

Estimates of National Expenditure

**A guide to the new budget format
for Members of Parliament**

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National Treasury

Republic of South Africa

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FOREWORD

Budgets are the link between the policy choices that Government makes and the services that are delivered to people. Better budgeting plays an important role in improving service delivery.

The 2001 Budget sees the introduction of a new format – the *Estimates of National Expenditure* – integrating the previous *Estimates of Expenditure* (the “White Book”) and the *National Expenditure Survey*.

This guide to the new format is intended to assist Members of parliament to engage departments in the policy, budget and service delivery information presented in *the 2001 Estimates of Expenditure*. Parliamentary portfolio committees play an important role in holding departments accountable for the commitments made to deliver better services to communities.

The National Treasury is committed to working closely with Parliamentary committees and departments to strengthen capacity across government to plan, budget and better manage service delivery programmes.

Maria Ramos

Director-General: National Treasury

Introduction

The 2001 national Budget was the first to be published in the revised budget format – the *Estimates of National Expenditure*.

The introduction of a new format integrates the previous *Estimate of Expenditure* – the “White Book” – and the *National Expenditure Survey*. The *Estimate of Expenditure* has been integral to Government’s budget and planning process for many years, providing information on the various spending programmes of government departments according to the programme planning budgeting System, by subprogramme and standard items of expenditure classification. The *National Expenditure Survey*, published for the first time during the 1999 Budget, provides information on departmental policies, spending trends and outputs.

The publication of the *Estimates of National Expenditure* significantly extends the scope and quality of information on Government’s spending plans that are tabled in Parliament and made available to the public. The new format aims to improve the transparency of the Budget and allow Parliament and the public to hold Government accountable.

This step gives effect to section 27(3) of the Public Finance Management Act, 1999 (PFMA) which is accordance with the Constitutional provision (section 15) for national legislation to prescribe budget formats for national, provincial and local government.

The new format also ensures that budget documentation is in line with international data classification requirements.

Steps in budget reform

In the 1998 Budget, Government set out three-year rolling spending plans for national and provincial departments under the Medium-Term Expenditure Framework – the MTEF.

Medium-term budgeting is the basis of the budget reform initiatives. It reinforces the link between Government's policy choices, its budget and the delivery of services, which serves to strengthen political decision-making and accountability. Policy choices and trade-offs are made explicit, spending decisions are kept affordable in the medium term, and there is better management of public finances over time.

Medium-term budgeting is broader than numbers – it concerns prioritisation, planning and budgeting for service delivery.

The 1999 Budget took a further step forward. The *1999 National Expenditure Survey* set out the policies 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.

Such service delivery information shows how public money is being spent, enabling political decision-makers to make informed decisions on budget allocations in line with policy priorities and service delivery.

These principles are strengthened by the Public Finance Management Act, 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 *Estimates of National Expenditure* enhance accountability. Policy developments, legislation and other factors affecting expenditure are outlined alongside departmental spending plans. Details of departmental outputs and service delivery indicators are provided as another step towards setting “measurable objectives” for each expenditure programme, in line with the Public Finance Management Act.

Such measurable objectives will be a formal requirement of the 2004 Budget. In the meantime, the new format allows departments to build the necessary capacity to develop and implement service delivery indicators.

The *2001 Estimates of National Expenditure* is a product of cooperation. Treasury spending teams have worked closely with the policy and budget teams of other national departments and agencies, clarifying policy developments and spending trends, specifying outputs and identifying service delivery indicators.

Format of each Vote

This chapter provides explanatory notes on the format of each Vote in the *2001 Estimates of National Expenditure*.

Vote name and number

Votes are sequenced according to the functional groupings:

- Central government administration
- Financial and administrative services
- Social services
- Justice and protection services
- Economic services and infrastructure development

This facilitates analysis of interdepartmental initiatives and service delivery. Vote numbers have been amended and are not comparable with the *2000 Estimate of Expenditure* (the “White Book”). It is important to note that the functional groupings are informal and not consistent with the more rigorous functional classification of expenditure reported in the *Budget Review*.

