

A FRAMEWORK FOR ACHIEVING SPENDING EFFICIENCY IN A FISCALLY CONSTRAINED ENVIRONMENT



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Table of Contents

Background.....	3
Steps to be considered when thinking about ZBB: a theoretical framework shaping the implementation of spending reviews	4
The implementation of spending reviews	6
Roles and responsibilities	7
The budget process	9
Initial project plan.....	12
Conclusion	13

Abbreviations

BAS: Basic Accounting System

DPME: Department of Planning Monitoring and Evaluation

FOSAD: Forum of South African Directors-Generals

GDP: Gross Domestic Product

GTAC: Government Technical Advisory Centre

TCF: Technical Committee on Finance

MINCOMBUD: Ministers' Committee on the Budget

MTBPS: Medium Term Budget Policy Statement

MTEC: Medium Term Expenditure Committee

MTEF: Medium Term Expenditure Framework

MTSF: Medium Term Strategic Framework

NEDLAC: National Economic Development and Labour Council

NCOP: National Council of Provinces

OECD: Organisation for Economic Co-operation and Development

PERSAL: Personal and Salary System

ZBB: Zero-Based Budgeting

Background

Since the introduction of the medium term expenditure framework, South Africa has been implementing the traditional approach of incremental budgeting mainly using the consumer price index as a measure. This approach, however, focuses on changes in the margins of spending rather than at the core of spending. It, however, gives budgets stability and political sustainability over time. This approach does not guarantee efficiency in the allocation of resources and generates inertia.

In recent year government introduced other measures that could be used to improve spending. These include the framework for managing programme performance information, budget programme structure guidelines, performance information handbook and tool as well as publication of quarterly performance information. This was to align the medium term expenditure framework to the shift in focus from the traditional approach. The aim was to better focus on the analysis of budget appropriations and link budget decisions with government performance. Since these reforms were still implemented together with the traditional approach, the value for money that was envisaged was not achieved.

South Africa continues to experience a mismatch between spending plans and revenue outcomes. Since the 2008 financial crisis, government spending has been consistently higher than revenue, leading to substantially higher government debt. Since then government has been reducing the growth of spending by focusing on underspending programmes and those which are growing much faster than consumer price inflation. The recent round of budget reductions, an across the board decrease approach in allocation for all programmes was implemented. The most significant disadvantage of this approach is the fact that some programmes become inefficient as a result of large reductions. This necessitated the conversation on conducting spending reviews. Spending reviews help support fiscal rigor and more efficient allocation of expenditures. This approach has been used across countries since the 2000s and has proven to be very effective (OECD presentation).

The main objectives of the spending reviews are to:

Improve spending efficiency over the medium term

The Auditor –General of South Africa recently reported that irregular government expenditure is rising. Fruitless and wasteful expenditure, which is essentially money that is spent in vain, is also rising. This remains a perpetuating problem which results in misappropriation and wastage of scarce resources.

Operational improvements leading to improved programme impact

A number of programmes were implemented several years ago for a specific time and purpose. Some of these programmes may be redundant to current priorities of government and may no longer warrant allocation of funds. On the other hand, such programmes have remained in existence since they were launched.

Short-term budget cuts to reduce the budget deficit

South Africa incurs budget deficit every year post 2008 financial crisis. In 2019/20, the budget deficit amounted to around 6.25 per cent of GDP and in the 2020/21 fiscal year forecast, the deficit is projected to amount to 15.7 per cent of the GDP. This is the largest budget shortfall since the end of the apartheid era mainly due to an increase in expenditure to respond to COVID-19 and a significant fall in economic growth and revenue. If perennial growth in expenditure is not resolved, whilst revenue collection remains low, this will exacerbate the fiscal problem.

The main targets of these spending reviews will be:

- Reallocation of spending to match current government priorities
- Medium to long term improvements in spending efficiency
- Minimise the impact of spending reduction on service delivery while rapidly reducing the budget deficit
 - Elimination of programmes that are no longer serving their intended purpose

While conducting spending reviews is not too technical, **there are some challenges that arise in the implementation of these reviews (both the technical work and the recommendations), including:**

- Availability and the quality of performance information

- Inattention and/or time constraints for implementation
- Political support both at an executive level and the legislature
- Capacity and skills set needed

Steps to be considered when thinking about ZBB: a theoretical framework shaping the implementation of spending reviews

As a starting point towards charting the process for the implementation of the proposed zero-based budgeting framework (ZBB) in South Africa, a top/down and bottom up approach is proposed, which means:

- Parliament sets the spending ceiling through the budget; and
- Departments work within their baselines to improve efficiency and reprioritise through the use of spending reviews.

