



PARLIAMENT  
OF THE REPUBLIC OF SOUTH AFRICA

BUDGET ANALYSIS MANUAL



# *Budget Analysis Manual*

## Budget Analysis Manual





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# PARLIAMENT

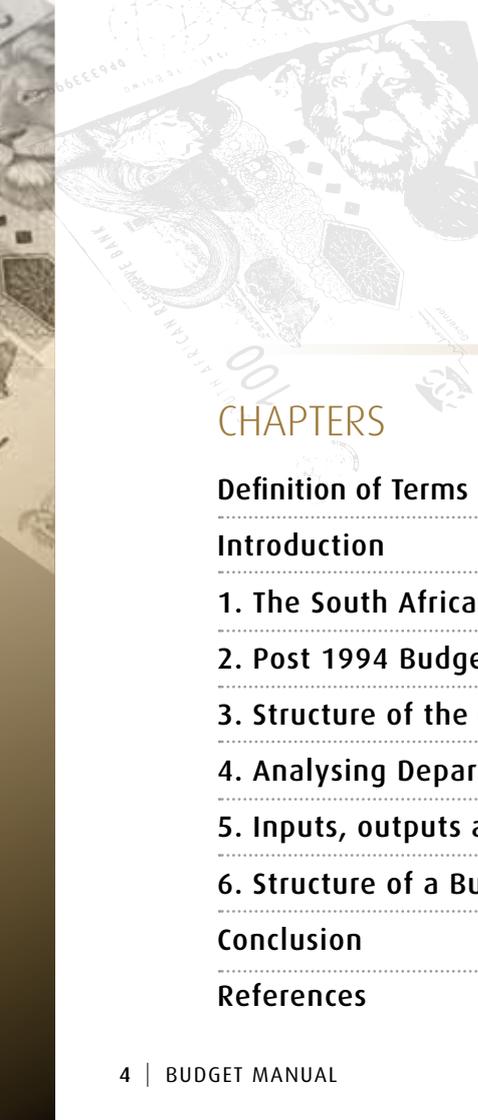
OF THE REPUBLIC OF SOUTH AFRICA

# BUDGET ANALYSIS MANUAL

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## DEFINITION OF TERMS

### Aggregate Fiscal Discipline

– Entails the effective control of the budget totals.

### Allocative Efficiency

– The capacity to establish priorities within the budget and to distribute resources on the basis of government's priorities and programme effectiveness.

### Balance

– The difference between total outflows and total inflows.

### Balanced Budget

– A balanced budget is one in which cash outflow does not exceed cash inflow.

### Budget Process or Budgeting

– Refers to the process by which governments create and approve a budget.

### Capital Expenditures

– Expenditure on capital items or fixed assets such as land, buildings, roads, equipment, etc. that are projected to generate income in the future.

### Capital Revenues

– These are proceeds from the sale of fixed capital assets such as public land, buildings and other structures or equipment.

### Current Expenditures

– Daily operating expenses or those expenses usually incurred in the conduct of normal State operations, such as wages and salaries, administration, purchase of goods and services for current consumption, acquisition of furniture and equipment, inputs used in service delivery, etc.

### Deficit

– Refers to total outflow exceeding total inflow. If a deficit is incurred, government generally incurs expenditures that are in excess of revenues. Deficit spending usually indicates an unbalanced budget, and is generally financed by borrowed funds, and its major objective is to stimulate economic activity by increasing purchasing power within an economy.



### Division of Revenue

- The allocation of funds between the spheres of government, as required by the Constitution of the Republic of South Africa, 1996.

### Estimates of National Expenditure

- This document sets out the detailed spending plans of each government department for the coming year. The document serves as background to the Appropriation Act that makes these spending plans legally binding.

### Extraordinary Income

- Receipts that do not regularly accrue to the government; and collections which are indefinite or do not depend entirely on the authority of government. Extraordinary income includes, amongst others, repayment of loans and advances by state-owned corporations or local government units, and receipts and shares in income of the Reserve Bank.

### Grants

- Refer to financial assistance that (hopefully) does not require monetary commitments on the part of the borrowing State; gifts of money or technical assistance or materials that do not have to be repaid.

### Medium-Term Expenditure Framework (MTEF)

- The three-year spending plans of national and provincial governments, published at the time of the Budget.

### Operational Efficiency

- The capacity to deliver services at the lowest possible cost (minimum cost per unit of output).

### Public Borrowings

- Proceeds of repayable obligations, generally with interest, from domestic and foreign creditors of the government. These generally refer to authorised and negotiated loans secured by the government from internal and external financial institutions and other sources.

### Public Expenditures

- Refers to payments made by the State, including current operating expenditures, capital outlays and the retirement of the public debt.

### Public Revenues

- These are all income or receipts to the government's revenue fund that are used to support public expenditures.

### Surplus

- Refers to total inflow exceeding total outflow.

### Taxation Revenues

- Compulsory contributions to finance government activities. Taxes are computed at rates established by law without any direct relation to the benefits enjoyed by the taxpayer. Taxes are the primary source of government income.

### Transfer Payments

- These are State funds that are directly transferred to other organisations or individuals, and are not payments for productive work. For example, Social Security Grants.



## INTRODUCTION

The period following democracy introduced significant changes in the nature of the public budget process in South Africa. The Constitution of the Republic of South Africa, 1996, commits government departments to the progressive realisation of various socio-economic rights within the constraints of available resources. These rights include the right to education, healthcare, housing and social welfare. In order to effectively realise these rights through the delivery of public services, government departments and private service providers responsible for the management of public resources must implement effective accountability and service delivery systems. These include planning and resource allocation systems, expenditure management systems, performance monitoring systems, integrity systems and oversight systems. The effectiveness of these systems can be established by monitoring their information outputs.<sup>1</sup>

Budgetary work is one of the most important oversight functions of Parliament. The budget reflects the choices that government has to make, and is the tool it uses to achieve its economic and development goals. In the budget, government sets out what it is going to spend (expenditure) and the income it collects (revenue), which it needs to finance expenditure. The government has to balance a wide range of legitimate demands with limited resources at its disposal. Budget support is intended to help government move forward to realise its goals by increasing governments' accountability to citizens.

It is important to measure the effectiveness of public spending and the manner in which public resources are spent. The more immediate goals of applied budget work are to ensure that government budget priorities are consistent with declared policy objectives, and that the financial resources allocated to priority areas are expended fully and properly. However, budget work also has a larger purpose, which is to contribute to democracy through ensuring openness, transparency and accountability for public resources.

Government budgets are not drawn up in a vacuum. All governments face some constraint on the overall size of the budget. To some extent they are constrained by the ability or willingness of taxpayers to contribute. Other constraints include policy decisions to reduce budget deficits quickly or to increase expenditures, such as military funding. An understanding of the budgetary constraints is

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1 Public Service Accountability Monitor (2008)

important in assessing the extent to which budget analysis will be conducted in the context of a budget which can only reallocate its resources, as opposed to increasing the overall levels of revenues and expenditures.<sup>2</sup>

## The purpose of budgets

Budgets are variously referred to as financial plans, work plans or programmes, or political and social documents. In its strictest, most technical sense, a budget is a document containing words and figures that propose expenditures for certain items and purposes. The words describe items of expenditure or purposes and figures are attached to each item or purpose. The budget has also been defined as a process consisting of a series of activities relating expenditures to a set of goals, or as a process through which public expenditures are undertaken. While considerations of revenue constraints and taxation are inherent in the budget process, within the context of parliamentary work, budgeting is generally treated as part of the expenditure process, rather than as a revenue raising process. In this respect, public budgeting serves as the allocation of expenditures among different purposes so as to achieve the greatest results. A budget can be viewed from various frames of reference. These are:<sup>3</sup>

- **Political process** - competition among various groups for limited resources  
The allocation of the budget is a key instrument for government to promote economic development efficiently. The budget allocation process is a political issue, and understanding the institutional and political context in which budget decisions are made and implemented is critical for achieving better outcomes. The national budget is a representation, in monetary terms, of governmental activity. The budget serves as a tool to operationalise government activities towards the achievement of its priorities.
- **Economic process** - resource allocation  
The budget is the most important economic instrument of the government, as it reflects the country's socio-economic policy priorities by translating priorities and political commitments into expenditures. In this way, the budget emphasises constraints and trade-offs in policy choices.

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2 Shankar, A and Robinson, M (2000)

3 Diokno, M.S.I (1999)



- **Administrative process** - planning, coordinating, control and evaluation  
Administratively, the budget serves as a financial plan that serves as the pattern for and control over future operations, as well as a systematic plan for the utilisation of person power, material or other resources. It brings together estimates of anticipated revenues and proposed expenditures, outlining the schedule of activities to be undertaken and the means of financing those activities. In the budget, fiscal policies are coordinated, and only in the budget can a more unified view of the financial direction of the State be observed.

Resources available to a government include its physical factors such as existing infrastructure, natural resources, human power, existing productive capacities, financial resources in domestic currency and foreign exchange, receipts from borrowings, grants and assistance programmes, etc.

- **Human rights process** - allocation of funds in compliance with State obligations towards the full realisation of constitutional rights  
From a human rights framework, a national budget can be defined as a process through which financial resources are allocated in compliance with State obligations to respect, protect and fulfil human rights. The status of human rights and compliance with State obligations become the key determinants of the choices made relative to financial resource allocation. A State's human rights obligations should guide the ultimate purpose of government: to use all tools at its disposal to ensure the guarantee and enjoyment of all human rights by all individuals. Thus, State obligations provide the priorities underlying the economic and administrative decisions reflected in the national budget.

## The functions of the government budget<sup>4</sup>

Government budgets play an essential role in the planning and control of the economic activities of a nation. Three central economic functions of the government budget are:

- **Allocation of resources**  
This function relates to the provision of public goods and services by the government. All the goods and services in a

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Budlender, D, et al. (1998)

country are produced either by government, by the various economic sectors in that society, and by household sectors. In allocating resources, government must decide both the relative size of public service provision, as well as how available resources are divided among the various government functions (e.g. social development, health, and defence), policies and programmes.

Allocations to certain functions, policies and programmes might benefit some groups, particularly vulnerable groups, more than others. Analysis of the budget seeks to uncover the allocation consequences of budgets.

- **Distribution of income and wealth**

Budgetary policy can be used to attempt to redress inequalities in income and wealth distribution. The government's concern could relate to inequalities between various groups and sectors of society. Budgets are premised on the assumption that a 'fair' and equitable distribution between all groups of society is an important goal.

- **Stabilisation of the economy**

Government budgets are used to promote a certain level of employment, stability in prices, economic growth, environmental sustainability and external balance. Stabilisation policy requires economic, political, and social judgements in determining, for example, which objective has priority at any one time, as well as what the acceptable levels of unemployment, debt, and interest rates are, and so forth. Budgetary policy can encourage sustainable economic growth through the planning potential of the budget. In addition, government budgets are both a means of ensuring that governments are accountable to Parliament for their revenues and expenditures; as well as a measure by which governments can maintain control over their finances.

Budget analysis requires an understanding of the macroeconomic constraints, assumptions and theories that underpin the budget. The budget itself is a means to achieve objectives. Therefore, the first task in drawing up budgets is to determine objectives and the policies that are likely to achieve these objectives. Budgets should follow policy, rather than vice versa.



The three central economic functions can be shared between the different levels of government. Therefore, an examination of the budget/s of a single level of government will provide an incomplete picture of government provision or lack of provision. It is therefore, important to look at the total allocation of nationally raised revenue between the three spheres of government, through the Division of Revenue Bill, as well as within spheres, through the national and/or provincial Appropriation Bills.

## Budget principles

The budget should be governed by several principles, including transparency, accountability, participation, equity, non-discrimination and equality.

- **Transparency**

The principle of transparency is important in the budget process, as it allows for informed analysis of government policies and facilitates the identification of weaknesses, leading to the implementation of needed reforms. Transparency can increase faith in the government, and can contribute to consensus building and commitment to social trade-offs.

Transparency enables the legislature and civil society to hold the government accountable, which they can only do if they have information on budget policies, practices, expenditures and outcomes. Transparency also contributes to macroeconomic and fiscal stability.

The principle of transparency is therefore crucial to the budget process, mandating that information affecting budget decisions (budgetary and fiscal information, information on development thrusts and programmes, etc.) should be accurate, true and portray the genuine state of the economy. In addition, this information should be made available and accessible to the general public, open to public scrutiny, and written clearly so as to be readily understood by the public.

- **Participation<sup>5</sup>**

Participation in all levels of social, political and economic decision-making is both a right and a duty of all individuals. Participation is an indispensable principle in the budget process. Involved participation is affirmative in the sense that it

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5 Institute of Development Studies (2006)

explicitly includes input from all sectors of society, and is likely to result in more equitable expenditure patterns than a process which is dominated by the powerful sectors of society.

Effective participation can also serve to ensure efficient provision and more equitable distribution of budgetary allocations. Through active participation in the budget process, people could challenge programmes or policies that are potentially threatening to the enjoyment and guarantee of constitutional rights, and at the same time provide for mechanisms to compensate for any measures that may result in deprivations of these rights.

Stakeholders who can be consulted include citizens, lobbyists, professionals, specialists, engineers (in the case of infrastructure projects) and analysts.

- **Accountability<sup>6</sup>**

The principle of accountability is important in the budget process. Public funds are derived mainly from two sources: contributions of citizens through taxation, and public borrowings whose burden of repayment is borne by taxpayers. Thus the State should be held responsible and accountable for how it raises public funds and how it spends taxpayers' money.

Accountability regarding the State budget has several dimensions: accountability for objects of expenditure (what the State spends on), State performance and results (achieving results or meeting objectives for which public funds are spent), and budget processes that result in best value, quality and service for public money.

Enhancing the accountability of decision-makers is a fundamental objective of budget work; and improving the transparency of the decision-making process is an equally important goal, centering on how government formulates its priorities and turns these into actions in the form of expenditure allocations.



- **Equity and Equality**

The budget should be governed by the principles of equity, equality and non-discrimination. Public allocations should be fair and just, and should be available to all citizens equally, without discrimination based on gender, ethnicity, social class, age, etc. Particular steps should be taken to ensure that vulnerable sectors of society are not discriminated against in the budget.

## **Budget Analysis**

Budget analysis is a thorough and detailed review of the budget. It involves the collection, study and interpretation of budget data, the correlation of budget data to other relevant information such as State policies and programmes, and the establishment of findings and results<sup>7</sup>. Its aim is to provide analysis and information that is credible, accessible, and makes a timely contribution to policy debates, with the purpose of affecting the manner in which budget issues are decided and decisions are made.

Budget analysis is undertaken through a number of perspectives. Some groups assess financial arrangements covering national and sub-national goals. Others scrutinise the effects of budget decisions on programmes that affect vulnerable sectors, while others study the relationship of spending for one function against another (for example, military spending or debt service compared with economic development). Still others analyse budget process issues, policies and institutions. Other groups undertake budget analysis through a very technical lens; this includes classifying expenditures by major and minor headings (function or nature of expense), looking at budget figures, studying new allocation items, and understanding the government's development plans as expressed by budgetary allocations. Getting started on budget analysis involves a four-step process. That is:<sup>8</sup>

- **Learn the process by which the budget is prepared**

First, it is important to become familiar with the process by which the government budget is prepared and identify the key players in the budget process. This involves securing a copy of the Public Finance Management Act (No. 1 of 1999) (PFMA), Treasury Regulations, and other guidelines on budget preparation. By carefully studying financial legislation and corresponding guidelines, one would gain the initial information and knowledge needed to begin analysing the budget.

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7 Shankar, A. and Robinson, M. (2000)

8 Budget Analyst (2000)



- **Become familiar with terms used in the budget**

It is important to become familiar with the various terms used in the budget. The use of an accounting dictionary or consulting with finance researchers would be helpful.

- **Learn how to read the budget**

It is also important to learn how to read the budget, as well as to know how the budget is classified and what each classification entails. It is essential to understand how to read the figures in order to determine their implications. Consulting experts and others already engaged in budget analysis would be of assistance. In addition, studying the budget guidelines prepared by the National Treasury would also be of use.

- **Analyse the government's development plans**

As the budget is - or should be - tied to the government's development plans, it is important to assess these plans. This involves securing copies of such development plans and programmes, and carefully analysing them in order to determine their impact on the country.

## Requirements of budget analysis

Budget analysis requires an understanding of public administration processes. This is essential in order to have a proper perspective on why events unfold as they do, and to provide the best possible analysis of budgets and budget requests. In conducting a budget analysis, it is important to understand the programmes of the department or agency, and the processes involved in carrying out the department's mission, and how they relate to other government functions.

It is also important to know how to effectively communicate detailed information, which in many instances is perceived as negative feedback. Communicating findings is facilitated by the presentation of information verbally in summary form, using graphs and diagrams.



