



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# **Technical Guide on Provincial Social Development Budget Structure Improvements**

## Table of Contents

<b>1. INTRODUCTION AND PURPOSE.....</b>	<b>3</b>
<b>2. BUDGET STRUCTURE IMPLEMENTATION.....</b>	<b>4</b>
2.1 PROGRESS .....	4
2.2 PROBLEMS WITH IMPLEMENTATION .....	4
2.3 EXAMPLE METHODOLOGY FOR RE-ALLOCATION.....	6
<b>3. KEY GUIDELINES.....</b>	<b>6</b>
<b>4. PROGRAMME 1: ADMINISTRATION.....</b>	<b>7</b>
4.1 OFFICE OF THE MEC .....	7
4.2 CORPORATE SERVICES.....	8
4.3 DISTRICT MANAGEMENT .....	9
<b>5. MANAGEMENT AND SUPPORT VERSUS THE OTHER SUBPROGRAMMES .....</b>	<b>9</b>
<b>6. ALLOCATION OF PERSONNEL BUDGET &amp; EXPENDITURE TO SERVICE DELIVERY SUBPROGRAMMES .....</b>	<b>11</b>

## 1. Introduction and Purpose

A new budget programme structure for the Provincial Departments of Social Development was introduced for the 2014 Medium Term Expenditure Framework. This new budget programme structure is as follows:

Programme	Sub-programme
1. Administration	1.1. Office of the MEC 1.2. Corporate Management Services 1.3. District Management
2. Social Welfare Services	2.1. Management and Support 2.2. Services to Older Persons 2.3. Services to the Persons with Disabilities 2.4. HIV and AIDS 2.5. Social Relief
3. Children and Families	3.1. Management and Support 3.2. Care and Services to Families 3.3. Child Care and Protection 3.4. ECD and Partial Care 3.5. Child and Youth Care Centres 3.6. Community-Based Care Services for children
4. Restorative Services	4.1. Management and support 4.2. Crime Prevention and support 4.3. Victim empowerment 4.4. Substance Abuse, Prevention and Rehabilitation
5. Development and Research	5.1. Management and Support 5.2. Community Mobilisation 5.3. Institutional capacity building and support for NPOs 5.4. Poverty Alleviation and Sustainable Livelihoods 5.5. Community Based Research and Planning 5.6. Youth development 5.7. Women development 5.8. Population Policy Promotion

The provincial departments provide a wide range of services to many different groups of beneficiaries. The rationale for the introduction of the new budget structure was to organise the various services into a format that reflected a clear and rational group of services with a unified purpose and objective. The revised budget structure also promotes greater transparency in terms of budget and expenditure data as well as service delivery information.

Under the old budget structure, provincial departments had only three programmes: Administration, Social Welfare Services, and Research and Development. Services, ranging from substance abuse prevention to child care and protection, were all grouped under Programme 2: Social Welfare Services. The major change in the budget programme structure is the splitting of the old Programme 2: Social Welfare Services into three programmes: Programme 2: Social Welfare Services,

Programme 3: Children and Families, and Programme 4: Restorative Services. Each of these new programmes has a subprogramme X.1: Management and Support.

Development and Research was Programme 3 and is now Programme 5, and two subprogrammes have been added to this programme.

The main reform was developing a separate programme for services to children and families, thus allowing provinces to budget for those services specific to children. Services to children had the largest budget allocation and, given its prominence as a priority area due to the Children's Act (2005), it was sensible to develop a separate programme for children as a starting point.

It is recognised that the process of implementing the new budget structure is an ongoing one, and that personnel, budget and service delivery information for each subprogramme will improve over time. The end objective is to have clear and accurate information available for each subprogramme for budget and expenditure, as well as service delivery.

Note that this document supplements the guidance given in the *Budget Formats Guide for the Preparation of Expenditure Estimates of Provincial Revenue and Expenditure 2015*. The aim is to provide more detailed guidance related to particular types of expenditure.

## **2. Budget Structure Implementation**

### **2.1 Progress**

All nine provinces have submitted their budgets according to the new budget programme structure, and this new format has already proved useful for both budgeting and analysis. In key budget areas, it is now possible to start seeing how provincial approaches differ, with evidence of significant variances in per capita allocations and clear disparities in resource allocations. The improved detail on allocations to functions will put provinces in a position to plan better, improve budgets and improve service delivery. Provinces are to be commended for having made significant progress in implementing the new programme budget structure over a short period of time. From the analysis, however, it is also clear that further work will have to take place in implementation. There are clearly still significant incorrect allocations which remain barriers to proper planning and analysis, and to improving efficiency and service delivery.