Departments do this by following 4 key steps of Pharr's (1977) theoretical framework for implementing ZBB in line with the South African budgeting system.

Step 1: identify "implementation programmes"

One of the objectives of ZBB is to focus management's attention on the evaluation of activities and making decisions. Accordingly, to enable managers to do this, 'meaningful elements' or 'decision units' of each aspect of the organisation must be defined and isolated for analysis and decision making. For organisations with a detailed budget unit or cost centre structure as in the South African government, the 'decision unit' may correspond to that budget unit or cost centre or even the subprogramme in some cases. Spending reviews will be used to assist departments to identify programmes in which they can implement ZBB. Accordingly, departments will also have the discretion to identify their own implementation programmes for implementation of ZBB. Below is a minimum criterion for selecting an implementation programme.

Identify implementation programmes Definition/features of an implementation programme	Minimum eligibility requirements for implementation programmes to be selected for further analysis by the departments
<p>An "implementation programme" is a set of organized but often varied activities directed towards the achievement of specific policy aims.</p> <p>An implementation programme may encompass several different projects, activities and processes and may cross departments or spheres.</p>	<ul style="list-style-type: none"> • Proportion of the implementation programme's budget relative to other programmes. • Composition of spending (compensation of employees should not account for majority of the programme's budget). • Consistent underspending and or surplus as well as non-financial performance for the past three financial years • Implementation programme no longer aligned to departmental mandate. • Provided there are multiple stakeholders - buy in should be obtained from all main stakeholders involved in the design for the programme, implementation, budgeting, funding, monitoring and evaluation that feeds into oversight and reporting. • All main stakeholders should agree on the implementation programme to be isolated for analysis and decision making.

Step 2: Analyse each 'implementation programme' in a 'decision package'

The 'decision package' is the building block of the ZBB concept and represents a document that identifies and describes each 'implementation programme' in such a manner that the department is able to i) evaluate it and rank it against other implementation programmes competing for funding and ii) decide whether to approve it or not. A 'decision package' should provide the department with information that will enable it to evaluate each implementation programme. Generally, the information should include the following:

- The purpose or objective of the 'implementation programme'
- Description of actions – what the implementation programme does, is going to do and how
- Costs and benefits
- Performance measures
- Alternative means of accomplishing objectives
- Various levels of effort – benefits that the department will get for various levels of funding

Formulation of meaningful alternatives is the key to developing a decision package as it answers the question: 'if not this way then which way'? There can be more than one alternative in achieving objectives. Similarly, it is important that each decision package includes an indication of different levels of effort for performing the operation or achieving the objectives. The department must establish a minimum level of effort, which must be below the current funding level; the current level of effort; and additional levels or increments of effort for achieving higher performance.

Step 3: Evaluate and rank all the formulated decision packages to develop the appropriations request

The following considerations will aid the department in defining the minimum level of effort. These include:

- The minimum level may not completely achieve the total objective of the operation thus making a case for consideration of an increment.
- The minimum level should address itself to the most critical population being served or attack the most serious problem areas.
- The minimum level may merely reduce the amount of (or a number of) service(s) provided.
- The minimum level may reflect operating improvements, organisational changes or improvements in efficiency that result in cost reductions.
- A combination of the above.

Once the different levels of effort have been defined, these are ranked in order of priority. The ranking process provides the department with the opportunity to allocate its limited resources in line with its key priorities. This process therefore establishes priority among the incremental levels of each implementation programme. Each decision package thus presents several alternatives for decision making, that is, a) either the operation may be eliminated if no decision packages are approved b) a reduced level of funding may be approved, that is, the minimum level of effort c) funding may be maintained at the same level if the current level of effort is approved or lastly, there may be a need for increased funding if one or more increments above the current level are approved.

The evaluating and ranking of the formulated decision packages should be based on value for money – rand value spent per outcome measure, which means:

- Rank according to the output achieved relevant to the funding spent; and
- Benchmark against market information.

