Technical Oversight over the Annual Budget

Presented by Tania Ajam

A Fiscal Oversight and Budget Analysis Course for the Portfolio Committee on Minerals and Energy
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Budget Analysis Outcomes

- Understand budget and budget structure
- Understand Legislative provisions pertaining to budget
- Aware of where to find data
- Purpose and role of budget analysis
- Categories of questions and types of analysis

What is a budget?

“A Budget is a set of documents that includes the plan of the future financial activities of the government or a governmental organization. The budget is generally prepared annually, and comprises a statement of the government’s proposed revenues, expenditures, borrowing and other financial transactions” - (National Treasury, 2006)

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Prioritization Process
1. Vote for political party every 5 years
2. Parliament elects President and executive
3. Minister’s Committee on the budget (MinComBud) approve broad priorities
4. Medium Term Expenditure Committee (MTEC) reviews finer details

Sources of Data
- National Government
  - State of Nation Address, Government Programme of Action, Apex priorities
  - Estimates of National Expenditure, appropriation bill
  - Medium term budget policy statement (MTBPS)
  - DORA
  - National Budget Review
  - Strategic plan, quarterly reports, annual reports
- Provincial Government
  - Intergovernmental Fiscal Review
  - Appropriation Bill
  - DORA
  - Auditor – General’s report
  - Provincial Growth and Development Strategy (PGDS)

Definition of Budget Analysis
- Budget analysis is an ART and not a Science.

Purpose of Budget Analysis
- Key question: “To what extent does the budget - and the resource allocation it describes - reflect policy decisions taken by the department, province or country as a whole?”

Policy – Budget – Delivery link at diff. sectors

Categories of Questions BA can Ask
- Chronological
- True or false
- Informational
- Logical
- Analytical

Types of Analyses
- Policy
- Risk
- Efficiency
- Management
- Cost and Benefits
- Evaluation
Activity 1: Uses of budget information

- The budget can be used as:
  - A political tool
  - A management tool
  - A fiscal tool influencing the macroeconomy
  - An accountability instrument

Questions:
1. For each of the uses of the budget listed above, what sort of information would you need?

Budgeting System and Oversight

- Understand and explain the budgeting system in South Africa
- Be familiar with the existing oversight practices in South Africa

Budgetary Principles

- Aggregate Fiscal Discipline
  - Effective control of resources

- Allocative Efficiency
  - Allocating resources according to strategic priorities

- Operational Efficiency
  - Utilizing resources in a way that maximizes outputs

Formulation of Budget

1. Policy Prioritization
   - Starts with setting priorities and deals with inevitable trade-offs at Cabinet / EXCO level

2. Financial Planning
   - Splitting fiscal resources among competing needs
   - Achieving value for money
   - Requires analysis of cost of each activity

3. Budgeting
   - Sets out expected resources to achieve agreed outputs

Implementing the Budget (1)

4. Financial Management
   - Mix of human skills, institutional & regulatory arrangements and information collection procedures

5. In-year Monitoring
   - Various 'levels' of monitoring (e.g. activity manager, political office bearer, legislature – to track allocative eff.)

6. Control
   - Financial control at management level
Implementing the Budget (2)

7. Reporting
   - Should include info. On type of output, intended outcome, unit cost of output, target population and areas of service delivery
8. Accounting
   - Recording & reporting financial transactions by org.
   - Cash based vs. Accrual based accounting system
9. Auditing
   - Objective analysis of org’s management & financial practices
   - Internal control system
10. Legislative oversight
    - Efficiency, effectiveness, economy and equity of public expenditure
    - Were intended policy outcomes achieved?

Activity 2: Implementing the budget

- For each stage of the budget implementation process described below, say how it relates to legislative oversight:
  1. Policy prioritisation
  2. Financial planning
  3. Budgeting
  4. Financial management
  5. In-year monitoring
  6. Control
  7. Reporting
  8. Accounting
  9. Auditing

Accountability - Definition

"The action of overseeing something, supervision, inspection; charge, care, control" (New Shorter Oxford Dictionary)

The legislative role in oversight refer to the “Monitoring, supervising and reviewing the actions of the executive and admin. Arms of government”

Elements of Accountability

- Accountability
  - By whom?
  - For what?
  - To whom?
  - Against what standards?