# Chapter chapter 1

## THE SOUTH AFRICAN BUDGETING PROCESS

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The transition to a democratic State contributed to the development of a new budget management system that changed the governance of public finance in South Africa. This transition entailed major transformation of government policies aimed at achieving overall social and economic policy stability in the long term. The budget process operates under a forward-looking system called the Medium Term Expenditure Framework (MTEF) which was introduced in 1997 and promulgated in 1998.

The MTEF is a transparent planning and budget formulation process within which the Cabinet and central agencies establish credible contracts<sup>9</sup> for allocating public resources to their strategic priorities, while ensuring overall fiscal discipline. The process entails two main objectives: the first aims at setting fiscal targets, the second aims at allocating resources to strategic priorities within these targets.<sup>10</sup> To achieve these objectives, it is necessary for relevant role-players to engage in the budget process.

The budget process or budgeting refers to the process by which governments create and approve a budget.<sup>11</sup> This implies that when crafting the overall budget authorities take a medium-term (three years) outlook. The forthcoming year is the official budget year, while the two outer-years serve as baselines or indicators for the upcoming budgets. In summary, Parliament votes only on the forthcoming year not the two outer years. An important aspect of the South African budgeting process is the Medium Term Budget Policy Statement (MTBPS) which provides medium term macro-economic trends and projections, which includes expenditure and revenue estimates.

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9 The MTEF enhances stability by letting provinces and national ministries know what resources will likely be available to them. This allows government planning to be more credible and accurate.

10 World Bank (n.d)

11 Wikipedia: [www.wikipedia.org](http://www.wikipedia.org).

Table 1 below illustrates the three-year rolling budget MTEF as contained in the Estimates of National Expenditure (ENE).<sup>12</sup>

**Table 1: Example of 2010 rolling budget or MTEF: Vote 2: Parliament**

Programme	Audited Outcomes			Adjusted Appropriation	Revised Estimates	Medium-term expenditure estimates		
	2006/07	2007/08	2008/09			2009/10		
R million								
1. Administration	263,1	271,9	397,2	292,2	292,2	346,3	333,3	350,0
2. Legislation and Oversight	129,1	163,1	203,5	233,0	233,0	300,1	296,4	308,5
3. Public and International Participation	71,5	72,2	130,4	98,9	98,9	79,4	88,9	88,9
4. Members Facilities	134,5	149,5	158,6	225,2	225,2	193,9	232,0	236,7
5. Associated Services	156,8	245,4	245,4	258,7	258,7	281,9	287,9	304,3
<b>Total</b>	<b>755,1</b>	<b>902,1</b>	<b>1 135,1</b>	<b>1 108,0</b>	<b>1 108,0</b>	<b>1 201,6</b>	<b>1 238,6</b>	<b>1 288,4</b>

Source: National Treasury (2010a)

<sup>12</sup> The Estimates of National Expenditure provides a detailed account of the national government's service delivery commitments, and key policy developments over the medium term. It articulates thirty-seven votes contained in the individual chapters. The first three years (2006/07 - 2008/09) represent the audited outcome. The adjusted and the revised estimates exemplify the current financial year's estimates of the expenditure running from 1 April 2009 through 31 March 2010. The last three columns from 2010/11 - 2012/13 demonstrate the outer years. In essence, the ENE illustrates a seven year period of national expenditure. Although Parliament is presented with three-year budget plans, it only votes on the budget for the coming year.

The purpose of budgeting is to provide a forecast of revenues and expenditures and also to provide financial targets that will enable the actual financial management performance of the department or entity to be measured against the forecast. A number of entities (government departments, parastatals and other role players) are involved in the budget process. These include the National Treasury, National and Provincial departments, the Budget Council, Cabinet and Provincial Executive Council, Financial and Fiscal Commission (FFC) and National and Provincial Legislatures.

This chapter discusses the various elements, activities, role players and laws that are linked to the budget as well as the timeframes of the budget process. The budget process is a cycle of sequential and inter-related budget activities regularly recurring within a fiscal year. It has been described as a fairly complex process, since new fiscal objectives are established each year which require several fiscal years of preparation. In general, there are three essential elements of the budget process: planning, management, and control. The timetable for the process provides clues as to the most effective components for intervention. These intervention areas will not be the same for all stakeholders. **Key Stakeholders in the Budget Process**

The following role-players are involved in the budget process:

- The **National Treasury** is responsible for the government's overall macroeconomic and fiscal policy. The National Treasury coordinates with provinces (particularly provincial treasuries) and other departments to compile the national budget, and is also responsible for fiscal discipline and debt management.
- **National and Provincial Departments** are responsible for drawing up expenditure plans providing departmental goals, policy and spending options, as well as projected inputs, outputs and outcomes. Once approved, departments develop and implement these plans.
- The **Budget Council** is made up of the provincial Members of the Executive Council (MEC) for Treasury, the Director Generals (DGs) of Treasuries and, the Minister and Deputy Minister of Finance and their advisors. The Council advises Cabinet on the division of revenue between the three spheres of government.
- **Cabinet and Provincial Executive Councils** through their political oversight of the budget process, decide on the division of revenue between national departments and provinces. On the advice of the Budget Council, they also set the policy priorities for the budget. The Executive Councils set spending priorities for provincial departments.
- The **Financial and Fiscal Commission (FFC)** is an independent, advisory body created in terms of the Constitution. It makes recommendations to Cabinet and the Budget Council on the division of revenue between the different levels of government, although its recommendations are not legally binding.

- **National and Provincial Legislatures** are responsible for reviewing the budget after it has been tabled, and monitoring departmental expenditure once the budget is approved. They facilitate public participation in the budget process. Important structures within the legislative environment include the finance Committees and the Public Accounts Committee. The introduction of the Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009) has provided Parliament with powers to amend the budget.
- **Civil Servants** play a very influential role in the budget making process, particularly those in the National Treasury and the Provincial Treasuries. Although they do not have policy-making powers, they provide information, administer policies, and assist in the technicalities of drawing up budgets.

## The Budget Cycle

The budget cycle comprises the major events involved in making decisions about the budget, and implementing and assessing those decisions. The specific characteristics of the budget cycle differ from country to country. Generally, the budget cycle is likely to have four stages. Many different and individual decisions have to be made at many different levels. National government must decide how much of the share of nationally raised revenue is allocated to national, provincial and local government. National, provincial and local governments must each decide how to divide their budgets between different departments. Within departments, decisions are made on how much is spent on different programmes. These events go through the various cycles of the budget process. The South African budget mainly consists of four phases of the budget cycle. These are:

### *Phase 1: Planning (drafting) phase*

The budget plan is compiled by the Executive branch of government via National Treasury, with the Cabinet being responsible for crafting policy priorities that inform the macroeconomic and fiscal framework as well as division of revenue across the three spheres of government. Key steps of this phase include *inter alia*:

- **Policy prioritisation:** This mainly begins with the Medium Term Strategic Framework (MTSF), which forms the basis for the medium term priorities as outlined in the State of the Nation Address in February of each



year. The Ministers' Committee on the Budget (MinComBud)<sup>13</sup> sets broad priorities on issues such as the allocation of resources within the social and economic sectors. It is a smaller technical subcommittee of the Cabinet, which is most closely involved in the development and oversight of the upcoming budget and its compliance with government goals.<sup>14</sup> The Budget Council<sup>15</sup> and the MinComBud review medium term priorities and takes an interest in issues pertaining to local government (i.e. vertical division of revenue), with the South African Local Government Association (SALGA) as the representative of local government. The Finance and Fiscal Commission<sup>16</sup> (FFC) also submits its recommendations on the division of revenue (vertical and horizontal) for the forthcoming year.

Cabinet and the provincial executive committees make policy choices; which entails the evaluation and balancing of competing and complementing socioeconomic priorities against scarce resource. Therefore Cabinet, as the Executive, approves a set of Medium Term Policy Priorities; and also indicates aggregates for the division of revenue and budget allocation for national departments. Indicative allocations for provincial departments are set by provincial executive committees.

- **Preparation of MTEF budget submission:** This process normally commences with the review of the Medium Term Fiscal Framework (MTFF)<sup>17</sup> by National Treasury and the Budget Council. National and Provincial departments prepare MTEFs based on specific guidelines and formats sent by National Treasury. Similarly, provincial treasuries issue their own guidelines for provincial departments MTEF submissions. After evaluation of the departmental MTEF submissions, National Treasury makes comments. National Treasury may require that certain departments respond to the comments during or prior to the Medium Term Expenditure Hearings.

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13 This non-statutory forum is called the Ministers' Committee on the Budget. It is comprised of selected ministers invited by the Minister of Finance to deliberate on budget priorities.

14 Institute of Democracy in South Africa (2010)

15 The council was established under section 2 of the Intergovernmental Fiscal Relations Act (IGFRA) (No. 97 of 1997).

16 The FFC was established in terms of section 220 of the Constitution. Its stated purpose is to make recommendations on the budget and intergovernmental financial issues to Parliament, the provincial legislatures, and the Budget Council.

17 A medium term expenditure framework is the first, necessary step towards an MTEF. It typically contains a statement of fiscal policy objectives and a set of integrated medium-term macroeconomic and fiscal targets and projections.

- **Review of Macroeconomic and Fiscal Framework and Division of Revenue (DORA):** This is a technical consultative process between:
  - National and provincial treasuries.
  - National and provincial departments (i.e. second round of 10x10s<sup>18</sup> and 4x4s).<sup>19</sup>

The key inputs of this process are the Medium Term Policy Priorities and draft MTEFs. A consultative process between National Treasury and organised local government also takes place for local government grants represented by SALGA. The MTEF proposals from national departments must include details of existing and possible new conditional grants to provincial and local governments that would need to be taken into consideration in the process of determining the equitable division of revenue among the three spheres. Important focal points in these meetings include provincial spending pressures and the determination of concurrent mandates as well as matters relating to the administration and implementation of conditional grants.

- **Recommendations of the medium term allocation process:** This process is driven by Medium Term Expenditure Committees<sup>20</sup> (MTECs) which conduct hearings that seek to evaluate the MTEF submission by national and provincial departments, examining the departmental priorities within their baseline allocations. Important issues for MTEC hearings include:
  - The proposed revisions to a department's medium-term plans and how they link to government's policy priorities and the key challenges identified for each sector.
  - The creditability of the costing and affordability of the new proposals.
  - The department's ability to implement new proposals over the MTEF period, based on past performance and expenditure trends.
  - The outputs to be achieved in support of measurable objectives.

18 The Committee comprising all nine provincial treasuries, the provincial departments, as well as the National Treasury and the respective national department.

19 The Technical Committee on Finance and the joint sectoral technical committees support the Budget Council. The committees consist of teams of officials who discuss policy options for the sector, problems with service delivery, and budget difficulties. These 4x4s are designed to include four national and four provincial representatives, with both treasuries and the line departments present.

20 The Medium Term Expenditure Committees (MTEC) are technical committees responsible for evaluating the MTEF budget submissions of the national departments.



The MTEC discusses each of the above areas with the relevant department, and sends their recommendations to MinComBud and Cabinet. The recommendations should include at least the following changes: department's programme structure, measurable objectives, and changes to the programme of MTEF allocations. Key role players in the national MTEC include the National Treasury Director-General (who chairs this Committee) or Deputy Director-General, Senior National Treasury Officials and Director-Generals from key Departments (i.e. Public Service and Administration and the Presidency). At this stage, departments are required to defend the proposed increases or decreases to their MTEF allocations.

The Technical Committee on Finance refines recommendations arising out of the provincial MTEC hearings before they are submitted to the Budget Council for consideration. Therefore, based on the recommendations, the Budget Council makes recommendations on the division of revenue to the extended Cabinet meeting at the end of September.

In light of the preliminary macroeconomic and fiscal framework and division of revenue proposals, the national MTEC submits recommendations to MinComBud on changes to the three-year allocations for national votes in early October. The MTEC also takes into account government's broad policy and spending priorities for the forthcoming three years, as guided by the political discussions at the beginning of the budget cycle.

National Treasury drafts the MTBPS, which entails:

- A revised macroeconomic and Fiscal Framework as well as Division of Revenue which is presented to the Budget Council, Budget Forum, and thereafter the Cabinet.
- Presentation of the national MTEF allocation to the MinComBud.

Cabinet approves the draft MTBPS before it is tabled in Parliament towards the end of October.

- ***Deciding on the Medium-Term Allocation Process:*** This sub-phase begins with the issuing of "pre-final allocations" to provinces by the National Treasury; detailing the provinces' equitable share from the division of revenue and conditional grants share. Based on these allocations, provincial treasuries hold the second round of MTEC hearings before the final allocations to provincial departments are made in December.

- **Preparation of the Budget:** The National Treasury directs the Budget Review process and coordinates the compilation of the Estimates of National Expenditure<sup>21</sup> (ENE). National Treasury also prescribes the format of the budget documentation that the provincial treasuries have to produce.<sup>22</sup> The budget preparation process forms part of the consolidation of the Division of Revenue Bill and the MTBPS, which entails the finalisation of the Budget Review and Estimates of National Expenditure for the national government and the Overview of Provincial Expenditure<sup>23</sup> and Estimates of Provincial Expenditure<sup>24</sup> for provincial government.

## Key Documents in the Planning (Drafting) Phase

- **Departmental Annual Strategic Plans:** The annual strategic plans state what the department's plans are in the upcoming fiscal year to achieve the full implementation of the five year strategic plan.
- **Medium-Term Strategic Framework (MTSF):** This document attempts to translate the government's five year plan into a programme of action for the government.
- **Medium-Term Budget Policy Statement (MTBPS):** This document is tabled in Parliament by the Minister of Finance and contains the macro-economic assumptions underpinning the government's fiscal policy. The MTBPS outlines the overall aims and objectives for the next three years, projected revenue and expenditure for the next three years and the division of revenue among the three spheres of government.
- **State of the Nation Address (SONA):** This is an annual event in which the President of South Africa reports on the status of the nation, during a joint sitting of Parliament (National Assembly and National Council of Provinces). During this event, the President also outlines government's priorities and goals for the upcoming year.

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21 Each national department is required to submit a chapter on the department's vote for the ENE, focusing on policy development.

22 In terms of section 6(2)(a) of the PFMA, and section 215(2)(a) of the Constitution.

23 Previously known as Budget Statement One, which is similar to the National Budget Review.

24 Previously known as Budget Statement Two, which is similar to the Estimates of National Expenditure.



## Phase 2: Legislative (Authorisation)

Once a comprehensive budget proposed by the Executive has been tabled, a process that is mainly driven by the National Treasury, it is debated in Parliament with the involvement of organised interest groups and civil society, the media and the general public. In this way, the legislature not only scrutinises the expenditure and revenue proposals of the Executive, it also ensures greater transparency. Following the tabling of the budget in Parliament, the budget is formally debated with the organised interest groups through public hearings in which presentations are received from these organised groups representing different sectoral interests. The passing of the Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009), meant that Parliament had to implement the provisions in the Act. The new Act requires each House of Parliament (National Assembly and National Council of Provinces) to establish a Committee on Finance and a separate Committee on Appropriations.<sup>25</sup> The former Joint Budget Committee (JBC) was renamed the Joint Budget Committee on Appropriations (i.e. Appropriations Committee). Apart from the reorganisation of some of the committees dealing with finance the Act also empowers Parliament to make changes to the budget by amending the money bills.<sup>26</sup>

The implementation of a public participation process as required by the Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009) is as follows:

- Fiscal Framework<sup>27</sup> and revenue proposal hearings are held by the finance committees of the National Assembly (NA) and National Council of Provinces (NCOP).
- Division of Revenue Bill hearings are held by the NA Appropriations Committee.
- Appropriation Bill<sup>28</sup> hearings are held by the NA Appropriations Committee.
- Revenue Bill hearings are held by the NA finance committee.
- Other money bill hearings are held by the NA Appropriation Committee.

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25 Section 4(1) and section 4(3) of the Money Bills Amendment Procedure and Related Matters Act (No.9 of 2009).

26 Money Bill describes all Bills that allow for money to be allocated to various departments at national or provincial government, and for taxes to be levied. Appropriation Bills are Money Bills. They allow departments to secure and use – to appropriate - government money.

27 The Fiscal Framework provides estimates of aggregate revenue, expenditure, and borrowing, debt servicing costs and the contingency reserves for the year.

28 The Appropriation Bill is a money bill in terms of section 77 of the Constitution. The bill must first be debated and approved by the National Assembly after which it is referred to the National Council of Provinces for concurrence and approval. Once Parliament has approved the bill it is referred to the President for assent and enactment.

## Documents used in the Legislative Phase

Key pieces of legislation that form part of the national budget are: Division of Revenue Bill, which is tabled before Parliament each year when the budget is announced and the Appropriation Bill. The Division of Revenue Bill explains the vertical and horizontal division of revenue between the three spheres of the government and between the provinces. The enactment of the Appropriation Bill empowers national departments with the legal authority to spend the money allocated to them.