Step 4: Prepare the detailed operating budget of the selected decision packages

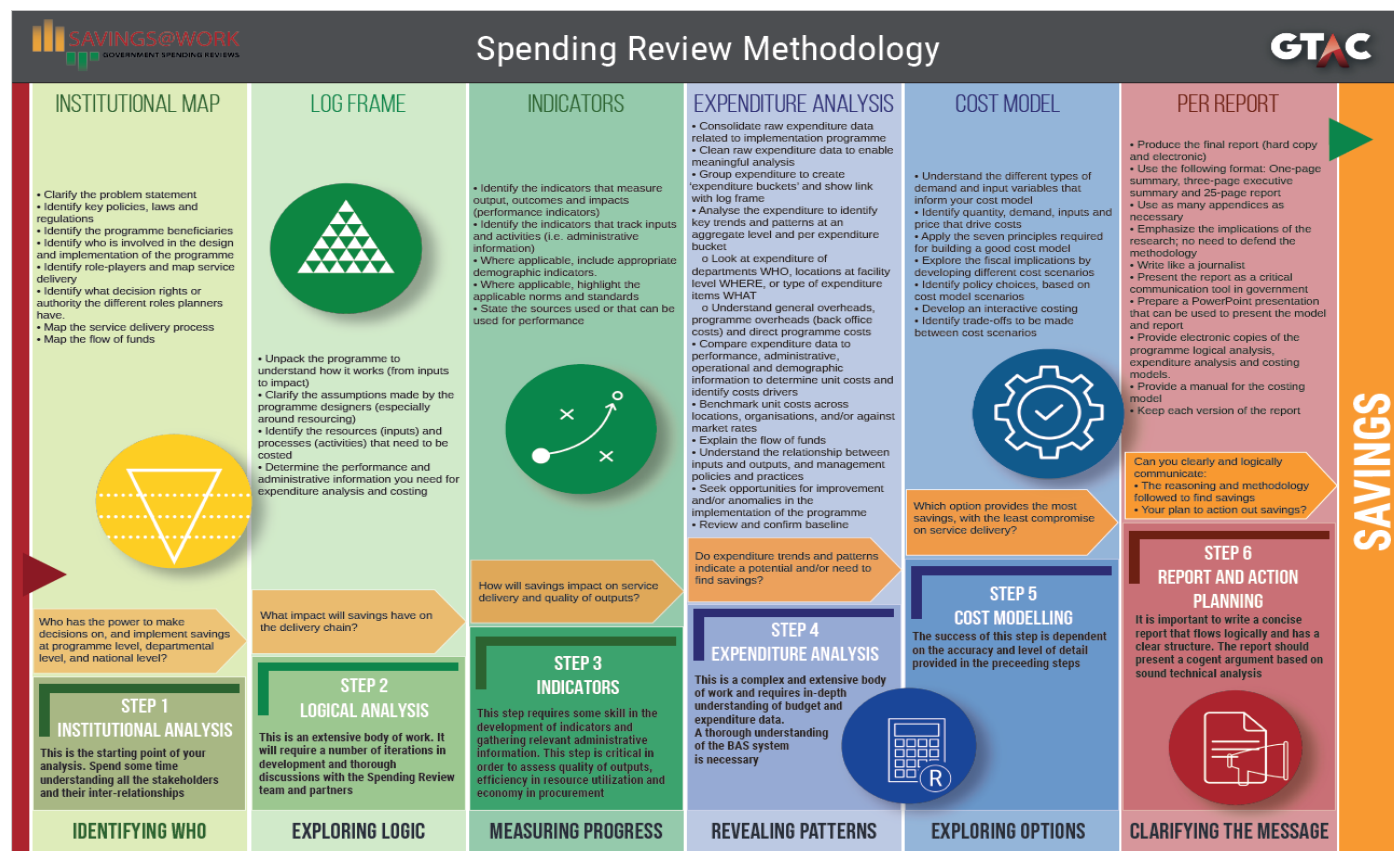
In the final analysis, the department will have a number of decision packages which define the budget of each implementation programme. The decision packages will also define the specific activities and performance anticipated from each programme. This information will then provide the basis for the development of both the budget and operational or performance reviews during the year.

A standard template to be used by the two piloting departments, Public Enterprises and National Treasury will be designed.