To be appropriated by Vote

The amount to be appropriated by a Vote reflects the rand amount to be voted for the first year of the 2001 medium-term expenditure period. Statutory appropriations by Vote are also indicated.

Accountability information

Information on the responsible minister, accounting officer and administering department is detailed here to enhance accountability.

Aim

The aim of the Vote reflects the social and economic outcomes or results that the department wishes to achieve.

Key objectives and programmes

The identification of key departmental medium-term objectives and their association to spending programmes strengthens the link between strategic planning and budgeting.

Strategic overview and key policy developments: 1997/98 – 2003/04

This section describes the policy development and legislative changes that frame departmental spending plans over the seven-year period.

Expenditure estimates

The first table sets out expenditure by programme, economic classification and standard item.

The table shows audited outcomes for 1997/98 and 1998/99, the preliminary outcome for 1999/00, the adjusted appropriation for 2000/01, the revised estimate for 2000/01 and the medium-term expenditure estimates for 2001/02 to 2003/04.

The revised estimate for 2000/01 represents the National Treasury's estimate of actual spending on each programme, in consultation with departments.

This does not imply a change in the amount voted to the department from figures previously published in the final print "Blue Book" *Estimate of Expenditure for the year ending 31 March 2001* and the subsequent Adjustments Estimate for 2000/01.

The spending figures for 2001/02 are those to be voted by Parliament.

The medium-term expenditure estimates for 2002/03 and 2003/04 will form the basis for planning the 2002 Budget. Changes to the 2000 Budget are reflected.

To ensure comparability, where programme structures have been changed in recent years, expenditure has, where possible, been reallocated according to the new programme structure for all years.

The second part of the table sets out departmental expenditure according to economic classification. This is based on international standards for classification of Government Financial Statistics 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. More detail on government accounts and the Government Financial Statistics can be found in Annexure D of the *2001 Budget Review*.

In the economic classification tables, spending is classified as either of the following:

- Capital: spending on assets that will be productive for more than one year; this includes maintenance, which will extend the useful life of an asset
- Current: expenditure that is not on capital (spending on defence assets, except those that are residential in nature, is also conventionally classified as current)

Within current expenditure, spending is broken down into:

- Personnel: spending on remuneration of employees, including salaries, wages and other benefits
- Transfer payments: transactions in which a department passes money to another institution or to an individual for final spending. Examples include transfers to research institutions. A current transfer must not be tied to use for acquiring a capital asset
- Other current expenditure: spending not on personnel and not in terms of transfers. Spending on goods and services is included here

Capital expenditure is disaggregated into:

- Transfer payments: transactions in which a department passes on money to another institution or to an individual for them to use specifically for capital spending on assets, to compensate for damage or destruction of capital assets, or to increase their financial capital. An example is the conditional grant to provinces to build hospitals
- Acquisition of capital assets: capital expenditure where a department acquires an asset for itself, for instance when a department purchases a building for office accommodation.

Departmental receipts

Attention is paid to departmental revenue collection. Where available, departmental receipts are estimated for 2000/01 and for the medium-term period.

Expenditure trends

The main programme structure changes and expenditure trends in the vote over the seven-year period are tabled, giving effect to policy development and departmental priorities.

Average annual growth rates are calculated over the three-year period. Unless indicated otherwise, these reflect nominal growth rates rather than real growth.

Programme number and name

Each programme is reviewed in turn. The programme number and name are followed by its aim and description. The description is carefully defined in terms of relevant legislation to ensure that all spending may be accommodated within the approved programme structure.

The Public Finance Management Act stipulates that expenditure may be considered to be unauthorised if it comprises:

- Overspending of a vote or main division (programme) of a vote
- Expenditure that is not in accordance with the main purpose of a vote or, in the case of a main division (programme), not in accordance with the main division (programme)

Programme 1 is always *Administration*, which includes spending on the Ministry and senior management of the department, and central corporate services.

Programme expenditure estimates

Programme-specific tables set out expenditure by subprogramme, economic classification and standard items.