### **2.2 Problems with Implementation**

In general, there are two main problems with the implementation of the new budget structure namely:

- Re-allocation from the Social Welfare Services programme into the three new programmes both historically and over the MTEF period.
- Allocation of salaries for social service professionals to incorrect programmes and subprogrammes.

Incorrect re-allocations to the new programmes have caused significant problems with trend analysis over the years, without any associated changes to service delivery to explain these expenditure trends. For example, the proportion of the total budget allocated to Social Welfare Services is significantly higher over the historical period than over the MTEF period.

**Table 1 Proportion of social welfare services expenditure to total provincial social development expenditure by province, 2010/11 - 2016/17**

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Outcome			Preliminary outcome	Medium-term estimates		
R million							
Eastern Cape	40.3%	45.2%	47.2%	27.2%	20.6%	20.5%	20.1%
Free State	18.5%	17.8%	17.8%	17.5%	17.4%	17.6%	17.1%
Gauteng	23.3%	25.3%	22.3%	19.4%	18.1%	17.2%	17.2%
KwaZulu-Natal	25.3%	22.0%	26.7%	22.7%	20.4%	20.6%	20.1%
Limpopo	35.3%	39.7%	41.7%	43.2%	21.5%	21.9%	21.3%
Mpumalanga	36.8%	35.0%	40.1%	37.9%	37.1%	39.7%	40.1%
Northern Cape	25.6%	28.4%	30.6%	23.5%	14.3%	13.9%	14.0%
North West	48.2%	44.1%	38.0%	36.6%	35.9%	33.6%	31.3%
Western Cape	32.7%	37.6%	35.6%	36.0%	35.1%	35.3%	35.5%
<b>Total</b>	<b>31.4%</b>	<b>32.3%</b>	<b>32.7%</b>	<b>28.1%</b>	<b>23.8%</b>	<b>23.7%</b>	<b>23.3%</b>

Source: National Treasury provincial database

**Table 2 Proportion of children and families expenditure to total provincial social development expenditure by province, 2010/11 - 2016/17**

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Outcome			Preliminary outcome	Medium-term estimates		
R million							
Eastern Cape	14.4%	14.9%	13.6%	30.0%	35.5%	34.8%	35.7%
Free State	40.2%	39.8%	39.3%	38.9%	36.9%	36.5%	35.0%
Gauteng	43.3%	43.2%	43.7%	46.3%	49.6%	52.0%	51.8%
KwaZulu-Natal	34.5%	42.1%	36.3%	37.3%	39.4%	38.2%	39.8%
Limpopo	17.4%	17.6%	21.3%	20.8%	37.7%	34.5%	33.7%
Mpumalanga	20.6%	21.1%	19.4%	24.9%	26.0%	23.7%	23.8%
Northern Cape	15.2%	16.6%	18.1%	25.0%	33.6%	32.8%	33.0%
North West	12.6%	15.7%	20.6%	24.6%	24.5%	28.0%	31.2%
Western Cape	31.5%	29.7%	32.4%	33.3%	32.4%	33.3%	33.4%
<b>Total</b>	<b>27.6%</b>	<b>29.5%</b>	<b>29.6%</b>	<b>33.7%</b>	<b>37.6%</b>	<b>37.8%</b>	<b>38.2%</b>

Source: National Treasury provincial database

Tables 1 and 2 above show the proportion of the total budget allocated to Social Welfare Services and Children and Families respectively. Some provinces, such as Eastern Cape, Limpopo and Northern Cape, have allocated a large proportion of the total budget to Social Welfare Services between 2010/11 and 2013/14 and a much smaller proportion over the MTEF period. The converse is evident in Table 5.4, where larger proportions are allocated over the MTEF period to Children and Families. This is because these provinces have re-allocated funds from Social Welfare Services to Children and Families in line with the new budget structure but they have not done it consistently from 2010/11 onwards, resulting in large changes in allocations around 2013/14. This indicates that one allocation approach has not been consistently followed across the entire period.

When tables 1 and 2 are read together, it is apparent that these provinces have not re-allocated historical expenditure from Social Welfare Services under the old budget structure, to Children and Families under the new structure (evident from the proportion of total funds allocated to the programmes in the historical period). As table 5.4 indicates, for Children and Families, several provinces have significantly lower allocations over the historical period compared to the MTEF period. This is likely due to expenditure being better-classified over the MTEF period.