The implementation of spending reviews

The spending review methodology allows officials to probe expenditure trends in great detail and, understand the articulation between policy goals and budget needs from a unique perspective. The reviews provide a detailed understanding of policy and programme logic, which is then combined with readily available expenditure data from government’s accounting systems (BAS and PERSAL). In a series of systematized steps, expenditure and cost drivers are analysed and unit costs estimated. These expenditure analyses inform cost models that anticipate different spending scenarios and articulate the impact on service delivery of such scenarios. Priority is given to identifying potential opportunities to improve value for money, be it in the form of savings or improvements to programme designs. However, in the current constrained fiscal environment, spending reviews will, of necessity, have to propose spending reductions and programme redesign. This will necessarily lead to the closure of some non-core and redundant programmes. Departments will have to recognise that there are no “holy cows” to finding savings and allowing for reprioritisation.

The main analytical work will be done by the National Treasury officials, supported by the Government Technical Advisory Centre (GTAC). As is normal in the course of the annual budget cycle, line departmental officials will be involved in the process through bilateral and multilateral discussions, which include provincial representatives, and through the medium term expenditure committee structures (MTEC). Function groups will play a critical role in implementing for the spending reviews. The development of the spending reviews in budget function groups allows for a government-wide perspective to be developed that will include scenarios for concurrent functions. Provincial Treasury officials will be involved to allow for an articulation between the analytical work and various decision-making processes in provinces. Information should feed into provincial processes and provincial views should inform the national process.



Roles and responsibilities

There are numerous stakeholders, who all play an important role in the budget process to ensure equity in the distribution of state resources, and that there is equal representation of the interest of all citizens in the Republic of South Africa. This framework proposes the following key stakeholders: Cabinet, Parliament, Nedlac, National Treasury and government. A distinction between the current role and foreseeable role is provided, as well as the research findings emerging from the cross comparison analysis that was conducted on countries who have or are implementing the ZBB budgeting reform.

Key stakeholders in the ZBB process

National Treasury works on the ZBB framework then presents to Cabinet, Parliament and Nedlac.

1

Once approved, National Treasury works with departments to implement the framework

2

National Treasury presents the outcomes of the spending reviews to Cabinet

3

Once approved by Cabinet, departments implement these findings

Summary of the roles and responsibilities

Institution	Roles
Cabinet	<ul style="list-style-type: none"> • Cabinet will in light of the Zero Based Budgeting (ZBB) framework conduct policy priority ranking as aligned with the Medium Term Strategic Framework (MTEF) priorities as well as that of the ruling political party. • These national policy priorities are set by Cabinet, which in turn forms the basis of the planning and budgeting process. • The Minister of Finance will during the process provide recommended spending ceilings as well as the ZBB outcomes to cabinet.
Parliament	<ul style="list-style-type: none"> • The ZBB framework will provide Parliament with a clear understanding of the methodology and approach to the rollout of the process throughout departments over the MTEF period. • Furthermore, departments will be required during the rollout process to provide Parliament with information on the outcomes of the ZBB which has been undertaken in the said departments in order to allow greater oversight.

	<ul style="list-style-type: none"> Monitoring spending and performance in line with priorities identified through the ZBB process
NEDLAC	<ul style="list-style-type: none"> Stakeholder engagements and discussions on the ZBB framework and implementation
National Treasury	<ul style="list-style-type: none"> The National Treasury to play a shadow role, provide guidance but not drive the process Develop and publish the ZBB framework, which sets out a clear methodology and the parameter of the exercise Integrate the ZBB into the budget process Recommend the top-down expenditure ceilings to Cabinet Provide constant monitoring and follow up of the ZBB process, and set out clear timelines for feedback reporting purposes Provide departments with capacity and skills training from external experts on the process Lock the ZBB findings into multi-year budgets, ensure in-year follow-ups Facilitate the process of piloting the ZBB on the two departments mentioned in the second adjustment budget process Bare the financial implications emanating from the ZBB process (Catch 22 scenario, invest money in order to save money). Work closely with strategic departments, such as DPME & DPSA
Departments	<ul style="list-style-type: none"> Adhere to ZBB timeframes. Extensive evaluation of programme efficiency and effectiveness and the evaluation and prioritisation of different levels of effort. Outcomes of programme evaluations by the DPME can be used for this. Internal and external communication external (between departments: concurrent functions and levels of management to arrive at optimal decisions on approaches and approvals). Determine decision packages amounting to the total budget request. Identify and define activities or projects with purposes. Determine cost categories, costing through conducting spending reviews and cost benefit analysis. Identify different funding levels with effect on capability of the activity to perform stated objective. Determine alternative approaches to complete the same objective. Specify implications for selected or not selected approaches. Data input, control and consolidation
Department of Planning Monitoring and Evaluation (DPME)	<ul style="list-style-type: none"> Planning documents should be aligned to the ZBB process through reducing time frames. In addition, institutions will continue to manage and monitor implementation of advised ceilings and headcount numbers with the view to identify the sources of cost pressures to ascertain corrective measures, with the support of treasuries. Alignment of annual National Evaluation Plan with programmes identified by departments for purposes of ZBB assessment Timely complete the programme evaluations to assist departments to make final decisions on ZBB evaluations Monitor progress of the ZBB from the performance point of view
Concurrent functions	<ul style="list-style-type: none"> Relevant statutory regulations (Schedule 4 and 5 of the Constitution, Intergovernmental Fiscal Relations Act (1997), Intergovernmental Relations