The table shows audited outcomes for 1997/98 and 1998/99, the preliminary outcome for 1999/00, the adjustments appropriation for 2000/01 and the medium-term expenditure estimates for 2001/02 to 2003/04. Changes to the 2000 Budget are reflected.

Programme policy developments

Policy developments that are specific to each programme are discussed in this section.

Outputs and service delivery trends

Key outputs and measurable service delivery indicators are listed for each subprogramme.

This section will be expanded in subsequent Budgets as further progress is made in developing service delivery indicators and targets.

For the 2001 Budget, departments were asked to specify outputs and develop output and quantity indicators for each of these outputs. In certain instances, particularly for more policy-orientated departments, quality and timeliness indicators proved more applicable.

The National Treasury developed a brief guide on output and output specification, and worked closely with departments during the exercise. This is included in the sections below.

The guide will assist parliamentary portfolio committees to engage with departments on appropriate output and service delivery indicator specification.

Essentially, outputs are defined as the final goods and services produced or delivered by departments to customers who are external to the department. Service delivery indicators are important as they measure:

- What goods and services budgeted monies buy
- What progress Government makes in terms of its policy priorities and objectives
- Whether Government is getting value for its money

Tracking service delivery indicators in terms of targets informs department heads, policy-makers and the public about the progress that departments are making towards their objectives.

This facilitates better planning, budgeting and programme management by departments. It improves accountability and control, informs policy- and decision-making, and provides information to the public.

Public entities reporting to the responsible Minister

Information on public entities reporting to the responsible Minister for the Vote is provided here. Examples of these entities include the National Roads Agency, Telkom, the science councils, and the Unemployment Insurance Fund. Often these entities, rather than the department itself, are the front-line deliverers of services to communities.

The information presented on such bodies varies along with the nature, financial and service significance of the body.

In general, more emphasis is given to entities that are primarily funded by taxation, whether transferred from the National Revenue Fund (for example, the Electoral Commission) or transferred directly to the body itself (the Unemployment Insurance Fund).

The aim is to provide key financial and service delivery information, accounting for the spending of public money.

Annexure to each Vote

Standard detailed tables are included in the annexure to each Vote. These include:

- Summary of expenditure trends and estimates per programme (expenditure estimates for 2001/02 are broken into current and capital expenditure)
- Summary of expenditure trends and estimates per economic classification (expenditure estimates for 2001/02 are broken into current and capital expenditure)
- Summary of expenditure trends and estimates per standard item (expenditure estimates for 2001/02 are broken into current and capital expenditure)
- Summary of transfers and subsidies per programme
- Summary of personnel numbers and costs – this table replaces the detailed salary and personnel tables in the previous *Estimate of Expenditure* (the “White Book”). Personnel numbers for the three previous financial years and the current financial year, as well as estimated figures for 2001/02 are provided together with total personnel cost and an indication of unit cost to the department for each full-time equivalent.
- Summary of expenditure on training

Additional tables

Provision is made for vote-specific tables, including summaries of conditional grants to provinces and local authorities and agency payments, trading accounts, to name but a few.

Specifying outputs

A clear understanding of the term ‘output’ is essential as we work towards improving service delivery information in our efforts to accelerate service delivery.

Ask the question: ‘What is it that we deliver?’

Asking the question: ‘What is it that we deliver?’ helps to ascertain the outputs of departments.

Essentially, outputs are *final goods and services* produced or delivered by departments to customers or clients who are external to the department. Outputs can be defined as the ‘*what*’ that departments will deliver or provide, and must be measurable.

Possible types of outputs include advice to ministers on the formulation of policy, the assessment and payment of grants, the payment of benefits, doing inspections and collecting of revenue.

Descriptions that are framed in terms of inputs, aggregate social or economic outcomes or results, client or customer groupings, legislation or organisational units are not outputs.

A description of non-outputs

The following definitions of some ‘non-outputs’ will help to distinguish them from outputs.

Inputs

Inputs are the resources used – such as labour, cleaning and computer services, even financial resources – in the process of producing or delivering goods and services.