The allocation of social service professionals' salaries across the relevant subprogrammes remains problematic. Most provinces have not yet allocated compensation of employees' funds across subprogrammes within each service delivery programme, resulting in very large allocations in the Management and Support subprogrammes. This is problematic as it makes analysis on service delivery difficult. Due to this sector being personnel-intensive, it is important to budget for social development personnel under the correct subprogramme, according to the work they do. This helps reflect the true cost of delivering that service. This is particularly true of the historical period, although there appear to be also significant errors in the MTEF period.

### **2.3 Example Methodology for Re-Allocation**

For those provinces that have yet to develop a methodology for re-allocation, the following process is offered as an example of how to proceed.

1. Consult with managers to determine responsible manager for each programme and subprogramme.
2. Inform Human Resources Directorate about the new structure in order to create this structure on PERSAL and link it to the budget reporting structure.
3. Map the old subprogrammes to the new programme structure.
4. Identify cost centres that must be moved from the old subprogrammes and link them to the new programmes and subprogrammes.
5. Link the old objective codes to the new subprogrammes.
6. Make use of audited expenditure data to update the budget database.
7. Create new objective codes on BAS, SAP and PERSAL (as needed) to update the budget database.
8. Where possible ensure that funds for contractual obligations such as security, cleaning etc. are allocated to the relevant subprogrammes where services are rendered.

It is important to note that whatever methodology is selected, it should be applied consistently across the entire budget period, in order to ensure consistency between the historical and MTEF years.

## **3. Key guidelines**

The purpose of a budget programme structure is to reflect the service delivery priorities of the sector. This enables easy analysis and assessment of whether provinces are allocating sufficient resources to government priorities. It also enables assessment of the cost of services per beneficiary. These are important objectives.

The new budget structures do not change any standard principles about budgeting. There will be a period of learning and adjusting the budget to the lessons learnt and during that time there are five key principles that should be adopted

First, allocate costs to the budget programme that will best promote transparency regarding the funding of services and accountability for expenditure. A cost-centre approach should be used as far as possible so as much of the cost associated to a specific service can be budgeted for against the relevant service.

Second, be practical about which subprogramme funds are allocated to. It may be that the only way to allocate costs to subprogrammes is through arbitrary rules for which there is

little justification. However, effort must be made to ensure that at least 80 per cent of the costs associated with a specific service are allocated to that service otherwise the transparency and the accuracy of the budget is undermined.

The third principle is that the budget structure must be implemented over the 7 year period and not only over the MTEF period. This will require historical budget numbers to be amended. A consistent methodology should be applied to allocations across the entire period, to avoid unexplainable trends between the historical and MTEF periods. If two different methodologies have been used in the two periods, the more accurate approach should be selected and applied consistently across all seven years.

The fourth principle is that service delivery subprogrammes should not decrease (across the historical or MTEF periods), except to accommodate a policy change that results in reprioritisation. These subprogrammes can increase, however, in order to accommodate the correct re-allocation of personnel from the management and support subprogramme.

The fifth principle is that vote-level economic classifications are not affected by a budget structure change, and thus should remain constant in the new structure, although they should be distributed across the new programmes and subprogrammes.

## 4. Programme 1: Administration

The budget programme structure of Programme 1 has not changed and the changes to the other programmes should not affect what is allocated to this programme. Provinces should continue allocating to the budget of this programme the same way as in previous budgets.

However, the above only applies if service delivery items were not funded from Programme 1 before the budget structure change. For example, provision of infrastructure such as children's homes and older person's homes should be budgeted for in the relevant subprogrammes, and not in Programme 1.

### 4.1 Office of the MEC

	<i>Programme/ Sub-programme</i>	<i>Objective of Programme/ Sub-Programme</i>	<i>Goods, services and payments included and excluded</i>
1	<b>ADMINISTRATION</b>	<b>This programme captures the strategic management and support services at all levels of the Department i.e. Provincial, Regional, District and Facility/Institutional level.</b>	
1.1	Office of the MEC	Provides political and legislative interface between govt, civil society and all other relevant stakeholders.	This sub programme renders executive support , public and media relations; and parliamentary support Manage and administer the Office of the Member of the Executive Council (MEC).

It covers expenditure related to the provision of the political and legislative interface between government, civil society and all other relevant stakeholders. The cost of the office of the MEC, the MEC's salary and transport and accommodation budgeted for the MEC should be allocated to this subprogramme. High level public events of the department such as inaugurations, budget speeches and events that are not specific to a service area should be budgeted for under this subprogramme.