### *Phase 3: Implementation*

The implementation phase occurs when the budget has been enacted by Parliament; and is also the phase which permits service delivery. The budget is implemented by the Executive (i.e. political head of the departments) through government departments and other State Owned Enterprises (SOEs) such as South African Airways (SAA), Telkom, PetroSA and Eskom. This occurs after the funds are released by National Treasury in accordance with the approved budget. Spending proposals are reviewed by the Accounting Officers (i.e. Directors-General and or Chief Financial Officers (CFOs) to assess whether the proposals are in line with the relevant procedures. The legislature is also responsible for authorising the Executive to execute the budget expenditure within government departments. Thereafter entities and agencies initiate spending either directly through their finance directorates or indirectly through procurement procedures (which is guided by the specific rules). After expenditure and payments are concluded, departments and agencies prepare in-year performance and expenditure reports and end-year reports. These reports indicate the manner in which these entities delivered on their mandates (i.e. under spending, overspending or balanced (depending on efficiency) expenditure.

In-year monitoring and year-end monitoring are conducted by Parliament through Committees, as part of its budget oversight. Organised civil society and the general public also perform in-year and year-end financial monitoring through presentations to parliamentary committees and other avenues such as the media, which is a key player in this process. Regular monitoring of the budget is a vital component in ensuring that revenues and expenditures against budget are reliable and readily available for discussion. It also allows for the revision of management action and projections should these be necessary. Monitoring is a crucial aspect of the



implementation phase as it promotes accountability and provides an account of whether the budget is effectively and efficiently producing the desired outputs. As a measure of accountability, government departments must produce key documents for Parliament, civil society and the media to effectively perform oversight over the budget, including Quarterly Expenditure Reports<sup>29</sup> and Annual Reports<sup>30</sup> (which include Financial Statements and Audit Reports.<sup>31</sup> *(Note: if the budget fails to produce the required outputs, it is unlikely to produce proper outcomes).*

The key role players in this phase are government departments (both national and provincial) and government agencies who are responsible for service delivery and overall implementation. The implementation phase also includes National Treasury (which is responsible for releasing funds and setting the rules), Parliamentary Committees and Civil Society Organizations (CSOs), as well as the media and the general public.

#### *Phase 4: Evaluation (Auditing)*

The auditing stage involves a review of the final budget documents by independent audit institutions such as the Auditor-General (AG), and assessing the consistency of such documents against the legal authorisation. The AG examines the financial management, performance and position of each entity by scrutinising its year-end reports (i.e. Annual Reports). After performing its auditing function, the AG offers his/her opinion on the status and quality of the financial statements and management as reflected in the year-end documents.

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29 In-year reports are used for in-year monitoring.

30 Annual reports are the key reporting instruments for departments to report against the performance targets outlined in their Annual Performance Plans (APPs), which are tabled along with the Budget. [www.treasury.gov.za](http://www.treasury.gov.za)

31 A report issued by an independent auditor that expresses an opinion about whether the financial statements present fairly a company's financial position, operating results, and cash flows in accordance with generally accepted accounting principles. [www.finance.ualberta.ca/guide/topics/glossary/index.cfm](http://www.finance.ualberta.ca/guide/topics/glossary/index.cfm)

The Constitution (section 188) prescribes the functions of the AG as follows:

- The Auditor-General must audit and report on the accounts, financial statements and financial management of:
  - all national and provincial state departments and administrations;
  - all municipalities; and
  - any other institution or accounting entity required by national or provincial legislation to be audited by the Auditor-General.
  
- In addition to the duties prescribed in subsection (1), and subject to any legislation, the Auditor-General may audit and report on the accounts, financial statements and financial management of:
  - any institution funded from the National Revenue Fund or a Provincial Revenue Fund or by a municipality; or
  - any institution that is authorised in terms of any law to receive money for a public purpose.
  
- The Auditor-General must submit audit reports to any legislature that has a direct interest in the audit, and to any other authority prescribed by national legislation. All reports must be made public.



## Classification of Audit Opinions used by the Auditor General

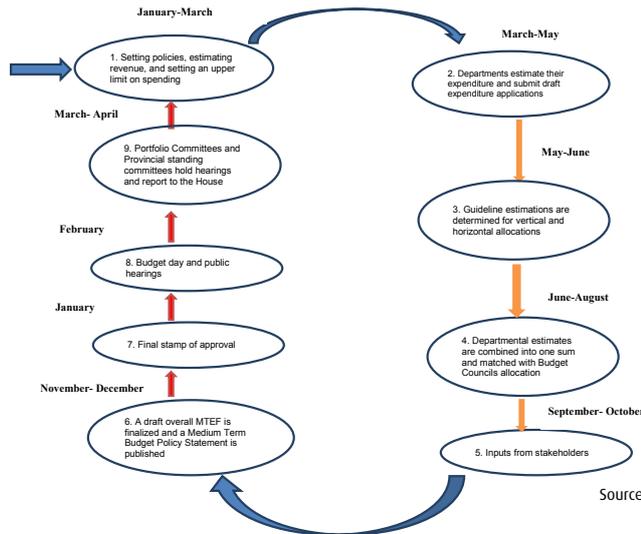
Audit Opinion	Explanation	
	Brief	Comprehensive
Unqualified audit opinion	Good opinion	There is a fair reflection of the financial status of the department or entity.
Unqualified audit opinion with emphasis of matter	Least severe opinion	There is a fair representation of the financial status of the department or entity, but there are a number of issues that are cause for concern which are raised in the emphasis of matter.
Qualified opinion	Severe opinion	When the auditor concludes that an unqualified opinion cannot be expressed, but that the effect of any disagreement with management, or limitation on the scope of the audit is not as material or fundamental as to require an adverse opinion or a disclaimer of opinion.
Adverse opinion	Most severe opinion	Expressed when the effect of a disagreement is so material and fundamental to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.
Disclaimer	No opinion expressed (also very severe)	Possible effect of a limitation on the scope of the audit is so material and fundamental that the auditor has not been able to obtain sufficient appropriate audit evidence, and accordingly is unable to express any opinion on the financial statement.

Source: Institute of Democracy in South Africa ( Idasa), (2010)

## Month by Month Budget Process

In analysing the month by month process of the budget cycle through the four phases, it is important to note that the budget cycles may overlap. At any one time a number of different budgets are at different stages of the budget process. For example, while one budget is being drafted, another budget might be awaiting legislative approval, while yet another might be in the process of being implemented, and a fourth one that has already been implemented might be subject to audit and evaluation. The outcome is that the legislature concurrently has to deal with several different budgets at different stages in their process. The overlapping nature of budgeting means that the maintenance of fiscal oversight can be a complex challenge. Figure 1 below presents the month by month evolution throughout the four phases of the budget cycle:

Figure 1: Month by month progress of the Budget Cycle



Source: Adapted from McIntyre, I. and Nicholson, J. (1999)

## Role of Parliament (National Assembly and National Council of Provinces)

Parliament, as the legislative branch in the national sphere of government, has an important role to play in the budget process. The budget process is a fundamental feature of democracy due to the importance of the budget in funding services, particularly the Constitutionally Mandated Basic Services that all citizens of the country are entitled to. The vast majority of democratic institutions require appropriations and taxation measures to be approved by Parliament in order to be effective. For this requirement to be enacted, Parliament should ensure that the revenue and spending measures it authorises are fiscally sound, match the needs of the population with available resources, and are implemented properly and efficiently.

In South Africa, the budget<sup>32</sup> is first sent to the National Assembly's (NA) Portfolio Committees on Finance and Appropriations, and then passed along to the finance committees in each province, while the National Council of Provinces' Select Committee on Finance considers the Division of Revenue Bill. The Finance and Appropriations Committees then hold public hearings on the budget and compile a report for the National Assembly. Other Portfolio and Select committees also hold hearings on individual votes. The Appropriations Committees then present their reports to the House, and the budget is debated for approximately one week by the National Assembly. Once the National Assembly has voted its approval, the budget passes to the National Council of Provinces (NCOP), which follows a similar process as the National Assembly.

The role of Parliament in the budget process is centered on the following:

- Representation: *Representation* in the budget starts with *pre-budget consultations*, which afford Parliament an opportunity to exercise its consultative and advisory role. At this point Parliament defines public interest and the public agenda.
- Empowerment: Parliament provides authority and resources to government to achieve certain objectives in a certain manner. The power and authority serve as the control framework within which government operates. Parliament has the capacity to influence, amend and debate the budget, and a constitutional function through instruments of appropriate laws to pass the budget in the respective legislatures before money is authorised for expenditure.<sup>33</sup> Therefore Parliament

32 The following documents are tabled before the Committees on Finance in a joint meeting: ENE, Appropriation Bill, Division of Revenue Bill, Budget Review and Budget Speech. Given the fact that these Committees have different mandates provided for in the Money Bills Amendment and Related Matters Act Act, different Bills are referred to each finance or appropriations Committee according to its mandate to consider and report to the House. For example, the Standing and Select Committees on Appropriation consider and report on the Appropriation Bill and Division of Revenue Bill. Part of the process is the fiscal framework, which is referred to the Standing and select Committees on Finance to consider and report.

33 Fubbs, S. (1999)



assumes a salient role of approving the proposed budget, which gives government the authority to execute its plans as they are entrenched in the budget.

- **Scrutiny:** The role of Parliament involves scrutinising the budget in terms of priorities and effectiveness. Parliament’s scrutiny of the budget includes in-year reporting and end-year reporting as well as oversight visits by the committees. The office of the Auditor-General supports the committees in financial management scrutiny.<sup>34</sup> Organised Groups, the media and the general public through other channels also form part of Parliament’s budget scrutiny, which may happen through other channels.



# Chapter chapter 2

## POST-1994 BUDGET REFORMS

The period immediately prior to and immediately following the demise of apartheid was characterised by a financial administrative system that was 'rule-bound' with accounting officers assuming a passive role in public financial management. The public financial management system in South Africa was centralised, with a focus on inputs rather than outputs and outcomes. No attention was focused on value for money.

Given this unstable and uncertain state of affairs, government had to introduce reforms to bring public financial management in line with international best practice. Essentially, the budget reform process that was initiated had, as its main premise, the purpose of enhancing service delivery by government through better information for decision-making and clearer managerial authority and accountability. The potential outcomes of such reforms would be improved services, value for money and sound management of public finances.

A financial concept that is used very closely within public finance is the budget. The Constitution of the Republic of South Africa, 1996, makes reference to the budget within all three spheres of government. The following is an extract from the Constitution of the Republic of South Africa:

**215. National, provincial and municipal budgets.**—(1) National, provincial and municipal budgets and budgetary processes must promote transparency, accountability and the effective financial management of the economy, debt and the public sector.

Source: Constitution of the Republic of South Africa, 1996

The reference to transparency, accountability and the effective financial management of the economy, debt and the public sector already assumed importance at the enactment of the Constitution. The Constitution could, however, not give effect to the finer details of budget reforms to follow. Nevertheless, there was certainty that the Constitution provided the foundations upon which subsequent budget reforms were to follow.

The South African public financial landscape has undergone a series of budget reforms since 1994. The next section provides an overview of the major budget reforms in South Africa post-1994. It focuses on the major budget reforms as manifested in the Intergovernmental system, the Medium-Term Expenditure Framework (MTEF), the Public Finance Management Act, (No. 1 of 1999) the Estimates of National Expenditure, Strategic Planning, and the Money Bills Amendment Procedure and Related Matters Act, (No 9 of 2009).

### **The Intergovernmental System**

The Constitution of the Republic of South Africa makes provision for an intergovernmental government system that is interdependent, interrelated and distinctive. Following the enactment of the Constitution, the Intergovernmental Fiscal Relations Act, (No. 97 of 1997) reinforced the constitutional provision of cooperative government. The extract below gives details of the objects of the Intergovernmental Fiscal Relations Act, which essentially translates into promoting cooperative governance between the three spheres of government.

To promote co-operation between the national, provincial and local spheres of government on fiscal, budgetary and financial matters; to prescribe a process for the determination of an equitable sharing and allocation of revenue raised nationally; and to provide for matters in connection therewith.

Source: Intergovernmental Fiscal Relations Act (No. 97 of 1997)





The distinctiveness of the South African intergovernmental system is that each sphere of government has powers to make its own laws and enforce them. In other words, each sphere of government has its own legislative and executive powers.

The interdependence between the different spheres of government manifests itself through two important aspects, namely, financial assistance, primarily through the vertical division of revenue, as well as through the obligation by different spheres of government to fulfil their constitutional role. While both provincial and local governments receive funds from national government, provincial governments are also mandated to transfer additional, specific purpose funds, to local governments. This is necessary in order for sub-national governments to perform their constitutional functions.

The constitutional functions entrusted upon national government are that of defence, justice, correctional services, as well as safety and security. Other functions include those of higher education, policy formulation and controlling the regulatory environment. Provinces are, through the Constitution, entrusted with education (school education), health, social development, housing, agriculture and provincial roads, to name but a few. Local government's constitutional functions include making provision for water, electricity, refuse removal and municipal roads. The following is an extract of the Constitution of the Republic of South Africa regarding the functions of local government:



- 152. Objectives of local government.**—(1) The objectives of local government are to—
- (a) provide democratic and accountable government for local communities;
  - (b) ensure the provision of services to communities in a sustainable manner;
  - (c) promote social and economic development;
  - (d) promote a safe and healthy environment; and
  - (e) encourage the involvement of communities and community organisations in the matters of local government.
- (2) A municipality must strive, within its financial and administrative capacity, to achieve the objects set out in subsection (1).

Source: Constitution of the Republic of South Africa, 1996

National and Provincial governments have the power to monitor the manner in which sub-national levels of government perform their constitutional functions, and can also intervene<sup>35</sup> if sub-national governments fail in exercising their constitutional functions. All spheres of government are required to work together to achieve a multitude of priorities.

The Intergovernmental Fiscal Relations Act (No. 97 of 1997) also refers to the equitable sharing and allocation of revenue between the different spheres of government. The equitable sharing of revenue is realised through the annual Division of Revenue Act, (No. 4 of 2010) which allocates funds between spheres of government, as required by the Constitution.<sup>36</sup> Table 2 provides a summary of the division of revenue between the different spheres of government through the Division of Revenue Act (No. 4 of 2010).

<sup>35</sup> Sections 100 and 139 of the Constitution of the Republic of South Africa, Act No. (108 of 1996) provides for procedures relating to National government's intervention in a Provincial government, and Provincial government's intervention in Local government respectively.

<sup>36</sup> Section 214 of the Constitution of the Republic of South Africa, Act (No. 108 of 1996) relates to an Act of Parliament that requires providing for the equitable division of revenue between the different spheres of government.

**Table 2: Vertical division of revenue (2010/11)**

Spheres of Government	Column A	Column B	
	2010/11 Allocation	Forward Estimates	
		2011/12	2012/13
National <sup>1,2</sup>	R'000 527 001 492	R'000 573 709 007	R'000 632 299 464
Provincial	260 973 745	280 688 678	294 779 975
Local	30 167 706	33 939 901	37 234 396
<b>TOTAL</b>	<b>818 142 943</b>	<b>888 337 586</b>	<b>96 431 3835</b>

1. National share includes conditional allocations to provincial and local spheres, general fuel levy sharing with metropolitan municipalities, debt service costs and the contingency reserve.

2. The direct charges for the provincial equitable share are netted out.

Source: Division of Revenue Bill [B4-2010]



**Table 3: Trends in the Division of Revenue**

R' million	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
		Outcome		Revised Estimate	Medium-term estimates		
<b>Division of available funds</b>							
<b>National departments</b>	<b>210 172</b>	<b>242 632</b>	<b>289 346</b>	<b>346 103</b>	<b>359 106</b>	<b>370 688</b>	<b>393 757</b>
<b>Provinces</b>	<b>181 328</b>	<b>208 666</b>	<b>248 286</b>	<b>294 968</b>	<b>322 858</b>	<b>350 547</b>	<b>369 348</b>
Equitable share	149 246	171 054	201 796	236 878	260 974	280 689	294 780
Conditional grants	32 082	37 612	46 491	53 890	61 884	69 858	74 568
Gautrain loan	-	-	-	4 200	-	-	-
<b>Local government</b>	<b>26 501</b>	<b>37 321</b>	<b>44 037</b>	<b>50 146</b>	<b>58 821</b>	<b>66 640</b>	<b>73 187</b>
Equitable share <sup>1</sup>	18 058	20 676	25 560	24 356	30 168	33 940	37 234
General fuel levy sharing with metropolitan municipalities	-	-	-	6 800	7 542	8 531	8 958
Conditional grants	8 443	16 645	18 477	18 990	21 111	24 169	26 995
<b>Total</b>	<b>418 000</b>	<b>488 619</b>	<b>581 670</b>	<b>691 217</b>	<b>740 785</b>	<b>787 875</b>	<b>836 292</b>
Percentage shares							
National departments	50.3%	49.7%	49.7%	50.1%	48.5%	47.0%	47.1%
Provinces	43.4%	42.7%	42.7%	42.7%	43.6%	44.5%	44.2%
Local government	6.3%	7.6%	7.6%	7.3%	7.9%	8.5%	8.8%

1. With effect from 2006/07, the local government equitable share includes compensation for the termination of Regional Services Council (RSC) levies and Joint Services Board (JSB) levies for metros and district municipalities. From 2009/10 the RSC Levies Replacement Grant is only allocated to district municipalities and Metropolitan municipalities and not local municipalities.