Framework Act (2005)) remain unchanged in terms of powers, responsibility and functions.
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The budget process

Function budgeting was introduced during the 2010 Budget as a mechanism to reflect government’s “outcomes-based approach”. Programmes and activities are grouped according to broad policy purposes or types of expenditure – functions. All government institutions that contribute to achieving a particular outcome are grouped in a function workgroup. Function groups comprise all national, provincial and local government institutions that contribute to achieving a particular outcome, such as health, education and housing. An example of a function budget group is that of health, which links to the national outcome of a long and healthy lifestyle for all South Africans. The introduction of spending reviews should form part of this budget process by enhancing it rather than replacing it.

MONTH	TASK	ROLE-PLAYERS	FORUM/S	OUTPUTS REQUIRED
June – July	<p>Compilation of budget submissions by departments and public institutions. Departments will be using spending reviews for these submissions.</p> <p>Formulation of recommendations to technical committees based on the outcomes of the spending reviews</p>	<p>Departments</p> <p>Public institutions</p> <p>National Treasury</p> <p>Department of Public Service and Administration (DPSA)</p> <p>Department of Planning, Monitoring and Evaluation (DPME)</p> <p>Department of Cooperative Governance (DCoG)</p>	Bilateral and technical group interactions ¹	Written and data budget submissions to function groups based on spending reviews

² Technical group meetings are held, in which relevant departments, public entities and provincial structures participate. Technical groups, and the function groups that they are housed within, are aligned with particular outcomes specified in the MTSF. The technical group considers submissions by institutions and discusses the reallocation of resources within the group as a whole (including constitutional institutions).

MONTH	TASK	ROLE-PLAYERS	FORUM/S	OUTPUTS REQUIRED
End June – July	Consultation between the Executive Authority of Parliament and Minister of Finance before submission of budget by Parliament of South Africa (in line with s17(1) (b) (d) of Financial Management of Parliament and Provincial legislatures Act, 2009	Minister of Finance Speaker of National Assembly Chairperson of National Council of Provinces (NCOP) Secretary of Parliament	MTEC hearings	Recommendations to Minister of Finance
End July – September	Formulation of recommendations to technical and political committees	Departments Public institutions Function groups Technical Committee on Finance (TCF) MTEC	Function group interactions ² 10x10 meeting/s ³ MTEC hearings TCF meeting/s FOSAD	Recommendations to political committees on information to be tabled in MTBPS, need to include: <ul style="list-style-type: none"> • fiscal framework • key national government spending priorities • division of revenue • substantial adjustments to conditional grants
End September – October	Formulation of recommendations to Cabinet	MINCOMBUD	MINCOMBUD meeting/s Cabinet meeting/s	Approval of recommendations to be tabled in MTBPS

² Function group hearings are DG's hearings on budget policy or other meetings involving senior officials from relevant institutions and experts from the relevant field. In this setting, several technical groups may be brought together to consider submissions by institutions and discuss the allocation of resources across the function as a whole. Function groups may also be called to present at MINCOMBUD technical meeting hearings.