It is important that projects requested by the MEC within a service delivery area are budgeted for in the relevant subprogramme. In other words, the MEC's projects should not be budgeted for in Programme 1.1.

## 4.2 Corporate Services

1.2	Corporate Management Services	Provides for the strategic direction and the overall management and administration of the Department.	<p>This sub programme should provides for the following functional areas:</p> <ul style="list-style-type: none"> <li>• HODs Office</li> <li>• Financial Management <ul style="list-style-type: none"> <li>○ Accounting (including salary administration)</li> <li>○ Expenditure Control</li> <li>○ Budget Planning</li> <li>○ Financial Reporting and Internal Control (According to Nat Treasury Generic Structure)</li> <li>○ Supply Chain and Asset Management (including transport/fleet management)</li> </ul> </li> <li>• Human Resource Management <ul style="list-style-type: none"> <li>○ Employee Wellness Programme</li> <li>○ Employee Performance Management</li> <li>○ Personnel Administration</li> <li>○ Labour Relations</li> </ul> </li> <li>• Human Resource Development</li> <li>• Legal Services</li> <li>• Gender and Disability Coordination</li> <li>• Information Technology (IT)</li> <li>• Information Management (IM)</li> <li>• Communication</li> <li>• Customer Care</li> <li>• Strategic Management (incl. Policy, Strategic Management, Monitoring Reporting &amp;Evaluation)</li> <li>• Internal Audit</li> <li>• Risk Management</li> <li>• Security Management</li> <li>• Facility Management (Office Accommodation and other facilities as well as Land and Buildings)</li> <li>• General Administration (e.g. registry, telecommunication etc.)</li> </ul>
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This subprogramme provides for the strategic direction and the overall management and administration of the department.

The Office of the Chief Financial Officer, the supply chain management unit, human resources unit and the legal services department must be allocated to this subprogramme. The bulk of budgeting, financial management, human resource management and legal activities are housed in this budget. Each of the other programmes should include small provisions to cover the cost of these capabilities that are specific to their particular areas of operation and service delivery, with the possible exception of legal services.

The general maintenance and accommodation costs of the department should be allocated to this subprogramme. All transversal contracts that provide goods and services to a number of programmes must be allocated to this subprogramme, unless there is an obvious method for breaking such expenditures up between the relevant programmes.

Where departments spend on catering related to management, planning, budgeting and reporting activities, those costs should be budgeted for under this subprogramme.



### 4.3 District management

1.3	District Management	Provides for the decentralisation, management and administration of services at the District level within the Department.	<p>This sub-programme supports decentralised management and will to a lesser extent mirror the provincial head office functions. The key management and support functions provided at the District level are listed as follows:</p> <ul style="list-style-type: none"> <li>• Office of the Head of the Region/District</li> <li>• Programme Support Services</li> <li>• Finance</li> <li>• Supply Chain and Asset Management (including Transport)</li> <li>• Human Resource Management (including labour relations)</li> <li>• Human Resource Development</li> <li>• General administration</li> <li>• Monitoring and evaluation</li> <li>• Quality Control and Customer Care</li> <li>• Communication, data collection and Information dissemination</li> </ul>
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This subprogramme provides for the decentralisation, management and administration of services at the regional level within the department and includes the cost of staff involved in the management of activities across districts and service regions. Managers of district offices and the assistant managers fall within this category. The salaries of administrative support staff working in district offices and service offices should be allocated to this subprogramme. These officials are not directly involved in the delivery of specific services, but coordinate activities within a specific geographic area. Operational costs such as travel and subsistence incurred by these officials in carrying out their duties should be allocated to this subprogramme.

Note that where officials are primarily involved in providing support to NPOs, the budgets for their salaries should be located under Programme 5.3: Institutional capacity building and support to NPOs.

## 5. Management and Support versus the other subprogrammes

In the old budget structure, Programmes 2 and 3 each had a subprogramme: Professional and Administrative Support (or similar). The subprogramme X.1: Management and Support in each of the service delivery programmes serves a similar purpose. However, there is some confusion over what should be placed in these subprogrammes. The guidance previously given regarding the Management and Support subprogramme is as follows:

2.1	<b>Management and Support</b>	Provide for the payment of salaries and administration cost of the management and support staff providing services across all sub-programmes of this programme.	<ul style="list-style-type: none"> <li>• Professional Development</li> <li>• Professional Ethics</li> <li>• Provision of tools of trade</li> <li>• Overall administration and salaries of Officials that cannot be allocated directly to one or more (proportionally divided) of the other sub-programmes under the programme</li> </ul>
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The purpose of the Management and Support subprogramme is to provide for the payment of management and support staff salaries and the administration cost of providing support services across all subprogrammes under that programme (note this does NOT include professional staff).

