?? Contribution to unions, UIF etc

?? Once-off can include rank and leg backlogs, severance packages etc

Calculation: Use an average of monthly expenditure (before increases are implemented) and multiply it by 12 to get an annual amount before any increases. Insert these amounts in the sheet that is provided when you select the button "Step 1 B" The model automatically calculate the increases for medical aid, salaries and other benefits.

Step 2: Projections

Projections are divided between changes in staff numbers for salary levels 1 to 12 (Step 2A) and changes in staff numbers for SMS personnel (Step 2B)

This section should be used to budget for future appointments, if no appointments are planned then this section can be ignored completely

Assumptions for the projections are as follow:

?? New staff will be appointed on the starting salary of each salary level.

?? For levels 1-12 the take up rate of benefits is used to project future cost.

Pay progression: provision is made in the model to budget for pay-progression. 1 % of the salary cost (that is the salary, pension and birthday bonus) should be budgeted to cater for pay-progression

Annexure G

National Treasury spending teams and budget analysts

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