³ In function areas with a large degree of concurrent powers, a 10x10 meeting, comprised of the heads of the nine provincial departments and one national lead department in the function together with their finance counterparts, may be convened as a substitute or complement for the work of the function group.

MONTH	TASK	ROLE-PLAYERS	FORUM/S	OUTPUTS REQUIRED
End October	Tabling of the MTBPS	Minister of Finance Parliament		MTBPS publication including: <ul style="list-style-type: none"> • fiscal framework • key national government spending priorities • division of revenue • substantial adjustments to conditional grants
End October – November	Draft allocation letters Finalisation of details of National government allocations to be included in Budget	Function groups MTEC MINCOMBUD Cabinet	MTEC hearings FOSAD MINCOMBUD meeting/s Cabinet meetings	Final national government allocation letters
December – February	Finalisation of recommendations to be tabled in Budget Drafting of budget documentation	MTEC MINCOMBUD Cabinet National departments and public institutions	MTEC hearings FOSAD MINCOMBUD meeting/s Cabinet meetings	Budget review publication Appropriation bill Division of revenue bill Estimates of national expenditure publications People’s guide to the budget Tax proposals
February	Tabling of budget	Minister of Finance Parliament		Budget tabled
March – July	Adoption of budget expenditure legislation	National Assembly National Council of Provinces	Hearings Debates Adoption of bills	Budget adopted

Initial project plan

		Apr				May					June				July			Aug									
		8	15	22	29	5	12	19	26	3	10	17	24	31	7	14	21	28	5	12	19	26	2	9	16	23	30
Inception	Invite Steering Committee members																										
	Finalise website, update																										
	Finalise project plan																										
	Steering Committee 1: project plan, aims & goals for S.R 2021 confirmed Mampho to FOSAD on S.R. 2021 & Conference				23																						
	Email to all NT participants with invitation to launch of project, including booklet and online resources (Mampho's office)				25																						
	Email to all National dept DG with invitation to launch of project (Mampho's office)				26																						
	GTAC team preparatory workshop				22-26																						
	Onboarding workshops for 2021 S.R with PF - Aim of S.R - Institutionalisation - Topic selection/ data issues - Report writing template				30																						
	Confirm logistics of name of participants																										
	Onboarding workshops for 2021 S.R with National Departments - Aim of S.R - Introduction to methodology/ website - Cluster break aways (topics, data etc) - Plenary					8																					
Topic finalisation and feedback to Steering Committee																											
Aim / Goal for 2021 S.R expressed in NT Budget guidelines																											
Conference	Invites out																										
	Preparatory session																										
	Conference																										
Level 3 Analysis	Steps 1 to 3: Institutional maps, business processes and indicators																										
	GTAC planning workshop																										
	Workshop																										
	Working sessions- checking in by TA weekly																										
	Interview programme managers																										
	Submission of outputs																										
	Quality assurance with CD																										
	Step 4: Expenditure Analysis																										
	GTAC planning workshop																										
	Workshop																										
	Working sessions																										
	Submission of outputs																										
	Quality assurance																										
	Show and tell (Exp analysis and possible savings)																										
	Step 5: Savings and Trade Offs																										
	Workshop: Savings and Trade offs																										
	Workshop: Writing skills																										
	Working sessions																										
	Submission of outputs																										
	Quality assurance																										
Step 6: Recommendations & Report																											
Working sessions																											
Submission 1st draft																											
Submission 2nd draft																											
Final draft																											
Recommendations & institutionalisation: way forward																											
Governance	Governance																										
	Governance docs to Mampho																										
	Steering Committee meetings				23																						

Conclusion

The need for fiscal consolidation in government has necessitated the need to review all baseline allocations through a sounder methodology rather than an across the board budget reductions. Many spending programmes have been created over several years and now it is time to evaluate appropriateness. One way to do this would be to use zero-based budgeting. Accordingly, the introduction of ZBB is intended to enable government to improve prioritisation of its spending, mainly towards key policy priorities and growth-enhancing programmes. This will be done through spending reviews which allow officials to probe expenditure trends in great detail and, understand the articulation between policy goals and budget needs from a unique perspective. The reviews provide a detailed understanding of policy and programme logic, which is then combined with readily available expenditure data from government's accounting systems. The entire executive and legislature will play a critical role in the implementation of the finding of these reviews. The aim is to incorporate the spending review in the current budget process to enhance the analysis of budget submissions.