Intermediate activities

It is important that departments note that certain activities that provide goods and services for internal departmental use, such as financial and administrative services, are not categorised as final outputs. Rather, they are *intermediate activities* that contribute to the production of final output of the department.

Outcomes

Outcomes are the effect or result of an output or a group of outputs, for instance reducing crime or poverty.

Government’s policy priorities and objectives are framed in terms of the key social, economic and political results or outcomes that it would like to achieve.

These key outcomes or results form the basis on which Cabinet and ministers make decisions about the outputs a department should deliver in order to contribute towards achieving Government’s policy priorities.

If departmental outputs are described as the ‘what’ departments deliver, outcomes may be described as the ‘why’ departments deliver these outputs.

More about outputs...

For the 2001 Budget, departments were asked to specify outputs and develop output and quantity indicators for each of these outputs. In certain instances, particularly for more policy-orientated departments, quality and timeliness indicators proved more applicable.

In the next few years National Treasury guidelines on preparing budget submissions will focus on service delivery information in particular, broadening the information that is published in budget documentation.

Linking service delivery information with strategic plans

In terms of the *Treasury Regulations, 2001* and the *Public Service Regulations, 2001* departments are requested to prepare and table strategic plans before Parliament or the relevant provincial legislature within 15 working days after the Minister of relevant MEC for Finance has tabled the annual budget. These provisions take effect from 1 April 2002.

Integrating strategic planning, budgeting and monitoring of service delivery performance, coupled with effective financial information and advice, will enhance the link between the services that departments provide and the benefits and costs of such services.

The outputs and service delivery indicators that departments specify in terms of the revised budget format should be consistent to those contained in Year 1 of the departmental strategic plan for the MTEF period.

Parliamentary portfolio committees play an important role holding departments accountable by engaging in detail of departmental strategic plans. This ensures that Government's socio-economic policy priorities are being met in budget and service delivery plans.

Output categories

Categorising outputs helps distinguish outputs that relate to servicing the needs of the department itself or other departments and those that related to providing goods and services to external customers.

We may group outputs into:

- Final goods and services provided to customers outside of the department
- Policy advice
- Ministerial services
- Administration of legislation and regulation on behalf of government

Provision of goods and services

Most departments' outputs may be categorised as *provision of goods and services*.

Many of these outputs are the tangible goods and services that Government provides to its people. They may include:

- Goods and services that the department itself provides to people
- Administration of concessions, grant payments and other programmes
- Goods and services that are delivered under outsourced arrangements but for which the department is accountable

Providing Advice on Policy

Policy advice is an output that assists Government to make informed decisions on policy choices and the strategic direction of policy priorities in shaping the social, political and economic realities of our country.

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. This means that policy advice normally involves the processes of researching and monitoring of current practice, analysing alternative options and scenarios, evaluation, discussions and negotiations, and the issuing of instructions about a policy issue.

It is important to note that operational advice that supports internal departmental activities is not the same as policy advice, which supports strategic decision making. Operational advice is provided for internal use and is therefore not considered to be an output of the department.

Ministerial Services

Ministerial services are provided to the responsible Minister and exist where significant time and costs are incurred by departmental personnel to write ministerial speeches, prepare response to questions from Parliament and other Ministers, question time briefs, key issue briefs, correspondence and provide administrative.

Administration of legislation and regulations on behalf of government

Departments are often involved in the administration of legislation and regulations on behalf of government. Outputs in this category include compliance monitoring, and assessment and enforcement of regulation.

Service delivery indicators

In terms of section 27(4) of the PFMA, departments are required to report on measurable service delivery objectives.

In line with the PFMA, the revised budget format requires departments to develop an indicator of service delivery for each output that is defined.

Service delivery indicators are important as they measure:

- What goods and services budgeted ‘monies’ buy
- What progress Government makes in terms of its policy priorities and objectives
- And whether Government is getting value for its money

Service delivery indicators therefore provide important accountability checks on Government. They play another key role as they shift the focus of departments and departmental managers from inputs and resources used, to the quality and impact of the services that they deliver. Concepts of ‘efficiency and effectiveness’ and ‘value for money’ – getting the greatest impact from rands spent - are fast becoming part of public service management practices.