Types of Accountability

<table>
<thead>
<tr>
<th>INSTITUTION</th>
<th>RESPONSIBLE FOR</th>
<th>OVERSIGHT TO</th>
<th>ACCOUNTABLE TO</th>
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<tbody>
<tr>
<td>Parliament / NCOP</td>
<td>Oversight</td>
<td>Cabinet</td>
<td>Constituency</td>
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<tr>
<td>Legislature</td>
<td>Oversight</td>
<td>Provincial Govt.</td>
<td>Constituency</td>
</tr>
<tr>
<td>Cabinet / Provincial Executives</td>
<td>Outputs / efficiency</td>
<td>Ministers / MECs</td>
<td>Legislature / Provincial Exec</td>
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<tr>
<td>MECs</td>
<td>Outputs</td>
<td>Dept Managers / HODs</td>
<td>Cabinet / Provincial Exec</td>
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<tr>
<td>Departmental Manager / HODs</td>
<td>Transformation of inputs into outputs</td>
<td>Administrator</td>
<td>Legislature / Provincial Exec</td>
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Financial Oversight

Finance Committee and sector Portfolio Committees

- Audit Departments and preparing audit reports

Auditor – General

- Review departmental financial statements after A – G has audited them

SCOPA

- Assess departments budgetary decisions
Analyzing Strategic Plans

PFMA regulations (1)

1. The strategic plan must:
   - Cover a period of at least three years and be consistent with the national or sub-national strategy, as published and law and other relevant legislation.
   - Include specific performance indicators and targets.
   - Include the detailed budget and financial forecasts for the period covered by the plan.
   - Include the details of the proposed acquisition or disposal of capital assets, planned capital investments and the liabilities and maintenance of physical assets.
   - Include details of the proposed acquisition of land or mortgage capital assets, planned capital investments and the liabilities and maintenance of physical assets.

PFMA regulations (2)

6. Include details of the proposed acquisition of financial assets or capital items and plans for the management of financial assets and liabilities.
7. Include a one-year projection of income and proposed receipts from the sale of assets.
8. Include details of the Service Delivery Programme/Plan, including the number of proposed activities and the corresponding expenditure.
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Technical compliance: Formats

- Ideally the department should have:
  - A five year strategic and performance plan (SPP)
  - An annual performance plan (APP) or operational plan
- Why is it better that the strategic plan’s horizon is 5 years rather than three years?
- What is the difference between an SPP and an APP (operational plan)?

Overview: Components of SPP

Source: Conrad Barberton, 2005, Cornerstone
SPPs and APPs

Reconciliation with Budget

Whole of Department
Sub-programme
Programme

Changes to Strategic Goals

Changes to Overall Strategic Objectives

Measurable Objectives

Revise Situation Analysis

Situation Analysis (if required)

Annual Performance Plan

Part A

Part B

Part C

Part D

Part E

Linkages between plans

- Provincial growth and development strategy
  - Goals
  - Objectives
  - Strategies
  - Programmes
  - Projects
  - Indicators
  - Targets

Operational plans may also include:
  - Measurable objectives
  - Major activities
  - Performance measures and targets
  - Responsibilities (consultation, coordination, monitoring, reporting, delivery, approval)
  - Physical asset requirements
  - Cash flow plan (Activity-based and SCOA format)

Budget

- Strategic objectives
- Measurable objectives
- Performance measures and targets
- Budget estimates (subprogramme-based and SCOA)
Cooperative service delivery: Clusters

GPoA outcome (Long term impact)

Sector 1 outcome
Sector 2 outcome
Sector 3 outcome

Immediate outcome
Intermediate outcome

Output
Prog/SP budget
Strat plan & APP

PROVINCIAL GOALS

Systematic poverty eradication
Agrarian transformation
Development of manufacturing and tourism
Human resource development
Infrastructure development
Public sector transformation

Intermediate outcome
Immediate outcome

Output
Prog/SP budget
Strat plan & APP

EC AGRICULTURE GOALS

Sustainable utilization of natural resources
Strengthen food security
Increase economic activity from agriculture
Provide enabling legislation
Facilitate access by disadvantaged farmers
Improve competitiveness and profitability
Ensure change management and good corporate governance

Output
Prog/SP budget
Strat plan & APP

GOVT POA PRIORITIES

ENSURING ALIGNED AND SUPPORTIVE MACRO-ECONOMIC APPROACHES
BUILDING A COMPETITIVE AND LABOUR-ABSORBING ECONOMY THROUGH INDUSTRIAL POLICY (e.g. biofuels licencing, climate change scenarios, water usage scenarios)
MASSIVELY INCREASE PUBLIC INVESTMENT (e.g. improved energy efficiency campaign, framework for economic regulators)
EQUITY AND DEVELOPMENT
ENSURE PRIORITY SKILLS FOR THE ECONOMY

Whole departmental planning (1)

Vision
Mission
Values
Strategic goals

Vision

A vision should be:

a short statement of what will be in existence once the department has implemented its plans.