Source: National Treasury (2010d)

Table 3 indicates the change in the allocation of nationally raised revenue between 2006/07 and 2009/10. In terms of percentage share of nationally raised revenue, national departments receive the largest percentage, followed by provinces. Local government receives the lowest share of nationally raised revenue because of their unique revenue raising ability. However, Table 3 also indicates that the share allocated to national departments declined over the period under review, whilst the share allocation to provinces remained constant as of the 2007/08 to 2009/10 financial years and increases slightly over the 2010/11 MTEF period. On the other hand, the share allocation to local government increased incrementally over the period under review.

The Regional Services Council (RSC) and Joint Services Board (JSB) levies were abolished with effect from the 1 July 2006. The RSC/JSB levies consisted of two parts: a service levy on payroll and an establishment levy on turnover. The motivation for abolishing the RSC and JSB levies was to alleviate the administrative burden on businesses, as well as, the fact that the tax was flawed in terms of not adhering to a key principle of sound taxation, that is, efficiency of collection. Payment of RSC and JSB levies relied on the discretion of businesses, and some municipalities that had greater capacity and resources than others to ensure tax compliance in this regard.

However, the RSC and JSB levies were an important source of revenue for metropolitan and district municipalities and to compensate municipalities for the loss of revenue, an RSC levies replacement grant was put in place in the interim, until permanent replacements could be introduced. As per the 2009 Budget Speech, one replacement measure would be to share the revenue generated from the general fuel levy for metropolitan municipalities to support road and transportation infrastructure and a permanent grant for district municipalities.



**Table 4: Sources of revenue at different spheres of government**

National Government	Provincial Government	Local Government
<ul style="list-style-type: none"> <li>• Tax receipts (Taxes on income and profits).</li> <li>• Taxes on payroll and workforce.</li> <li>• Taxes on property.</li> <li>• Domestic taxes on goods and services.</li> <li>• Taxes on international trade and transactions.</li> <li>• Sales of goods and services other than capital assets.</li> <li>• Transfers received.</li> <li>• Fines, penalties and forfeits.</li> <li>• Interest and dividends.</li> <li>• Rent on land.</li> <li>• Sales of capital assets.</li> <li>• Transactions in assets and liabilities.</li> </ul>	<ul style="list-style-type: none"> <li>• National funding.</li> <li>• Tax receipts.</li> <li>• Sales of goods and services other than capital assets.</li> <li>• Transfers received (including donor funding).</li> <li>• Fines, penalties and forfeits.</li> <li>• Interest and dividends.</li> <li>• Rent on land.</li> <li>• Sales of capital assets and financial transactions in assets and liabilities.</li> <li>• Less significant sources of revenue such as donor funding and funds generated through services rendered.</li> </ul>	<ul style="list-style-type: none"> <li>• Property rates.</li> <li>• Service charges.</li> <li>• Rental of facilities and equipment.</li> <li>• Interest earned on external investments.</li> <li>• Interest earned from outstanding debtors.</li> <li>• Dividends received.</li> <li>• Fines, Licenses and permits.</li> <li>• Income for agency services.</li> <li>• Government grants and subsidies.</li> <li>• Public contributions and donations.</li> <li>• Disposal of property plant and equipment.</li> </ul>

Source: National Treasury (2008a) and National Treasury (2007a)

Table 4 above provides an overview of the main sources of revenue at the different spheres of government. Table 4 highlights some similarity in the revenue items of national and provincial government. This similarity stems from the fact that both these spheres of government are subjected to revenue classification according to the New Economic Reporting format and the classification of line items as per the Standard Chart of

Accounts. For example, revenue items such as sales of goods and services other than capital assets, sales of capital assets, and financial transactions in assets and liabilities are common revenue items for both national and provincial government. In recent years, legislation has been passed to ensure greater uniformity at local government level in terms of reporting on revenue and expenditure. In this regard, all categories of municipalities must report on their sources of revenue in a uniform manner.

### **The Medium-Term Expenditure Framework (MTEF)**

The traditional approach to budgeting is that it is done on an annual basis. Such an approach has the potential to isolate the budget cycle from macroeconomic factors, expectations on future revenue, the long-term needs of programmes and government's spending priorities. Any approach to budgeting which has the achievement of allocative efficiency, fiscal discipline and operational efficiency as important objectives would follow a multi-year budgeting approach. In a multi-year budgeting approach, the current financial year informs the budgetary decisions for the upcoming budget year, and the estimates of the budget year provide an indication of longer term estimates for the outer years.

Under a single year budgeting system, the current financial year is linked with the upcoming budget year through adding an increment to the current year's figures. In this way the estimates for the upcoming budget year are calculated.

In 1997, South Africa shifted from a single budget year to a multi-year budget framework referred to as the Medium-Term Expenditure Framework (MTEF). The MTEF is an integrated planning and budget formulation process where the Executive's administration, government departments and provincial administrations establish credible outputs, projects and programmes for allocating public resources to achieve strategic priorities.<sup>37</sup> The MTEF essentially has two objectives. These are:

- Setting fiscal targets over a 3-year period.
- Allocating resources to strategic priorities within these fiscal targets.<sup>38</sup>

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37 National Treasury (2005b)

38 Chulu, O. (n.d.)

The allocation of resources to strategic priorities is preceded by a process of determining government-wide priorities by the Cabinet collectively and portfolio-wide priorities by Ministries individually. The MTEF essentially equates the time frame of budgets with the time frame for strategic plans, i.e. three years.

Medium-term budgeting is broader than numbers – it concerns prioritisation, planning and budgeting for service delivery.<sup>39</sup> The MTEF is a tool for linking planning, policy and budgeting over a multi-year period. The practice of linking planning, policy and budgeting is necessary for the efficient and effective use of resources.

Under the MTEF, government publishes 3-year budgets, but only one year has definite budget figures. While the MTEF covers a period of three years; it is the first year of the specific MTEF that speaks to the next budget. The other two years represent estimates which are subject to changes through the tabling of the Medium Term Budget Policy Statement (MTBPS). Through the tabling of the MTBPS, Government meets its obligation under section 28 of the Public Finance Management Act (No. 1 of 1999) (PFMA) that requires the National Treasury to table multi-year budget projections for revenue, expenditure and key macroeconomic projections on an annual basis. The MTBPS publishes (three months prior to tabling of the budget) the macroeconomic and fiscal policy stance of the country, tax policy and the MTEF. The two outer years' budgets are used as a baseline for the next year's budget. The MTEF consists of the following three elements:<sup>40</sup>

- A top-down resource envelope consistent with macroeconomic stability and policy priorities.<sup>41</sup>
- A bottom-up estimate<sup>42</sup> of the current and medium term cost of existing programmes and activities.
- An iterative process of decision-making, matching costs and new policy ideas with available resources over a rolling 3-5 year period.

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39 According to the World Bank (1998), The “top-down resource envelope” is fundamentally a macroeconomic model that indicates fiscal targets and estimates revenues and expenditures, including government financial obligations and high cost government-wide programs such as civil service reform. To complement the macroeconomic model, the sectors engage in “bottom-up” reviews that begin by scrutinizing sector policies and activities with an eye toward optimizing intra-sectoral allocations.

40 ibid

41 ibid

42 Schiavo-Campo, S. (2007)



In order to be applied effectively, the MTEF must meet certain requirements. These requirements are:<sup>43</sup>

- A clear framework of national policies, programmes and priorities.
- Realistic medium-term resource projections.
- A comprehensive budget that enables the budget system to relate results and accountabilities to resource inputs.
- A budget and programme classification that can be linked to national and sectoral objectives.
- Monitoring indicators of inputs, final and intermediate outputs and outcomes.

In addition to these requirements, the MTEF offers the following advantages:<sup>44</sup>

- Introducing the MTEF generates awareness of the need to look beyond the immediate urgencies.
- It can help improve the link to policy and budget transparency.
- With its implicit emphasis on results of expenditure, the MTEF can spur greater attention to efficiency and effectiveness of public spending.
- It fosters an improvement in line ministries' capacity, and their eventual empowerment and accountability.

The disadvantages and/or criticisms of the MTEF include:<sup>45</sup>

- Lack of predictability.
- Time consuming.
- It is too rigid.

The MTEF cannot result in improved spending and service delivery in isolation. For the MTEF to have a meaningful role in this regard, it needs to be integrated with and complemented by improvements in other public policy and management processes.

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43 Applied Fiscal Research Centre (2007)

44 Public Finance Service Agency (n.d.)

45 Ibid

## The Public Finance Management Act (No. 1 of 1999) (PFMA)

Section 216 of the Constitution states that national legislation must establish a National Treasury and prescribes measures to ensure both transparency and expenditure control in each sphere of government by introducing:

- Generally recognised accounting practice.
- Uniformed expenditure classifications.
- Uniform treasury norms and standards.

The provision referred to in section 216 of the Constitution, led to the passing of the Public Finance Management Act (No. 1 of 1999) into law in 1999.<sup>46</sup> The purpose of the PFMA is to regulate financial management in the national and provincial spheres of government; to ensure that all revenue, expenditure, assets and liabilities of those spheres of government are managed efficiently and effectively; to provide for the responsibilities of persons entrusted with the financial management of those governments; and to provide for matters connected therewith.<sup>47</sup>

The enactment of the PFMA marked the beginning of a period in which fiscal discipline and operational efficiency was emphasised. The other pillar of public expenditure management, allocative efficiency, was strongly emphasised in the MTEF as a budget reform. The enactment of the PFMA was necessary to provide further impetus to the intergovernmental system and the MTEF.

Prior to the PFMA, public financial management in South Africa was regulated through various Exchequer Acts. As National Treasury points out “...the PFMA replaced or superseded the various national and provincial Exchequer Acts and the Reporting of Public Entities Act currently in place.”<sup>48</sup> According to National Treasury, the enactment of the PFMA was necessary as financial accountability was undermined since different legislation applied for different entities.<sup>49</sup> Table 5 tabulates the differences between the Exchequer Acts and the PFMA.

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46 National Treasury (1999)

47 Ibid



**Table 5: Differences between the Exchequer Act and PFMA**

Exchequer Act	PFMA
Cash based accounting.	Accrual based accounting.
Focus on measurement of inputs.	Focus on outputs and outcomes.
Little accountability and penalties.	Devolvement of accountability and responsibility.
Treasury instructions rule bound.	Treasury regulations focus on making managers accountable.
Lack of reporting guidelines and obligations.	Better reporting and information.

Source: South African Institute of Chartered Accountants (2005)

Table 5 indicates that the PFMA represents a complete departure from a rule bound approach to more emphasis on accountability, transparency and responsibility. Furthermore, the emphasis shifted to a focus on service delivery and the impact of such service delivery. Through the PFMA, periodic reporting on outputs, spending and outcomes by public financial management officials became a necessity.

Perhaps the central premise of the PFMA in terms of reasons for its necessity to be enacted is best manifested through the statement of the PFMA's objectives. The objectives of the PFMA are to:

- Modernise the system of financial management in the public sector.
- Enable public sector managers to manage, but at the same time be held more accountable.
- Ensure the timely provision of quality information.
- Eliminate waste and corruption in the use of public assets.

The budget reform as manifested through the PFMA should be viewed as a process and not an event. In other words, the PFMA is a dynamic piece of legislation which has the objective of modernising financial management and creating a best practice model or system-based financial management framework. In this regard, National Treasury issues regular Treasury Regulations and circulars which represent official interpretations from the Treasury on developments regarding the PFMA.

### **The Municipal Finance Management Act (No. 56 of 2003) (MFMA)<sup>48</sup>**

The Constitutional<sup>49</sup> recognition of the three spheres of government introduced greater complexity into the arrangements required for executive/administrative, legislative and financial intergovernmental relations. The Constitution contains a number of provisions that have implications for intergovernmental relations, especially between provincial and local governments. These include the right of local government to conduct its own activities within the framework of the Constitution. The Constitution further provides for National Government to adopt legislation to establish, provide and facilitate Intergovernmental Fiscal Relations.

The Municipal Finance Management Act was thus passed in order to guide local government in governance and financial matters. The Act aims to modernise budget and financial management practices by placing local government finances on sustainable ground. The Act also aims to establish a sound financial governance framework by clarifying and separating the roles and responsibilities of the mayor, executive and non-executive councillors and officials. It therefore serves to maximise the capacity of municipalities to deliver services to all their residents, customers, investors and other stakeholders.

The objectives of the MFMA are to secure sound and sustainable management of the financial affairs of municipalities and other institutions of Local Government, as well as to establish treasury norms and standards for the local sphere of government.

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48 The content in this section is extracted and adapted from Chapter 2, pages 9-10 and Chapter 3, page 41-42 in the dissertation by BA. Diutwileng (2009).

49 Constitution of the Republic Of South Africa, Act 108 of 1996.



The underlying principles of the MFMA are consistent with other local government legislation such as the Municipal Systems Act (No. 32 of 2000) and the Municipal Structures Act (No. 117 of 1998). These principles, and the specific reforms they flow from, encourage a stronger, well managed and more accountable local government sphere that is better suited to meet the needs and expectations of communities.

The most significant aspects of the MFMA relate to the new budget process and its link to the Integrated Development Plan (IDP), new accounting standards and formats, establishment of audit committees and other internal controls, improvements to procurement and supply chain management, performance measurement reporting, staff competency levels, and new mechanisms to resolve financial problems and misconduct. The MFMA therefore empowers various stakeholders within the municipality around a framework of good governance.

The Municipal Finance Management Act is one of the most important pieces of legislation governing the actions of local government to have been passed post 1994.

### **The Estimates of National Expenditure**

The PFMA essentially laid the foundations for subsequent budget reforms which would serve the purpose of cementing the objectives of the effective and efficient management of public finances in South Africa. Budget reforms that followed the enactment of the PFMA had their origins in certain provisions prescribed in the PFMA. The emergence of the Estimates of National Expenditure as a budget reform in 2001 was no different.

The introduction of the Estimates of National Expenditure gives effect to section 27(3) of the PFMA, which prescribes budget formats for the three spheres of government. The Estimates of National Expenditure is a unique and ongoing budget reform – as evidenced from the manner in which it has changed since it was introduced in 2001. In the 2008 Estimates of National Expenditure tabled by the Minister of Finance on Budget Day, National Treasury pointed out that this budget reform aims to ensure that budgets reflect government’s objectives and support the extension and improvement of service delivery.<sup>50</sup>

One of the main advantages of the PFMA is that it allows managers to manage, while also being accountable. According to National

50 National Treasury (2008d)

Treasury, the Estimates of National Expenditure enhance accountability. Through the Estimates of National Expenditure, policy developments, legislation and other factors are outlined alongside departmental spending plans, while 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 PFMA.<sup>51</sup>

Essentially, the Estimates of National Expenditure combines the previous *Estimate of Expenditure* (“the White Book”) and the *National Expenditure Survey*. The *Estimates of Expenditure* covered what is now included in the Estimates of National Expenditure as departmental spending plans; while the *National Expenditure Survey* provided information on departmental policies, spending trends and outputs. Fölscher and Cole (2004) substantiated this by pointing out that the Estimates of National Expenditure replaced the *National Expenditure Survey*, bringing financial and narrative performance information together and making a first effort at formulating measurable objectives and indicators.<sup>52</sup> When the Estimates of National Expenditure was introduced in 2001, it had four distinct features<sup>53</sup>. These are:

- A new economic reporting format.
- Improved quality of functional qualification.
- Improved programmatic classification.
- Mindful implementation.

Table 6 below relates to features of the different components that define the Estimates of National Expenditure document. It provides a succinct overview of what is contained within each chapter of the Estimates of National Expenditure document. The Estimates of National Expenditure contains information on 37 national departments/ votes. These votes are clustered into the following five categories:

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51 National Treasury (2001)  
52 Fölscher, A. and Cole, N. (2004)  
53 Ibid.



- Central Government and Administration.<sup>54</sup>
- Financial and Administrative Services.<sup>55</sup>
- Social services.<sup>56</sup>
- Justice, Crime Prevention and Security.<sup>57</sup>
- Economic Services and Infrastructure.<sup>58</sup>

**Table 6: Features of the Estimates of National Expenditure**

<b>Feature</b>	<b>Explanation</b>
Budget summary	This section provides a succinct summary of the total amount to be appropriated by Parliament. It corresponds with the information in the Appropriation Bill.
Aim	This section provides information on the outcomes of a specific vote. These outcomes could be social, economic or managerial.
Programme purposes (including objectives and measures)	The purpose of each programme is indicated in this section. The section also presents an indication of the objectives and measures underlying programmes and links this to the strategic intent of each objective.