The following table sets out rules around allocating the biggest expenditure items to the Management and Support subprogramme and the other service delivery subprogrammes.

Expenditure Item	Management and Support	Other subprogrammes
<b>Compensation of personnel</b>	Staff involved in general management and administrative support to the subprogrammes, including staff that process the payment of NPO transfers.	<p>The salaries of field staff should be shared across the subprogrammes in proportion to how much time they spend on each subprogramme. Given that information in this regard is not available, assumptions based on a reasonable judgements should inform the allocations.</p> <p>The salaries of staff that only provide services within a specific area must be allocated to the relevant subprogramme. These are the default rules that provinces should comply with. If a province cannot comply with these requirements they must put in place measures to progressively comply.</p>
<b>Goods and Services</b>	<p>Contracts for items managed by the budget manager of this programme that affect more than one subprogramme. The cost of contracts for goods and services such as car fleets and IT equipment that relate directly to the management of the programme, and are not placed in Programme 1, should be reflected here.</p> <p>If bulk purchases of stationary for the programme are made then the cost should be budgeted here.</p> <p>Costs related to capacity building of NPOs on general matters such as governance, administration and financial management that are not specific to a service, should be allocated to subprogramme 5.3: Institutional capacity building and support to NPOs.</p>	<p>Costs of goods and services on which expenditure is triggered by the delivery of services or events directly related to the relevant service delivery subprogramme should be budgeted here.</p> <p>The cost of hiring a car/bus for an event that is clearly within a subprogramme must be budgeted here.</p> <p>Accommodation for an event that is only related to a subprogramme must be budgeted under a subprogramme.</p>
<b>Communication costs</b>	General communication costs that apply to the programme should be allocated to Management and Support.	Communication costs that relate to a specific area of service (e.g. an awareness booklet on child abuse) should be allocated to the relevant subprogramme.
<b>Transfers and subsidies</b>	No transfers and subsidies should be allocated to this subprogramme.	All transfers and subsidies should be budgeted for under the relevant subprogramme.
<b>Agency and Support/Outsourced Services</b>	If these are procured through a central contract and costs apply to some or all subprogrammes then they should be allocated to Management and Support, unless it is possible to split the costs sensibly between different subprogrammes.	If the costs only apply to one subprogramme they must be allocated to the subprogramme

Expenditure Item	Management and Support	Other subprogrammes
<b>Property payments and buildings leases</b>	Property payments and contracts for building lease agreements are most likely to be allocated under subprogramme 1.2 – especially if they relate to administrative facilities – or serve the entire Vote. If the building lease relates to the management of a specific programme then these costs should be allocated to the relevant Management and Support subprogramme.	If the property payment and building lease agreement relate directly to the provision of a service, such as payments related to the running of an old age home or similar facility, then they should be reflected under the relevant service delivery subprogramme.
<b>Outsourcing contracts</b>	If the outsourced contract relates to the management of a particular programme, or serves all the subprogrammes then the costs should be allocated to Management and Support.	Outsourced projects related to the provision of a specific service should be allocated to the relevant subprogramme.
<b>Other machinery and equipment</b>	Other machinery and equipment that is shared and used in all subprogrammes should be allocated to the Management and Support subprogramme, unless it is possible to split the costs sensibly between different subprogrammes.	Other machinery and equipment that is only used within a subprogramme should be budgeted for under the relevant subprogramme.

## 6. Allocation of personnel budget & expenditure to service delivery subprogrammes

The National Treasury, working with the national Department of Social Development, has scheduled training workshops for officials from provincial DSDs that are responsible for working with BAS and PERSAL. The workshops will focus on ensuring these two systems are correctly linked, and on how to allocate personnel across different 'objectives' in PERSAL. The aim of these training workshops is to assist provinces in ensuring PERSAL allocates personnel expenditures to the correct Objectives in BAS – which is part of a broader process of ensuring the baselines for each of the subprogrammes are correct. From the analysis undertaken, this appears to be the key challenge to implementing the PBS correctly.