Vision examples

KZN Dept. of LG & TA Vision
"PEOPLE-CENTRED SUSTAINABLE LOCAL GOVERNANCE"

DME Vision
World Class minerals and energy sector through sustainable development
Mission statement should include:

- The core service the department provides.
- What the department's current priorities are.
- A quality statement about that service.
- Geographical areas the service is provided in.
- A statement on how the department is organised to provide that service.

Mission examples

KZN Dept. of LG & TA Mission Statement:

"The Department will promote PEOPLE-CENTRED, ACCOUNTABLE AND VIABLE LOCAL GOVERNANCE THAT ACCELERATES SERVICE DELIVERY AND ENHANCES SOVEREIGNTY.

Strategic goal

Describes a future end-state – desired outcome that is supportive of the mission and vision.

Strategic objective

More concrete and specific than strategic goals

Why?

Should relate to outputs of department

Unintended consequences of objectives?

Strategic objective

More concrete and specific than strategic goals

Why?

Should relate to outputs of department

Unintended consequences of objectives?
Activity: Strategic objectives

In groups, choose a programme. Review that programme's strategic objectives and answer the following questions:

1. Do the strategic objectives for the programme contribute to the strategic goals for the Department as a whole?
2. For each strategic objective note whether it relates to: service delivery, management/organisation, financial management OR training and learning.
3. Is the strategic objective achievable by the department? If not, can it be re-defined?
4. Other strategic objectives missing?

Performance measurement and management

Why assess Performance Measures?

- Assess achievement of objectives?
- Evaluate whether Outputs delivered?
- Institutional comparisons: benchmarking
- Productivity
- Output – outcome?

Defining objectives

"Measurable objectives" need to:
- Reflect organisational priorities.
- Be related to activities and resources.
- Adhere to S.M.A.R.T. principle:
  - Specific
  - Measurable
  - Appropriate
  - Realistic
  - Time-bound
  - E, and R?

Three components of a good objective

1. Primary output that the programme will achieve.
2. Intended impact that the programme's output will have on the public or client.
3. Level of performance.
   - The desired level of service delivery
Objectives checklist

Primary output
Is it observable?

Intended impact
Can you see what impact it will have?

Level of performance
Is it measurable?

What’s wrong with this MO?

The objective of Further Education and Training (FET) is to provide services in terms of the FET Act.

And, even more importantly, it does not state the impact of this objective on society.

Revised Objective

“To provide FET colleges with the required resources necessary to roll out and implement the requirements of the FET Act in KZN.”

Example Measurable Objective

“Reduce the failure rates of matric learners by increasing quality training at KZN schools within the targeted delivery period and according to prescribed standards.”

Surely, this is an appropriate measurable objective?

Change in focus

- Measurable objectives change the focus from activities to outputs and outcomes.
- For example:
  - From: Administer polio vaccines to children under 6 years old in certain hospitals.
  - To: Eradicate polio among children under 6 years in certain areas.

Further improvements?
Objectives checklist

Primary output
Is it measurable?

Intended impact
reduce the failure rates of matric pupils
Can you see what impact it will have?

Level of performance
within the targeted delivery period and according to prescribed standards
Is it measurable?

Activity: Measurable objectives

- Look at p 569 of the ENE. For each of the programmes, measurable objectives are given. For each MO,
  - Can you identify a primary output?
  - Can you identify an impact
  - Is there a performance standard?
    Remember to look at the performance indicator table on page 573 as well.
  - Can the MO be made more SMART? How?

Performance Measures & Indicators

- Performance measures and indicators are statements that describe the dimension of performance that is to be monitored.
- The dimension of performance to be monitored must be the most appropriate and under the control of the component.