54 This includes the Presidency; Parliament; Cooperative Governance and Traditional Affairs; Home Affairs; International Relations and Cooperation; Public Works, as well as, Women, Children and People with Disabilities.

55 This includes Government Communication and Information System; National Treasury; Public Enterprises; Public Service and Administration and Statistics South Africa.

56 This includes Arts and Culture; Basic Education; Health; Higher Education and Training; Labour; Social Development and Sport and Recreation South Africa.

57 This includes Correctional Services; Defence and Military Veterans; Independent Complaints Directorate; Justice and Constitutional Development and Police.

58 This includes Agriculture, Forestry and Fisheries; Communications; Economic Development; Energy; Environmental Affairs; Human Settlements; Mineral Resources; Rural Development and Land Reform; Science and Technology; Tourism; Trade and Industry; Transport; and Water Affairs.

<p>Strategic overview and key policy developments over the seven-year period</p>	<p>This section provides an overview of developments over a seven-year period. It includes the upcoming MTEF (3 years), the current financial year (i.e. the year that is about to finish) and the three financial years preceding the current financial year. The overview of the seven-year period covers policy developments, legislative changes, recent achievements, and a table of selected quantitative and selected performance indicators.</p>
<p>Savings and Cost Effective Service Delivery</p>	<p>In line with government's commitment to shift funds from lower priorities to higher priorities as well as responding to the shortfall in government revenue collection, the budget details the savings derived from implementation of cost-cutting measures and reprioritisation in public sector spending, which were redirected towards key priorities.</p>
<p>Selected Performance Indicators</p>	<p>This section presents a selective reflection of some of the department's performance information. This section is very brief and should be supplemented with information from the Strategic Plan.</p>
<p>Expenditure estimates</p>	<p>Whereas the previous section gives a qualitative overview over a seven-year period, this section provides a breakdown of expenditure estimates over a seven-year period based on programmes, economic classification of expenditure and standard items.</p>
<p>Expenditure trends</p>	<p>This section is similar to the above section, and also presents an overview of trends over a seven year period.</p>



Departmental receipts	This section gives an overview of departmental revenue sources over a seven-year period. It relates to the upcoming MTEF (3 years), the current financial year (i.e. the year that is about to finish) and the three financial years preceding the current financial year.
Information on each programme	The previous sections focused on an overview at a vote level, while this section introduces information on a programme level.
Expenditure estimates (per programme)	For each of the programmes, a breakdown is provided of sub-programmes within programmes and line item within sub-programmes; as well as the economic and standard classifications within those sub- programmes and line items.
Expenditure trends (per programme)	This section is similar to the above section, and also gives an overview of trends over a seven-year period for each programme and sub-programme.
Public entities and agencies	Information on public entities is provided in this section. It includes amongst other information, the key legislative mandates and key priorities of the entity, selected performance indicators and targets and expenditure estimates and trends.
Additional tables	The following information is provided in this section: summary of expenditure trends and estimates per programme and economic classification; personnel numbers and compensation of employees; expenditure on training; conditional grants to provinces and local government (municipalities); expenditure on infrastructure; and a summary of departmental public-private partnerships projects.

## Strategic Planning

Treasury Regulation 5.1.1 makes provision for the annual preparation of departmental strategic plans. This provision specifically requires the Accounting Officer of an institution to prepare a strategic plan for the forthcoming MTEF period for approval by the relevant Executive Authority.<sup>59</sup> Once the departmental strategic plan has been prepared, it must be tabled in Parliament or the relevant provincial legislature at least seven days prior to the discussion of the departmental budget vote.<sup>60</sup> In other words, by linking the MTEF with strategic planning, departments are essentially conducting their annual rolling strategic planning process in tandem with preparing medium-term budgets.

The departmental strategic plan forms part of a cycle linking plans, budgets and reports. This cycle begins with strategic planning, in which a department's strategic plan is prepared for a three to five year period and updated annually. The strategic plan provides an indication of budget information that is to be presented in the forthcoming budget. This includes information on measurable objectives, performance indicators and service delivery targets. In other words, information in the strategic plans is taken into consideration when budget allocations are discussed. Both the strategic plan and the budget cover the critical areas within a specific department.

An essential link exists between the strategic plan, budget and annual report. The annual report provides detailed information on performance against the departmental budget and strategic plan. In preparing annual reports, departments need to review the performance or service delivery results of the previous period, undertake an assessment of service delivery or performance targets and re-examine departmental strategic objectives against broader government priorities.<sup>61</sup> Following the reporting on performance through the annual report, an annual review is conducted by departments, which will inform the updated annual strategic plan. This review focuses on environmental changes affecting the department, expenditure outcomes and new budget allocations, and any strategic direction changes. The departmental strategic plan therefore represents the first phase of a cycle which ends with an annual review.

59 National Treasury (2005b)

60 Ibid.

61 Fölscher, A. and Cole, N. (2004)



Planning is the first phase in the service delivery chain after policy development - it aims to bridge the gap between policy making and budgets.<sup>62</sup> Two pieces of legislation provide a framework for the requirements underlying the preparation of strategic plans. These are:

- Regulations issued in terms of the Public Service Act, (No. 103 of 1994).
- Regulations issued in terms of the Public Finance Management Act (No. 1 of 1999).

Part III (B) of the Public Service Regulations (2001) requires the Executive Authority of a government department to prepare the strategic plan of that department. In preparing the strategic plan of the department, the Executive Authority must take cognisance of the inclusion of the following aspects:<sup>63</sup>

- Stating the department's core objectives, based on Constitutional and other legislative mandates, functional mandates and the service delivery improvement programme mentioned in regulation III C.<sup>64</sup>
- Describing the core and support activities necessary to achieve the core objectives, avoiding duplication of functions.
- Specifying the functions the department will perform internally and those it will contract out.
- Describing the goals or targets to be attained in the medium term.
- Setting out a programme for attaining those goals and targets.
- Specifying information systems that:
  - enable the executing authority to monitor progress made towards achieving those goals, targets and core objectives;
  - support compliance with the reporting requirements in regulation III J<sup>65</sup> and the National Minimum Information Requirements, referred to in regulation VII H;<sup>66</sup> and

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62 Applied Fiscal Research Centre (2007)

63 Public Service Commission (2001)

64 According to the Public Service Regulations, Regulation III C, an executing authority shall establish and sustain a service delivery improvement programme for her or his department. Furthermore, an executing authority shall publish an annual statement of public service commitment which will set out the department's service standards.

65 This regulation refers to managerial review and oversight. It states that the executing authority shall – (a) in terms of section 92(3) (b) or 133(3) (b) of the Constitution, include the information set out in regulation III J.2 or J.3 in the annual report. Furthermore, the Minister of Finance shall determine from time to time the format in which the information referred to in regulation III J.3 is to be included in the annual report.

66 This regulation refers to employee records and states that a head of department shall keep a record of each employee and of each post on the approved establishment in accordance with the National Minimum Information Requirements as issued by the Minister of Finance

- Complying with the requirements in paragraphs 5.1 and 5.2 (annual preparation of strategic plans; and the submission and contents of strategic plans) of the Treasury Regulations.

In addition to the legislative requirements of the Public Service Regulations (2001), the Treasury Regulations also make prescriptions regarding the strategic plans of departments. The Treasury Regulations (2007) state that the strategic plans of departments must include:<sup>67</sup>

- Information that covers a period of three years and be consistent with the institution's published medium-term expenditure estimates.
- Specific constitutional and other legislative, functional and policy mandates that indicate the output deliverables for which the institution is responsible.
- Policy developments and legislative changes that influence programme spending plans over the three-year period.
- Measurable objectives, expected outcomes, programme outputs, indicators and targets of the institution's programmes.
- Details of proposed acquisitions of financial assets, as well as capital transfers and plans for the management of financial assets and liabilities.
- Details of proposed acquisitions of fixed or movable capital assets, planned investments, as well as rehabilitation and maintenance of physical assets.
- Multi-year projections of income and projected receipts from the sale of assets;
- Details of the Service Delivery Improvement Programme.
- Details of proposed information technology acquisition or expansion in reference to an information technology plan.
- The requirements of Chapter 1, Part III B<sup>68</sup> of the Public Services Regulations, 2001.

67 National Treasury (2005)

68 Chapter 1, Part III B of the Public Service Regulations relates to the requirements for Strategic Planning for national and provincial departments.



Having listed the key requirements in terms of the preparation of departmental strategic plans, it would be useful to consider the implications of the above requirements for the budget and subsequent service delivery in terms of performance related governance.

Both pieces of legislation emphasise core objectives and measurable objectives. It may be inferred from this that departmental operations should be measured in terms of economy, efficiency and effectiveness. According to the Public Service Regulations (2001), an executing authority shall publish an annual statement of public service commitment which will set out the department's service standards. These performance standards present government with indicators against which the achievement of objectives will be measured. In addition to the performance standards highlighted by the Public Service Regulations (2001), the Treasury Regulations also relates to the measurement of performance. In terms of the above extract from the Treasury Regulations, departments must specify the following in their strategic plans:

- Expected outcomes.
- Outputs.
- Indicators and measures.
- Service delivery targets.

### **The Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009)**

The Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009) was signed into law by President Kgalema Motlanthe in April 2009, giving Parliament the authority to amend money Bills.<sup>69</sup> The Act gives effect to the requirements of section 77 (3) of the Constitution of the Republic of South Africa by providing for a procedure to amend money bills before Parliament. Section 77 (3) of the Constitution states:

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69 The Constitution of the Republic of South Africa defines a Money Bill as a "bill that appropriates money or imposes taxes, levies or duties".

All money Bills must be considered in accordance with the procedure established by section 75. An Act of Parliament must provide for a procedure to amend money Bills before Parliament.

Source: Constitution of the Republic of South Africa, 1996

The passing of this piece of legislation seeks to strengthen Parliament's fiscal oversight role and ensures that Parliament goes further than just playing an oversight role with respect to budget expenditure by government departments, but that Parliament also contributes to policy implementation by facilitating budget prioritisation.

As mentioned previously, the Act confers on Parliament amendment powers, whereby Parliament can now propose changes to money Bills, albeit only within certain considerations. The Act sets out the criteria that must be considered in amending the budget and prescribes the sequence of amendment procedures to be adhered to.

Parliament and its Committees have to consider the following criteria when amending the fiscal framework, a money Bill or taking any decision in terms of this Act:<sup>70</sup>

- Ensure that there is an appropriate balance between revenue, expenditure and borrowing;
- Ensure that debt levels and debt interest costs are reasonable;
- Ensure that the cost of recurrent spending is not deferred to future generations;
- Ensure that there is adequate provision for spending on infrastructure development, overall capital spending and maintenance;
- Consider the short, medium and long-term implications of the fiscal framework, division of revenue and national budget on the long-term growth potential of the economy and the development of the country;
- Take into account cyclical factors that may impact on the prevailing fiscal position; and
- Take into account all public revenue and expenditure, including extra-budgetary funds and contingent liabilities.



The Act has three major implications in respect of Parliament's current legislative processes concerning the budget. These are:

1. Establishment of Finance and Appropriation Committees in each House (i.e. the National Assembly and the National Council of Provinces).
2. Establishment of a Parliamentary Budget Office.
3. Strengthening Public Participation by providing more opportunities for public engagement.

### ***Finance and Appropriations Committees***

Section 4 of the Act requires that each House (i.e. the National Assembly and the National Council of Provinces) establishes Committees on Finance and Appropriations to engage with national macro-economic and fiscal policy and to consider all amendments to money Bills.

The Finance Committees are mandated to consider and report on national macro-economic and fiscal policy, amendments to the fiscal framework, revised fiscal framework and revenue proposals and Bills; and actual revenue published by the National Treasury.<sup>71</sup> In contrast to this, the Appropriations Committees are mandated to consider and report on spending issues, amendments to the Division of Revenue Bill, the Appropriation Bill, supplementary Bills and the Adjustments Appropriations Bill, as well as to consider the recommendations of the Financial and Fiscal Commission and report on actual expenditure published by National Treasury.<sup>72</sup>

The Act therefore requires that Committees change from simply accepting or rejecting money bills and become more effective by performing more robust oversight in relation to the budget. The effectiveness of Committees are largely dependent on the expertise of their members, i.e. the capacity of Committee members to critically evaluate the performance of government departments in relation to departmental allocations, strategic plans, in-year spending reports, annual reports and audit results that give rise to probing questions around service delivery as opposed to asking simple clarity questions that provide little insight on how to improve upon service delivery outcomes.<sup>73</sup> It is envisaged that the Parliamentary Budget Office will capacitate Committee members in relation to economic and budgetary issues, amongst others.

71 Parliament of the Republic of South Africa (2007)

72 Ibid

73 Idasa (2009)



### ***Parliamentary Budget Office***

Section 15 of the Act requires the establishment of a Parliamentary Budget Office, to be headed by a Director. The main objective of the Parliamentary Budget Office is to provide independent, objective and professional advice and analysis to Parliament on matters related to the budget and other money Bills.<sup>74</sup> The core function of the Parliamentary Budget Office is to support the implementation of this Act by undertaking research and analysis for Committees.<sup>75</sup>

To be effective in amending money Bills, the Parliamentary Budget Office will need capacity to:

- Undertake macroeconomic forecasts i.e. The Parliamentary Budget Office should provide independent forecasting by presenting alternative assumptions and their implications for what has been forecast, and alert Committees to consistent divergences between predictions and outcomes.<sup>76</sup> The 2009 Idasa Report<sup>77</sup> cautions against duplication of the complex modelling undertaken by the Executive.
- Model the implications of different fiscal policy targets.
- Indicate the trade-offs required when reallocating funds between departments, programmes, spheres of government, or across provinces and municipalities.<sup>78</sup>

### ***The Fiscal Framework, Budget Review Recommendation Reports and Revenue Proposals***

An important component of the Money Bills Amendment Procedure and Related Matters Act is the fiscal framework, which must be scrutinised when Parliament considers whether or not to amend a money Bill. Section 8 of the Act provides, amongst others, for the adoption of the fiscal framework in accordance with stipulated principles.

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74 Parliament of the Republic of South Africa (2007)

75 Ibid

76 Idasa (2009)

77 Idasa (2009)

78 Financial and Fiscal Commission (2008)

The fiscal framework serves as an important guide to the whole budget process by providing the foundation upon which detailed budget decision-making depends. It represents a way of shaping the financial, social and economic landscape of a country through the budget process. Through clearly laid down rules, the fiscal framework will assist in setting target levels for the funding available for a variety of social and economic objectives the government wishes to pursue. An important note is that the fiscal framework is reviewed periodically in light of changing circumstances and budgetary decisions.

The adoption of the fiscal framework is preceded by an assessment by the National Assembly's Committees of the performance of each national department. In assessing the performance of national departments, the relevant Committees will, amongst others, assess the department's medium term estimates of expenditure, strategic priorities and measurable objectives; National Treasury Section 32 reports; Annual Reports; Annual Financial Statements and the Standing Committee on Public Accounts (SCOPA) reports. This performance assessment process culminates into a Budget Review and Recommendation Report (BRRR). Committees are required to annually compile and submit a Budget Review and Recommendation Report (BRRR) for tabling in the National Assembly (NA) for each department after the adoption of the Appropriation Bill and prior to the adoption of the reports on the Medium Term Budget Policy Statement (MTBPS). The report should include an assessment of the department's service delivery performance given available resources; the effectiveness and efficiency of the department's use and forward allocation of available resources, as well as include recommendations on the forward use of resources. The BRRR must be submitted to the Minister of Finance and the relevant Cabinet Minister responsible for the vote to which the report applies, after its adoption by the NA and prior to the adoption of the reports on the MTBPS.

Following the BRRR process, the Minister of Finance will then introduce the Medium Term Budget Policy Statement. This is introduced at least three months prior to the introduction of the national budget and must include a revised fiscal framework for the present financial year and the proposed fiscal framework for the next three years. This is followed by the tabling in February of the annual budget, the Division of Revenue Bill and the Appropriation Bill.

Following the introduction of the above mentioned, the National Assembly (NA) and the National Council of Provinces (NCOP) must refer the fiscal framework and the revenue proposals to the two finance committees within each house. The two Finance Committees must then conduct joint public hearings on the fiscal framework and the revenue proposals. It is during this time that any decision to

amend the fiscal framework and/or revenue proposal will emerge, thus giving effect to the issue of “amending money bills”.