Developing service delivery indicators

The 2001 Budget took a first step towards developing service delivery indicators. As *output or quantity measures* are easily understood, they were used in the first step towards developing more complex service delivery indicators.

Output or quantity measures describe outputs in terms of how much, or how many. This called for departments to develop a unit of measure that best describes the particular outputs.

It is important to distinguish between *workload statistics* and *output or quantity measures*. Workload statistics tell us about the inputs or activities of a programme.

Output or quantity measures describe tell us how well the programme is performing. This may refer to how much or how many of the output. It often includes a criteria or benchmark that may be used in measuring progress. Output or quantity indicators therefore are often expressed in terms of percentages, ratios and rates and in certain cases, absolute numbers, and in many instances refer to a measurable time period.

Example:

Workload statistics

Number of inquiries processed

Number of staff hours spent

Output or quantity measure

Average number of inquiries per month

Average number processed per staff hour

In certain instances, particularly for more policy-orientated departments, quality and timeliness indicators may prove more applicable. Further progress in budget reform will see the development of other measures such as quality, efficiency, timeliness and sustainability.

During the 2001 Budget process, the National Treasury and departments experienced considerable difficulties of defining a set of meaningful and manageable indicators during the 2001 Budget process. For the 2002 Budget, The National Treasury aims to work with departments to consolidate and rationalise indicators. Departments will be asked to develop a service delivery target or milestone for each indicator that has been identified. Greater detail on service delivery and performance related information is a further step in Government's budget reform programme over the medium term.

The National Treasury recognises that some departments are experienced at developing and using service delivery indicators. For most departments, however, this is a new activity which requires learning and practice in 'getting it right'.

It is important, therefore, that departments select and use the most appropriate indicators based on the activity measured, the intended audience – most often reporting to the public – and their particular information requirements.

A guide to selecting indicators is that they should be:

- *Simple, clearly expressed and specific*: Indicators should be able to communicate a message that is readily understood by policy makers, decision makers and the public.
- *Reliable*: Indicators should have *high predictor and proxy power*. The indicator that is selected should be strongly related to the output that it is intended to measure. It should also act as a proxy for other indicators that are moving the same direction. This will reduce the amount of data and analysis that departments need to do when measuring their progress.
- *Easily measurable*: There should be easy access to and availability of regularly updated data for the indicator. Output or quantity measures are most easily tracked using quantitative data. In certain cases, however, it may be necessary to support numeric data with qualitative data
- *Manageable*: Selecting a few good indicators to track is better than selecting too many, as departments should ensure that they have the appropriate capacity to collect data and analyse information the indicators selected.

- *Accountability*: It is clear which programme or section of the department is responsible for delivery of the output and for reporting against set targets

A focus on key target groups, including the poor, women, children, people with disabilities and people living in rural areas is also important with specifying outputs and selecting service indicators. Indicator selection should therefore consider those measures that enable the collection and analysis of disaggregated data to monitor service delivery to these target groups.

Example:

Programme	Output	Output Indicator	Disaggregated Output Indicator
Khula Finance Enterprise	Loans granted	Total value of loans	% of total value of loans granted to women/ people in rural areas

Developing indicators is not an end in itself. Setting targets and measuring progress towards those targets are the next steps in improving service delivery information in the budget.

Service delivery targets help departments to set delivery levels and assess performance against the targets.

Tracking indicators in terms of service delivery targets informs departmental managers, policy- and decision-makers and the public about what progress departments are making towards their objectives. This helps departments plan, budget and manage programmes better. It improves accountability and control. It informs policy- and decision-making. And it provides information to the public about what goods and services government ‘buys’.

Improving service delivery information in the budget is the focus of budget reform in the next few years. The National Treasury looks forward to working with departments in this regard, building capacity and understanding in this area in a manner that contributes towards better service delivery in Government as a whole.

Parliamentary portfolio committees play an important role engaging departments in the development of appropriate service delivery indicators and targets to ensure that Government is able adequately to track progress towards meeting its socio-economic goals.