Dimensions of Performance Measures

- Quantity
- Cost
- Quality
- Timeliness

Performance Measures & Indicators

- Describe outputs in terms of how much or how many.
- Require a unit of measurement (e.g. kg, litres, km).
- Examples:
  - number of students passing per year per grade;
  - number of schools built;
  - number of earmarked FET colleges invested in;
  - number of finance management personnel on SCoA, BAS training.

[National Treasury Generic Format for APPs]

Table 1: (Sub-) Programme X.Y: (NAME) Strategic Objectives, Measurable objectives, Performance Measures indicators and targets

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Cost
- Should reflect full cost of producing an output.
- Should include unit cost for each deliverable described under quantity targets.
- Examples:
  - Cost per unit of materials used;
  - Average annual operating cost per learner per year;
  - Cost per ABET targeted individual served;
  - Total operating expenditure.

Quality
- Reflect service standards based on customer needs and contribute to government outcomes.
- Product or service should fit intended purpose.
- Balance efficiency with effectiveness so that price is not predominant factor.
- May address:
  - Parent relations, quality of schooling.
- Examples:
  - Number of parent complaints filed;
  - Minimum standards of electronic connectivity at schools;
  - Minimum set of qualifications attained by teachers.

Timeliness
- Provide parameters for how often, or within what time-frame, outputs will be delivered.
- Measured by turnaround times, waiting or response times (deliver service yearly/quarterly).
- Examples:
  - Whether the brief and instructions to the Minister have been completed within the deadline;
  - Proportion of case reviews conducted by due date;
  - Percentage of responses answered within a given timeline;
  - Children enrolled yearly.

Evaluating Performance Measures & Indicators
Be aware of perverse incentives!
E.g. if a performance measure is the number of schools built, property developers might use cheap labour and cheap building materials in order to increase productivity levels, but in fact effectiveness and efficiency are compromised.
E.g.: “number of policies, guidelines, and legislation formulated.”

Performance Indicators (PIs)
- Performance Measures (PMs) relate to outputs.
- Performance Indicators (PIs) measure outcomes.
- Are therefore quite difficult to assess and use because outcomes are affected by many external factors.
- PIs cover more than one programme.
- Types:
  - Statistical: percentage of grade 12 graduations.
  - Composite: percentage of schools with access to water and sanitation services.
  - Qualitative: number of schools connected with DoE approved electronic and computer capabilities.
  - Opinion: percentage of citizens satisfied with service delivery.

Performance Measures & Indicators: Examples
- Performance measure (1)
  - Date of publication
- Performance measure (2)
  - Date audit report finalised (could also have “number of reports finalised”)
  - Date on which recommendations are implemented;
  - Number of KZN institutes delivering full range of ABET services.
PMI’s: Conti...

- Number of teacher capacity programmes delivered;
- Level of competencies attained by teachers per school;
- Cost per learnership / bursary;

Are these appropriate?

Evaluating Performance Targets

**Key Characteristics of Targets**

- Defined in precise terms relating to delivery of outputs
- Relate to a single performance measure of a particular output
- Specify a time frame or milestone
- Are measurable i.e. actual numbers and percentages (not terms like increase, decrease or optimal unless quantified)

Performance Targets

- Set the quantity, quality, cost and timeliness levels for output delivery
- Governments will use targets to:
  - set delivery levels; and
  - assess departmental performance.
- To ensure targets are achieved, need to involve all stakeholders in the process

Examples: Performance targets

- Performance target (1)
  - Less than 10% permanent staff turnover rate
- Performance target (2)
  - 1:34 teacher/learner ratio for KZN.

Framework for evaluating performance

- 3 E’s are interrelated
  - Economy: inputs
  - Effectiveness: outputs / outcomes
  - Efficiency: inputs and outputs
- Economy: cheapest possible service is useless unless it achieves its goals.
- Effectiveness: is of limited use unless cost of achievement is known.

Therefore

Rands

(Planned) Objectives

Activities

Efficiency
(perf measure)

Outcomes

Efficiency
(perf indicator)

Inputs

Outputs
Activity: Performance measures

• Look at the performance information on page 573 of the ENE. For each one of them, say whether:
  • They refer to an output or an outcome. If they refer to an output, what would be the related outcome? If they refer to an outcome, what is the related output?
  • Does the indicator refer to quantity, cost, quality or timeliness? If the measure reflects quantity, suggest additional quality, cost or timeliness measures which can be added.
  • Can any of these measures and indicators lead to perverse incentives? Give an example.