The Committees have 16 days to prepare a report and submit it to the National Assembly and the National Council of Provinces. As the Act indicates, “*The report must include a clear statement accepting or amending the fiscal framework and revenue proposals*”. Parliament’s role in amending or accepting the fiscal framework is therefore crucial as it essentially defines the fiscal landscape. The challenge facing the legislature is to balance fiscal responsibility with the need to ensure that budgets are pro-poor, progressively realise the socio-economic rights conferred in the Bill of Rights and respond to other priorities such as HIV and AIDS.<sup>79</sup> Furthermore, it is important that Parliament keeps the following in mind when accepting or amending the fiscal framework:

- Efficiency, effectiveness, economy and transparency.
- International best practice.
- Internal consistency<sup>80</sup>.

### ***The Division of Revenue Bill and Appropriation Bill***

After the adoption of the fiscal framework, the Division of Revenue Bill must be referred to the two Committees on Appropriations within each House for consideration and report as per Section 9 of the Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009). The Division of Revenue Bill must be passed no later than 35 days after the adoption of the fiscal framework by Parliament. Any amendment to the Division of Revenue Bill must be consistent with the fiscal framework and Section 214 of the Constitution. In the instance of proposed amendments to the Division of Revenue Bill, the standing rules provide for participation by chairpersons of other Committees, public hearings and allows for the affected Cabinet member, provinces and local governments to respond to any proposed amendments. The standing rules also requires that each respective Committee on Appropriations prepare a report that indicates that proposed amendments are consistent with the adopted fiscal

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79 Applied Fiscal Research Centre (2008)

80 Ibid



framework, motivates amendments in terms of service delivery improvements and demonstrates that the impact of the proposed amendments on the service delivery obligations of affected departments, provinces and local government have been considered. The Committees on Appropriations must also consult the Financial and Fiscal Commission and allow the Minister of Finance the opportunity to respond to any proposed amendment at least three days prior to the submission of the report to the relevant House. The report submitted by the Committees on Appropriations to the respective Houses must contain the response by the Minister to any proposed amendments.

The Appropriation Bill is also referred to the two Committees on Appropriations within each House for consideration and reporting, after the adoption of the fiscal framework as per Section 10 of the Act. The Committees on Appropriations may not consider amendments to the Appropriation Bill prior to the passing of the Division of Revenue Bill. Any amendment to the Appropriation Bill must be consistent with the fiscal framework and the Division of Revenue Bill passed by Parliament. Parliament must pass, with or without amendments, or reject the Appropriation Bill within four months of the commencement of the financial year to which it relates. The standing rules provide for the Committees on Appropriations to hold public hearings on the Bill and consider the proposed amendments, as well as to report to the respective Houses on the comments and amendments to the Bill. The Standing Rules also allow for other Committees to consult the Committees on Appropriations on proposed amendments and propose conditional appropriations. The Committees on Appropriations are to mediate between Committees proposing conflicting amendments to the Bill and to recommend to the respective Houses that proposed amendments reported by other Committees are rejected where these are inconsistent with the fiscal framework, the adopted Division of Revenue Bill or not motivated adequately. A report submitted by the two Committees on Appropriations proposing amendments to the main Appropriations Bill to the respective Houses must contain in respect of each amendment the motivation for the proposed amendment. The motivation should include the following:

- Demonstrate how the amendment takes into account the broad strategic priorities and allocations of the relevant budget.
- State the implications of the amendment on the vote or main division within the vote.
- Identify the possible impact on service delivery and any other relevant information in this regard.
- Include the responses by the Minister or Cabinet member to any proposed amendments.

Another opportunity to amend money Bills arises during the adjustments period, which takes place at the end of the first semester (October/November) of the financial year. The Minister of Finance must table a national adjustments budget as required by Section 30 of Public Finance Management Act, (No. 1 of 1999) which must be accompanied by an Adjustments Appropriation Bill. The Minister must also table a revised fiscal framework and a Division of Revenue Amendment Bill if the adjustments budget effects changes to either the fiscal framework or the Division of Revenue Act for the relevant year. A similar process as described in the preceding paragraphs in relation to the adoption of the fiscal framework by Parliament is conducted in respect of the adoption of the revised fiscal framework. Section 12 of the Money Bills Amendment Procedure and Related Matters Act, (No. 9 of 2009) prescribes the process to be followed by Parliament in adopting the revised fiscal framework, Division of Revenue Amendment Bill and the Adjustment Appropriation Bill and any proposed amendments to the revised fiscal framework and adjustment Bills.

The Money Bills Amendment Procedure and Related Matters Act, (No. 9 of 2009) also provides for dedicated spaces for public participation during the legislative phase of the budget in Parliament.<sup>81</sup> Specific references for public hearings are made in the following Sections of the Act:

- Section 8 (2) requires the Finance Committees to conduct joint public hearings on the fiscal framework and revenue proposals;
- Section 9 (5)(b) requires the Appropriations Committees to conduct public hearings on any proposed amendments to the Division of Revenue Bill;
- Section 10 (8)(a) requires the Appropriations Committees to conduct public hearings on any proposed amendments to the Appropriations Bill;
- Section 11 (4)(a) requires the Finance Committees to conduct public hearings on any proposed amendments to revenue Bills; and
- Section 13 (2) (a) requires the Appropriations Committees to conduct public hearings on any other money Bill that is not referred to in Sections 10, 11 and 12 of the Act.

81

Idasa (2009)



The Act therefore provides greater scope for the public to engage in the budget process. The 2009 Idasa Report emphasises the importance of the Money Bills Amendment Procedure and Related Matters Act, (No. 9 of 2009) in furthering participatory governance in South Africa, but also cautions that for public participation to be effective it must go beyond the mere “cosmetic fulfilment of constitutional rights” and this is dependent on the accompanying structure and practices that are established by Parliament in implementing the Act. The effectiveness of public participation is largely dependent on the capacity of the public to engage on budgetary issues and their ability to make positive contributions to the budgetary debate that is beneficial to all citizens.

Parliament, as the primary implementing agent of the Act, has thus far established the Finance and Appropriations Committees within each respective House, but is faced with a number of challenges such as ensuring:

- That its Committees are fully capacitated to engage meaningfully in budget deliberations;
- That the requirements of the Act are fulfilled within the tight legislative timeframes;
- The Establishment of the Parliamentary Budget Office, staffing and resourcing the Budget Office etc; and
- Effective public participation in the legislative phase of the budget process.

The Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009) is one of the most significant pieces of legislation passed in respect of budget reforms that the South African Government has embarked on post-1994.

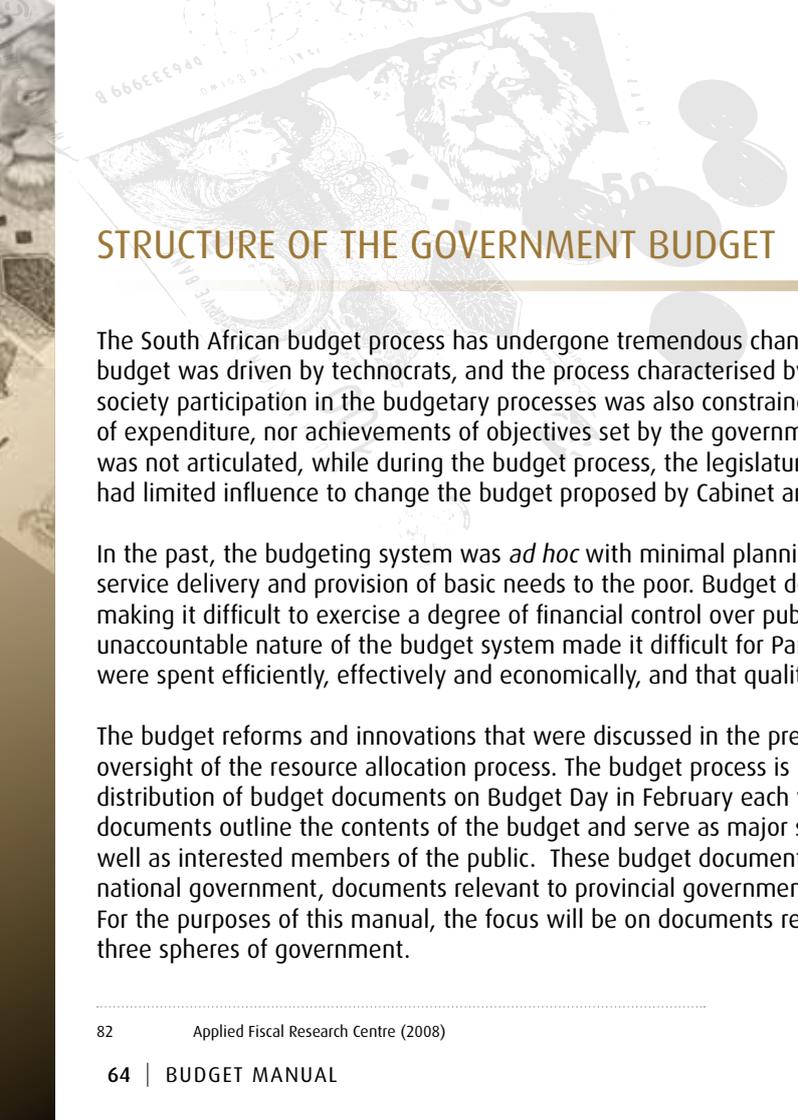
Full implementation of the Act will most likely be phased in, with incremental improvements as Parliament and its Committee structures continue to become more experienced and sophisticated in their budgetary oversight role (with the assistance and support of the Parliamentary Budget Office, once it is established) and therefore enhance the ability of Parliament to make proposals to amend money Bills.

## Summary

This chapter provided a summary of the major budget reforms introduced in South Africa since 1997. Budget reforms address three key issues, namely aggregate fiscal discipline, allocative efficiency and operational efficiency. Furthermore, budget reforms can be regarded as innovative ways by government to address fiscal challenges. For budget reforms to be effective, the fundamentals must be in place. In this regard, the Constitution of South Africa and the PFMA provided the building blocks upon which subsequent budget reforms followed. These two pieces of legislation provided the frameworks which drove policy and budgeting decisions and financial management over the last 12 years in South Africa.

An understanding of the major budget reforms is critical as each reform serves the purpose of transparency, uniformity and accountability. These reforms should provide the basis for preparing credible budgets that reflect priorities, and budgets in which expenditure and revenue projections are realistic.





# Chapter chapter 3

## STRUCTURE OF THE GOVERNMENT BUDGET

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The South African budget process has undergone tremendous changes since the advent of democracy in 1994. Historically, the budget was driven by technocrats, and the process characterised by secrecy, lack of transparency, with limited political input. Civil society participation in the budgetary processes was also constrained. Consequently, the public could appreciate neither the purpose of expenditure, nor achievements of objectives set by the government.<sup>82</sup> The criteria and rationale for the allocation of public funds was not articulated, while during the budget process, the legislature was completely overshadowed by the executive. Parliament had limited influence to change the budget proposed by Cabinet and its role in the budget process was limited.

In the past, the budgeting system was *ad hoc* with minimal planning, it was not performance orientated and had little impact on service delivery and provision of basic needs to the poor. Budget documents were mostly inaccessible and were not user-friendly, making it difficult to exercise a degree of financial control over public funds and how these were spent. The inherently secretive and unaccountable nature of the budget system made it difficult for Parliament to exercise its oversight role in ensuring that public funds were spent efficiently, effectively and economically, and that quality services are delivered to the public.

The budget reforms and innovations that were discussed in the previous chapters were introduced mainly to enhance political oversight of the resource allocation process. The budget process is lengthy, and is accompanied by the development of, and the distribution of budget documents on Budget Day in February each year when the Minister of Finance tables the budget. These documents outline the contents of the budget and serve as major sources of information for government, and stakeholders, as well as interested members of the public. These budget documents can be divided into three categories i.e. documents relevant to national government, documents relevant to provincial government, and documents relevant to all three spheres of government. For the purposes of this manual, the focus will be on documents relevant to national government and documents relevant to all three spheres of government.

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82 Applied Fiscal Research Centre (2008)

## Budget Documents Relevant To National Government

### Budget Speech

The National Budget Speech is delivered by the Minister of Finance to Parliament on Budget Day. The Budget Speech provides an easily accessible version of the budget, indicating major policy shifts, or shifts in funding priorities, and any changes that may have been made in compiling the new budget. The Budget Speech also includes the Government's future financial strategy, economic forecast and reviews the level of taxation.

The Budget Speech is usually delivered in February, and is accompanied by additional budget documentation, as discussed below.

### Estimates of National Expenditure (ENE)

The Estimates of National Expenditure details the spending plans of the 37 national votes (departments and agencies). The Estimates of National Expenditure provides relevant public sector financial information in a timely and systematic manner, linking performance targets to budgeted expenditure. The Estimates of National Expenditure serves to:

- Provide Members of Parliament with detailed information on how departments and public entities plan to spend the funds that are appropriated by Parliament;
- Enable Parliament and society to keep departments and agencies accountable for service delivery commitments ; and
- Provide parliamentary committees with detailed information that can assist in their oversight responsibility.

The Estimates of National Expenditure contains a large volume of information; and presents a summarised account of the spending plans of all national departments and agencies for the next three financial years. It also includes expenditure outcomes for the preceding three financial years, and revised estimates for the year under review. The Estimates of National Expenditure therefore presents information (audited, preliminary and projected) for seven financial years in total. Information in the Estimates of National Expenditure covers key policy areas, programme objectives and service delivery targets. The information contained in the Estimates of National Expenditure contains the most extensive consolidated



financial reporting for departments and entities published in South Africa.<sup>83</sup> Information on policy, strategies, objectives and performance targets over the seven year period, as well as any changes in these is provided. This provides a platform for review that could result in new policy options or operational alternatives in the achievement of government's objectives.

Information on audited expenditure, current budget and estimates for the outer three years is detailed in a series of tables that are disaggregated per programme, current, capital and transfer payments. Expenditure on personnel, infrastructure, training, Public Private Partnerships (PPPs) and donor funding is also published for each Vote. The information outlined in the ENE ensures transparency and accountability, as it provides an opportunity for public scrutiny and legislative oversight.

### **The Division of Revenue Bill**

Section 214 of the Constitution of the Republic of South Africa requires an Act of Parliament that ensures a transparent and equitable system to divide the revenue raised nationally between the three spheres of government. The annual Division of Revenue Bill and its underlying allocations are the results of extensive consultation processes between national, provincial and local government.

By setting out three-year allocations for the equitable share and conditional grants for provinces and local government, the Division of Revenue Bill entrenches the transparency and accountability of the intergovernmental fiscal system. It allows all spheres of government to plan ahead and to improve service delivery to the people.

The Division of Revenue Bill contains details on each grant, its purpose, criteria for allocating the grant and an account of the performance of each grant. This information contributes towards deepening Parliamentary oversight over the Executive.

The Division of Revenue Bill is presented to Parliament each year simultaneously with the budget.<sup>84</sup> The Division of Revenue Bill should give effect to the priorities articulated by the President in the State of the Nation Address.

The Division of Revenue Bill and the Budget are simultaneously presented to Parliament each year.<sup>87</sup> The Division of Revenue Bill should give effect to the priorities articulated by the President in the State of the Nation Address.

83 National Treasury (2010a)

84 Health Systems Trust (2008)

87 Health Systems Trust (2008)

## **The Budget Review**

The Budget Review provides a detailed explanation of the underlying policies that inform the budget. The Budget Review includes an overview of the state of the economy, outlines the fiscal policy framework, revenue trends, sets out the tax proposals, provides a briefing on assets and liability management, social security, health care financing and outlines outcome targets the Medium Term spending priorities. It also explains issues raised in the Division of Revenue Bill and intergovernmental transfers in more detail.

In the 2010 Budget Review, the Minister of Finance also reported on his response to Parliament's recommendations on the Medium Term Budget Policy Statement, the Fiscal Framework and the Division of Revenue. This was in compliance with the requirements of the Money Bills Amendment Procedure and Related Matters Act.

## **Budget Documents Relevant to the Three Spheres of Government**

### **The Medium Term Budget Policy Statement (MTBPS)**

The Medium Term Budget Policy Statement (MTBPS) is tabled by the Minister of Finance at least three months prior to the tabling of the budget. The Medium Term Budget Policy Statement contains the macro-economic assumptions underpinning the government's fiscal policy, and the overall aims and objectives for the outer three years. Further, it details projected revenue and expenditure for the outer three years, the division of revenue among the spheres of government, the proposed substantial adjustments to conditional grants and the review of actual spending by each national department for the first half of the financial year.

The Medium Term Budget Policy Statement is published ahead of the budget to improve transparency and to ensure that debates concerning the budget are informed. It provides a good indication of how the government intends allocating resources in the upcoming budget. The Medium Term Budget Policy Statement also contains a summary of government's goals and objectives, as well as information about how the government expects the economy to perform over the next three years.<sup>85</sup>



### **The Intergovernmental Fiscal Review**

The Intergovernmental Fiscal Review sets out the actual expenditure and service delivery achievements of provincial and local government. It reflects on the impact that government spending has on the lives of ordinary people. It is a tool that can be used by Parliament effectively to exercise its oversight responsibility, holding the Executive accountable and to be efficient and effective in order to achieve the developmental goals set by government. When is this tabled?

### **Appropriation Bill**

Section 213(2) of the Constitution of the Republic of South Africa provides that money may be withdrawn from the National Revenue Fund only in terms of an appropriation by an Act of Parliament. An Appropriation Bill is a legislative Act proposing to authorise expenditure of public funds for a specified purpose. The Appropriation Bill gives departments the authority to spend the money allocated in their votes once it is enacted.

### **Estimates of National Revenue**

The Estimates of National Revenue sets out the revenue projections before and after tax proposals. The 2010 budget documents excluded the Estimates of National Revenue.

### **Budget Review and Recommendation Reports (BRRR)**

Section 5(1) of the Money Bills Amendment Procedure and Related Matters Act compels the National Assembly through its committees to annually submit the Budget Review and Recommendation Reports on the financial performance of departments accountable to them. The BRRR must be informed by a Committee's interrogation of amongst others, national departments' medium term estimates of national expenditure, strategic priorities and measurable objectives outlined in National Treasury published reports, annual reports, the reports of the Committee on Public Accounts relating to the department, as well as observations made during oversight visits. Essentially the BRRR should be a Committee's assessment of the department's performance and service delivery (within the constraints of available resources), as well as the effectiveness and efficiency of the programmes within the department.

Section 5(4) of the Act requires Committees reporting to the National Assembly to submit the BRRR after the adoption of the Appropriation Bill, and prior to the adoption of the reports on the Medium Term Budget Policy Statement. The BRRR must be submitted to the Minister of Finance and the relevant Cabinet Minister responsible for the vote to which the report applies.

### **People's Budget Campaign (PBC)**

Since 1999, the Confederation of South African Trade Unions (COSATU), the South African Non-Governmental Organisation Coalition (SANGOCO), the South African Christian Association, and other organisations have been involved in a campaign known as the People's Budget Campaign (PBC). The main objective of this Campaign is to enhance public participation and monitoring of the national budgetary process. The PBC aims to facilitate an increase in the effective use of the budget as an instrument for reconstruction and development and specifically to ensure that the budget is planned and allocated in such a manner that it is aligned to national government priorities so that the basic needs of the poor are met and service delivery is improved.<sup>86</sup>

The People's Budget Campaign has made a wide variety of recommendations in the past, ranging from better policy and development approaches to spending priorities. For example, the PBC has made recommendations on the Basic Income Grant in South Africa, the establishment of a national health insurance scheme, adequate funding for public hospitals, a substantial increase in the education budget and increased spending on low income housing, amongst others.

The People's guide provides a simplified summary of budget highlights. It is published in five official languages (English, Afrikaans, Xhosa, Tswana, and Zulu). The guide was introduced by National Treasury to enhance transparency and understanding of the budget by ordinary citizens.



## **The Role of Parliament in the Budget Process**

South African Parliament plays a significant role in the budget process through its Parliamentary Committees, and the finance committees play a particularly important role in the budget process. Since 1994 there have been a number of changes in the political and socio-economic landscape of South Africa such as various budget reforms, including the Medium Term Expenditure Framework (MTEF), Public Finance Management Act and the Municipal Finance Management Act.

The active participation of Parliament in the budget process is vital because the budget is one of the most important economic tools of Government that provides a comprehensive account of the nation's priorities. Since Parliament represents the people of the country, it is therefore responsible for ensuring that limited available resources best match the needs of the nation. The involvement of Parliament in the budget process becomes more critical when there are challenges of reprioritisation of resources within the spheres of government. The introduction of the Money Bills Amendment Procedure and Related Matters Act is a significant milestone in bringing further reforms and extending the role of Parliament in the budget process, expenditure planning as well as open an opportunity for public participation in the budget process.

Before the Money Bills Amendment Procedure and Related Matters Act was passed, Parliament relied on its internal Rules when dealing with money bills. In monitoring the activities of the Executive, the Constitution provides for the National Assembly to maintain oversight over the activities of the Executive by providing mechanisms to monitor its activities.

The Executive must report on its activities to the National Assembly at predetermined intervals (in accordance with Section 56 of the Constitution). The fact that all organs of State at the national sphere of government are accountable to the National Assembly means that:

- The National Assembly, through its committees, can call on any organ of State to appear before it to account for its actions (in accordance with Section 56 of the Constitution).
- That organ of State might be required to take action to rectify any problems resulting from its actions.

Usually, senior departmental officials appear before committees. However, in cases of mismanagement within a department, the Parliamentary Committee can ask the relevant Minister for an explanation, as it is the Minister who is ultimately responsible for the running of the department both in respect to policy and management. The Accounting Officer, as the head of the department, is responsible for outputs delivered as reflected in the department's strategic plan.

Parliament becomes more involved in the second stage in the budget process, which is the budget enactment/legislative stage (both pre and post Money Bills Amendment and Related Matters Act). At this stage, Parliament is involved in budget debates, budget vote presentations, budget amendments and passing or rejection of the budget. Prior to any amendments of the budget, Parliament should through its finance committees adopt the Fiscal Framework and revenue proposals with or without amendments to ensure that any amendments are in line with the adopted Fiscal Framework.

The annual process of presenting the budget speech and tabling the budget starts with the Minister of Finance tabling the budget documents, discussed previously. Parliament thereafter discusses and scrutinises the budget documents through Parliamentary Committees, after which they are reported and adopted by the House.

The introduction of the Money Bills Procedure and Related Matters Act has made a remarkable impact for Parliament to be able to strengthen its role and ensure greater participation in the budget process. Parliament, through its finance committees conducts public hearings, invites submissions from civil society organisations, economists, consultants and labour federation movements such as the People's Budget, to give inputs on the budget proposals.

In addition to the role played by Parliament in the enactment/legislative stage of the budget process, Parliament is also involved in the budget execution stage, wherein it plays an oversight role as it has powers to summon the executive to account at public hearings. Parliament can also request any person or institution to provide evidence and can receive petitions or representations from any interested person.



## **The Role of Parliamentary Committees in the budget process**

During February each year, the Minister of Finance tables the annual Budget in the National Assembly. This kick-starts a process of parliamentary deliberation that will conclude in the passing of the budget by Parliament. Most of the work in Parliament is done by Committees; wherein Members of Parliament are given responsibilities for certain tasks.

The following committees play a crucial role in the budget process:

### **The Standing Committee on Finance**

The Standing Committee on Finance (in the National Assembly) conducts hearings on macroeconomic and fiscal policy, revenue issues, as well as the Division of Revenue between the spheres of government. The Standing Committee on Finance considers amendments to the fiscal framework, revised fiscal framework and revenue proposals and Bills. The Select and Standing Committees schedule several joint sittings, including joint public hearings, in order to avoid duplication. Other Portfolio Committees also schedule departmental briefings on their respective Budgets.

### **The Select Committee on Finance**

The Select Committee on Finance in the National Council of Provinces takes the lead in considering the Division of Revenue Bill that is tabled annually with the Budget. The Division of Revenue Bill, unlike taxation and appropriation bills, is discussed in accordance with Section 76 of the Constitution, which affords a greater contribution by the National Council of Provinces than the procedure applicable to money bills stipulated under Section 77.

The Financial and Fiscal Commission (FFC) briefs the Select Committee on Finance on its recommendations regarding the Division of Revenue Bill.

### **The Committees on Appropriations**

The Committees on Appropriations consider and report on departments' spending issues and the spending priorities of national government. The Committees consider the amendments to the Division of Revenue Bill between the spheres of government, the

Appropriation Bill, Supplementary Appropriation Bills and the Adjustment Appropriation Bill. The Committees on Appropriations further consider and report on the recommendations made by the Financial and Fiscal Commission, including those referred to in the Intergovernmental Fiscal Relations Act. The Standing Committee on Appropriations also reports on the actual expenditure reports published by the National Treasury, and plays an important role in the in-year monitoring of the budget. This is done through analysing the monthly and quarterly expenditure and revenue statements in terms of section 32 of the Public Finance Management Act (PFMA). The Select Committee on Appropriations deals mainly with conditional grant expenditure in provinces, as well as expenditure of the equitable share.

### **The Committee on Public Accounts**

The Committee on Public Accounts was established in terms of Rule 204 of the National Assembly Rules, while Rule 206 outlines the functions and powers of the Public Accounts Committees. The Committee on Public Accounts is more involved in the final stage of the budget process, which is Budget Auditing and Assessment. This is the stage at which the budget is audited and assessed to ascertain whether it has been implemented as planned and whether the public funds have been spent economically, effectively and efficiently.

Amongst other things, the Committee on Public Accounts must consider the following:<sup>87</sup>

- The financial statements of all executive organs of State and constitutional institutions when those statements are submitted to Parliament.
- Any audit reports issued on those statements.
- Any reports issued by the Auditor-General on the affairs of any executive organ of State, constitutional institution or other public body.
- Any other financial statements or reports referred to the Committee in terms of these Rules:
  - May report on any of those financial statements or reports to the Assembly,



- May initiate any investigation in its area of competence,
- Must perform any other functions, tasks or duties assigned to it in terms of the Constitution, legislation, these Rules, the Joint Rules or resolutions of the Assembly, including functions, tasks and duties concerning parliamentary financial oversight or supervision of executive organs of State, constitutional institutions, or other public bodies.

The Speaker must refer the financial statements and reports to the Public Accounts Committee when they are submitted to Parliament, irrespective of whether or not they are referred to another committee.

In the event of the Auditor-General's report containing a finding of a material problem or irregularity, the Public Accounts Committee requests the Auditor-General's office to present a report to it. The Public Accounts Committee may thereafter hold a hearing and summon the relevant department's Accounting Officer to appear before it. The Public Accounts Committee may also summon the relevant Minister to appear before it. At such a hearing, the Committee may investigate the relevant matter and call upon the Accounting Officer to:

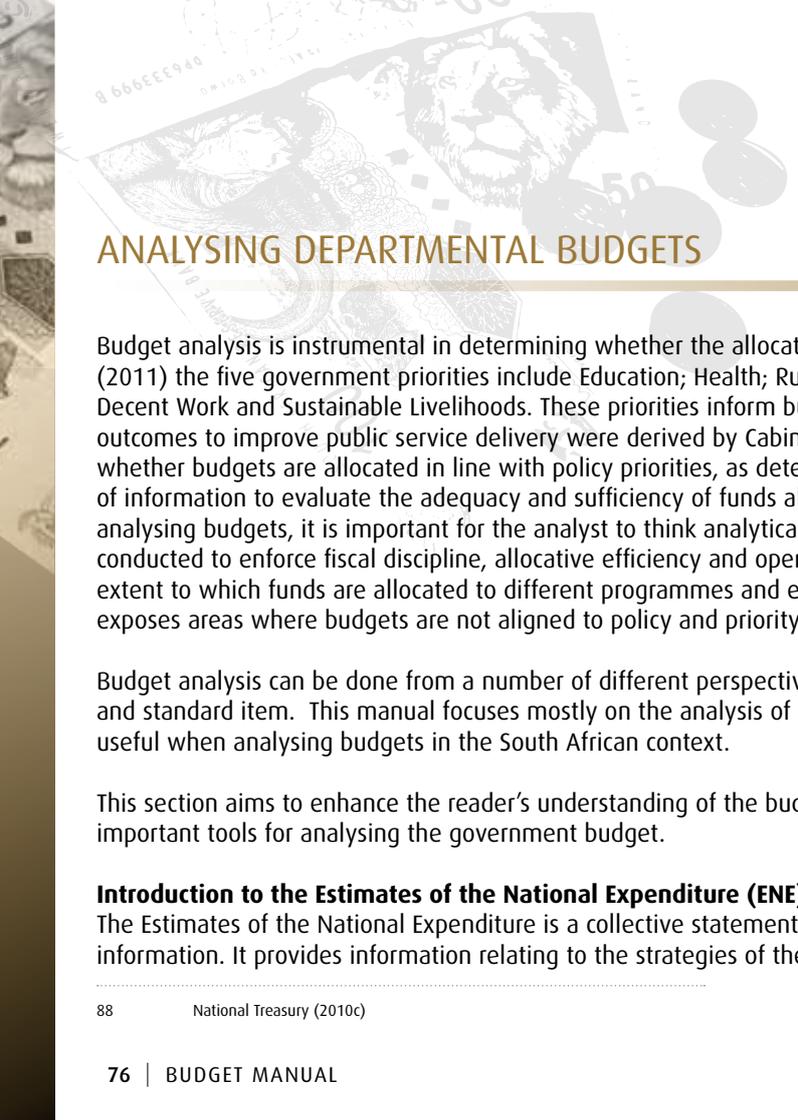
- Indicate how the relevant department is responding to the problems raised by the Auditor-General.
- Enquire into the reasons why any persistent problems have not been resolved.

The Committee then reports its finding regarding the report received from the Auditor-General, and may recommend remedial actions that must be ultimately implemented by the relevant department. Based on this report, the Committee will report back to the National Assembly with its findings and recommendations.

## Summary:

Chapter three deals with the structure of government budget in South Africa. The chapter discusses important budget documents that are relevant to National Government alone, and those that are relevant to all three spheres of Government. These documents are: the Budget Speech, Estimates of National Expenditure (ENE), Division of Revenue Bill, the Budget Review, the Budgetary Review and Recommendations Report (BRRR) and the Medium Term Budget Policy Statement, (Tabled in Parliament three months before the annual budget). The chapter further highlights the role of Parliament and Parliamentary Committees (Finance Committees from both houses, Appropriation Committees from both houses and the Public Accounts Committee) in the budget process.





# Chapter chapter 4

## ANALYSING DEPARTMENTAL BUDGETS

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Budget analysis is instrumental in determining whether the allocated budget is aligned to government's top priorities. Currently (2011) the five government priorities include Education; Health; Rural Development; Food Security and Land Reform; as well as Decent Work and Sustainable Livelihoods. These priorities inform budget choices, and are also the basis from which the 12 agreed outcomes to improve public service delivery were derived by Cabinet<sup>88</sup>. The main purpose of budget analysis is to ascertain whether budgets are allocated in line with policy priorities, as determined by the government. It also provides quantitative analysis of information to evaluate the adequacy and sufficiency of funds allocated to programmes and economic classifications. When analysing budgets, it is important for the analyst to think analytically about the policy and programme issues. Budget analysis is conducted to enforce fiscal discipline, allocative efficiency and operational efficiency. It also assists to improve understanding of the extent to which funds are allocated to different programmes and economic classifications, highlights budgetary inefficiencies and exposes areas where budgets are not aligned to policy and priority issues.

Budget analysis can be done from a number of different perspectives, which include analysis by programme, economic classification and standard item. This manual focuses mostly on the analysis of specific government sectors and programmes because this is more useful when analysing budgets in the South African context.

This section aims to enhance the reader's understanding of the budget documents used during budget analysis, as well as to provide important tools for analysing the government budget.

### **Introduction to the Estimates of the National Expenditure (ENE)**

The Estimates of the National Expenditure is a collective statement of budget allocation, policy priorities and accountability information. It provides information relating to the strategies of the department, policy developments and spending plans.

The Estimates of National Expenditure is a tool to enhance accountability of the Executive to Parliament, civil society, and to allow for the review and monitoring of government's service delivery and spending plans.<sup>89</sup> In increasing transparency of government spending in relation to the attainment of objectives, the Estimates of National Expenditure provides detailed objectives and measures per Vote, per programme, as well as the selection of performance indicators per Vote and for public entities.

It provides budget estimates for a certain Vote by programme, standard item and economic classification. The information provided in the Estimates of National Expenditure is useful for conducting budget analysis, as it can be used to determine the extent to which funds are prioritised and budget priorities are shifted among programmes. Budget analysis by Vote (Department) and programme enables an analyst to better understand Vote or programme shares from the total budget, as well as establish whether its budget allocation increases or decreases.

The following information from the Estimates of National Expenditure, which will be discussed in more detail in subsequent chapters, is instrumental when analysing budgets.

- Programme purpose, objectives and measures.
- Strategic Overview.
- Expenditure Estimates (programme, economic classification and standard item).
- Expenditure Trends.

### **Budget Analysis Work plan**

When conducting quantitative budget analysis, it is important to develop a work plan, which can be followed and adapted when necessary, either automatically or manually. The following work plan is suggested:



- Write down all relevant budget figures (the figures that you intend to use).
- These figures should be written down by:
  - Vote level;
  - Programme level;
  - Sub-programme level; and
  - Economic classification level.
- For all the above figures, the analyst should provide for adjustment for inflation in order to calculate real values.
- Calculate the share of each level to another level, e.g. programme as a percentage of vote.

The table below elaborates on the work plan by indicating the specific calculations that could be done for each analysis. The table also states the purpose of each quantitative analysis.

Table 1 Work plan calculations

Analysis	Purpose	Calculation
Analysis at vote level	An analysis at vote level informs us about the importance of the vote (in monetary terms) in the national budget. It also provides information about the year-on-year change in allocation to the vote and how it compares to other votes.	<ul style="list-style-type: none"> <li>• Vote as a proportion of national budget.</li> <li>• Real and Nominal monetary and percentage change at vote level between years.</li> <li>• Level 2 Standing Committee on Appropriations (SCoA) items<sup>1</sup> as a proportion of total vote.</li> <li>• Compensation of Employees and Goods and Services as a proportion of total vote.<sup>2</sup></li> </ul>

<p>Analysis at programme level</p>	<p>Programme level analysis informs us about the priority attached to each programme within a vote. It provides information on the change in programme allocations between years.</p>	<ul style="list-style-type: none"> <li>• Programme allocation as a proportion of vote.</li> <li>• Real and Nominal monetary and percentage change at programme level between years.</li> <li>• Level 2 SCoA items as a proportion of programme.</li> <li>• Compensation of Employees and Goods and Services as a proportion of programme.<sup>3</sup></li> </ul>
<p>Analysis at sub-programme level</p>	<p>An analysis at sub-programme level informs us about the sub-programme allocation vis-à-vis the total programme. Through this, conclusions can be drawn regarding the relative importance of each sub-programme within a programme.</p>	<ul style="list-style-type: none"> <li>• Sub-programme allocation as a proportion of programme.</li> <li>• Real and Nominal monetary and percentage change at sub-programme level between years.</li> </ul>
<p>Analysis of departmental receipts</p>	<p>An analysis of departmental receipts informs us about the main sources of revenue of the department. Through this analysis, conclusions can be drawn on the level 2 SCoA receipts items<sup>4</sup> of a department.</p>	<ul style="list-style-type: none"> <li>• Sources of revenue as a proportion of total departmental receipts.</li> </ul>



## Budget Classifications

Government expenditure is classified in two ways in the Government Financial Statistics (GFS), i.e. either according to its function, or according to its economic characteristics. The government budget in the Estimates of National Expenditure is listed by programme, economic classification and standard item.

### *Economic Classification*

Government expenditure is divided into four broad categories (economic classifications), namely current payments, transfers and subsidies, payments for capital assets and payments for financial assets.<sup>90</sup>

1. *Current payments:* These are payments made by departments for their operational requirements<sup>91</sup>. This includes personnel expenditure and expenditure for goods and services, including salaries, which are expended within a short period of time, usually a year.<sup>92</sup> This excludes purchases of capital assets or goods and services for the production of capital assets.
2. *Transfers and subsidies:* These are transactions in which a department passes funds to another institution or to an individual for final spending. Transfers and subsidies include current as well as capital expenditure. An example of this expenditure includes transfers to research institutions and conditional grants to provinces and municipalities.
3. *Payments for capital assets:* this reflects spending on assets with a productivity of more than one year, including the maintenance of such an asset. Payments for capital assets cover the purchases of new assets, as well as extensions and improvements to existing assets. An example is the Department of Public Works constructing a new road. This type of expenditure is divided into five categories:
  - Buildings and other fixed structures.
  - Machinery and equipment.
  - Cultivated assets.

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90 National Treasury (2010a)

91 National Treasury (2010b)

92 National Treasury (2008a)



- Software and other intangible assets.
- Land and sub-soil assets.

4. *Payments for financial assets:* This consists of payments made by a department as loans to public corporations or as equity investments in public corporations. This column will only be reflected in votes where such payments have been budgeted for. The reason for expensing the payments rather than treating them as financing is that the purpose of the transaction is not profit oriented.

In order to establish the extent of government priorities, it is important to assess the extent to which government has allocated its funds according to economic classification. The analysis of expenditure by economic classification provides an overview of the department's spending, e.g. whether the department is investing in capital projects.

#### *Classification by Standard Item*

The government budget is further divided into specific items, which formulate different economic classifications. The following standard items are used to distinguish different classifications in the budget process:

(a) Current payments, i.e. expenditure for current payments comprises of:

*Compensation of employees:* This includes all the personnel related expenditure.

*Goods and services:* This refers to all government payments in exchange for goods and services, excluding capital assets and goods used by government for construction of, and improvement to capital assets.

*Interest and rent on land:* This is defined as payments for the use of borrowed money (interest on loans and bonds) and the use of land (rent).

*Financial transactions in assets and liabilities:* This consists mainly of lending to employees and public corporations for policy purposes.

- (b) Payments for capital assets: expenditure for capital payments is divided into five items, namely, buildings and other fixed structures, machinery and equipment, software and other intangible assets, land and sub-soil assets, and cultivated assets.<sup>93</sup>
- (c) Transfers and subsidies: This is subdivided into various targeted recipients or beneficiaries receiving funding from government, including other levels of government, households, non-profit institutions and public corporations.

This type of analysis will enable an analyst to determine how much government invested in human capital, infrastructural development, and funds transferred to other institutions to improve service delivery. It is not necessarily important to analyse the budget by standard item, but it can be useful when a budget analyst needs to better understand budget movement (upward or downward) for a specific item.

### *Classification by programme*

This is the broader allocation of funds to specific programmes by the department. The budget allocated to each programme is further divided into sub-programmes. The following provides a brief overview of the budget classification by programme:

- Programme budget: a programme is structured around certain departmental functions. Programme budgeting reflects policy development and departmental priorities. More funds are allocated to the programmes that are designed to implement and address top government priorities. This also reflects the reprioritisation (changes in the division of expenditure between programmes) and highlights changes in the programme structure of the department.<sup>94</sup>
- Sub-programmes: This is a sub-division of departmental programmes into compatible activities. Programme budgeting is further allocated to sub-programmes, which collectively function to attain the objectives of the main programme. As with programme budgeting, funds are allocated according to prioritised sub-programmes. Policy reprioritisation might change budget priorities at any given year.

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93 Plants and animals used for more than a year to produce goods and services

94 National Treasury (2008b)

Programme analysis is a core element of budget analysis, as it provides a clear indication on how departmental budgets are prioritised. It is important for the budget analyst to consider policy priorities as provided in the strategic or annual plans of the department in order to determine the manner in which the budget is structured to address such priorities. Other important documents at this stage include the State of the Nation Address (SONA) and the Budget Speech. Budget analysts should verify whether the programmes and sub-programmes that have been prioritised for funding are aligned to the priorities that were highlighted by the State President within their particular sector of analysis.

### **Budget Analysis by Programme: Practical Exercise**

The departmental budget is allocated by programme, economic classification and standard item. Each programme is divided into sub-programmes and line items. Programme budgeting considers the appropriateness of the policy goals or outcomes.<sup>95</sup> It strengthens the link between strategic planning and budgeting. As such, the Estimates of National Expenditure represents an estimate of actual spending on each programme.<sup>96</sup> The Programme section of the budget starts by introducing the programme purpose delineating the activities and functions that may be accommodated within the approved programme activities. When analysing budgets by programme, it is important to consider the following:

#### **(a) Programme Priority**

These priorities can be obtained from the strategic plan of a department and the undertakings given by the President during the State of the Nation Address (SONA) with regard to that department.<sup>97</sup> Government departments use the Estimates of the National Expenditure to link service delivery plans to the budget.<sup>98</sup> Budgetary funds are allocated based on votes and programmes, and according to economic classifications to finance policy priorities. Due care should be exercised when analysing the budget to ensure that the budget is

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95 South African budget guide and dictionary.

96 A guide to the new budget format (2001)

97 Forum of South African Directors General Clusters

98 National Treasury(2008a)



aligned with priorities and programmes, as outlined in policy and strategic documents. This is to determine whether government’s stated priorities are truly reflected in the budget, and to assess whether budget priorities are in line with the government’s policy promises and commitments.<sup>99</sup>

**(b) Adequacy of Budget Allocation (Quantitative budget analysis)**

When conducting a budget analysis, it is important to ascertain whether the allocated funds adequately finance the identified priorities and programmes. This is important to ensure that the allocated funds sufficiently respond to government programmes, and also keep up with inflation. The following aspects are important when analysing the adequacy of the budget.

*Calculating percentage share per programme*

The share refers to the size of a slice of the pie in relation to the entire budget. This is calculated and presented in percentage terms in order to ascertain the level of priority that government affords a certain programme in the budget. It is always important to use percentages to express:

- A department’s budget as a share of total government budget.
- Programme as a share of the total departmental budget.
- Sub-programme as a share of the total programme budget.

The percentage share is calculated by dividing appropriated funds by the total budget.

**Table 2 Percentage share**

<i>Percentage per share =</i>	<i>Allocated funds x100</i>
	<i>Total budget</i>

**Example 1: Percentage share per programme**

99      Idasa (2010)

### Vote 15: Department of Health

For the purposes of this exercise, programme 2 of the Department of Health has been selected as an example, and the 2009/10 financial year is used as the Year 2 (period under review) while the 2008/09 financial year is used as Year 1 (previous year).

**Table 3 Allocation per programme<sup>100</sup>**

Programme	Allocated Budget			
	2007/08	2008/09	2009/10	2010/11
1. Administration	213.6	241.0	260.4	282.1
2. Strategic Health Programmes	3 096.3	4 129.5	5 688.3	7 401.6
3. Health Planning and Monitoring	309.3	342.1	393.4	414.6
4. Health Human Resources Management and Development	1 613.6	1 705.3	1 799.0	1 897.6
5. Health Services	7 465.8	8 949.9	9 794.1	11 557.1
6. International Relations, Health Trade and Health Product Regulation	64.3	96.6	90.2	108.5
<b>Total</b>	<b>12 762.7</b>	<b>15 464.5</b>	<b>18 025.5</b>	<b>21 661.5</b>

Source: National Treasury 2010

**Table 4 Percentage share**

<i>Programme 2 percentage share =</i>	<i>7401.6 x 100</i>	
<i>(for 2010/11)</i>	<i>21 661.5</i>	
	<i>34.1 per cent</i>	



This means that programme 2 has received an allocation of 34.1 per cent of the department's total allocations.

### *Converting Figures*

Budget figures in the ENE are usually reported in nominal terms (not taking inflation into account), which means that allocated funds could, over time, lose value. If a budget value increases at a rate that is less than inflation, it is not a real increase. Therefore, to compare allocations over time more accurately, nominal amounts must be converted to real amounts. In converting amounts from nominal to real values, the following should be considered:

- The nominal value, which is the amount allocated in the ENE. This may not at all times represent the real growth in the economy, thus it is important to consider inflation in order to determine the real growth. The real growth rate is the result of nominal value allocated divided by inflation.

### **GDP Deflator<sup>101</sup>**

- The **GDP<sup>102</sup> deflator** (implicit price deflator for GDP) is a measure of the level of prices of all new, domestically produced, final goods and services in an economy. **A deflator** is used to convert current rand into rand that is adjusted for price change, i.e. which has been adjusted to provide for the effects of inflation<sup>103</sup>. The result of nominal gross domestic divided by real gross domestic product is called GDP Deflator

$$\text{GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

- In essence, the deflator represents how much general prices have increased over time.

101 The information on calculation of the deflator is only provided for information purposes. The budget figures that are provided in the National Treasury budget documents have already been pre-calculated, therefore there will not be a need to calculate the deflator.

102 GDP stands for Gross Domestic Product, the total value of all final goods and services produced within that economy during a specified period.

103 <http://en.wikipedia.org/wiki/GDPdeflator> (2011)

The following formula can be used in converting nominal values to real value:

$$\text{Real Value} = \frac{\text{Nominal value} \times 100}{\text{Deflator}}$$

**Table 5 Example 2: Calculating Real Value for Programme 2**

R'000	2007/08	2008/09	2009/10	2010/11
<b>Nominal</b>	3 096.3	4 129.5	5 688.3	7 401.6
Deflator	89.7	100	107.1	112.8
<b>Real</b>	3 451.8	4 129.5	5 311.2	6 561.7

With the assumption that 2008 is our base year therefore the deflator is assumed to be at 100. The price in the base year is normalised to 100<sup>104</sup>. The real value for programme 2 for the 2010/11 budget is R6.6 billion, compared to R7.4 billion prior to the consideration of inflation. Even though there was an increase of R1.7 billion in nominal terms, the actual increase for the 2010/11 financial year is R1.3 billion.

#### Calculating change in budget priority

- It is also important to determine the budget growth and changes in budget priorities as compared to the previous years. This is to understand whether the allocated budget for a certain vote, programme or sub-programme is increasing or decreasing in line with policy priorities. The growth rate describes how much the size of an allocation changes from one year to the next. It is expressed as a percentage of the original allocation and is called the annual growth rate or year to year change. The following formula (which is provided in the Research Unit budget analysis tool / template) is used to calculate growth rate:

$$\text{Real Growth rate \%} = \frac{(\text{Year 2} - \text{Year 1}) \times 100}{\text{Year 1}}$$



**Table 6 Example 3: Nominal Growth Rate for the total allocation for Health**

<b>21 661.5-18 025.5 x 100</b>	
<b>=18 025.5</b>	
<i>20.17 per cent</i>	

**Table 7: Real Growth Rate (example)**

Using the same figure as used in the above example but considering a deflator in each year:

2010 (year 2) **21 661.5/112.8 x100 =19 203.5**

2009 (year 1) **18 025.5/107.1 x100=16 830.5**

<b>19 203.5-16 830.5 x 100</b>	
<b>16 830.5</b>	
<i>=14.10 per cent</i>	

The figure above indicates that, although the budget seems to have increased by 20.17 per cent in nominal terms, when considered in real terms, it transpires that the budget has actually increased by a lesser percentage of 14.1per cent for the Department of Health.

It is important to keep track of progress in expenditure and service delivery so as to monitor whether government priorities (which include Education, Health, Rural Development, Food Security and Land Reform, as well as Decent Work and Sustainable Livelihoods) are shifting, and whether or not budgeting is improving over time. Progress is monitored throughout the budget implementation cycle by parliamentary committees. Budget monitoring is an integral part of oversight as it measures government compliance with its budget plans and exposes any deviations from the plans. It is therefore important for both the Standing and Select Committees on Finance and Appropriations to continuously monitor the consistency of budget implementation with strategic imperatives, as

outlined in the strategic and budget plans. Important instruments in the monitoring of budgets are the Section 32 reports provided by the National Treasury. These reports are analysed by the Research Unit and are provided to both the Standing and Select Committees for effective oversight in government spending.

#### *Calculating Annual Average Growth Rate Summary:*

Calculating the average growth rate over a period (e.g. over the medium term) provides a bigger picture of budget trends over the period. The formula is:

Average annual growth rate = Sum of all growth rates / Number of growth rates summed

#### *Per Capita Budgets*

It is important to adjust budget data on a person or per capita basis to allow comparisons between provinces or departments where relevant. Per capita budgets measure equity, adequacy and progress, and are obtained with the population and budget variables as follows:

Per capita budget = budget (spending) / population

## Summary

This chapter provides a summary of tools necessary for effective budget analysis. It provides a discussion of the importance of budget analysis by programme, economic classification and standard item. Most importantly, the reader should be able to determine allocative efficiency of the budget, as well as have a clear understanding and interpretation of budget movement (decrease or increase) compared to the previous years. It has provided the analysis of nominal and real growth and the distinction between these two concepts. The Standing and Select Committees on Finance and Appropriations play a significant role in budget processes, (informed by the Money Bills Amendment Procedure and Related Matters Act No 9 of 2009).



# Chapter chapter 5

## INPUTS, OUTPUTS AND OUTCOMES

The Government of National Unity came into power in 1994. Despite all the achievements since 1994, significant levels of poverty, unemployment and inequality persist<sup>105</sup>. Progress has been made in many areas but service delivery protests that erupted in 2009 and 2010 demonstrate problems in delivery of services. A shift of focus from inputs (budgets, personnel and equipment) to managing for outcomes was required. Outcomes are necessary to ensure adequate progress in creating 'a better life for all' have not been achieved. Spending has increased on essential services such as health and education but this has not led to desired outcomes being achieved.

The ruling party's manifesto identified five priority areas, which have already been mentioned in the previous chapter. These five priority areas were thereafter developed into the Medium Term Strategic Framework (MSTF)<sup>106</sup>, which identified ten strategic priorities. These were further developed into twelve key outcomes.

Improving outcomes means doing things differently in order to increase the impact on improving the lives of citizens. Policy implementation must result in real improvements in the lives of South Africans. In order to achieve desirable results, planning and execution of duties must be done differently. The current situation of the people being served by government services must be properly understood, and the reasons for limited success in the past should also be properly identified. In addressing this need for change and the need to do things differently, government identified a new way to bring about change.

### Input-Output Approach

The input approach emphasised inputs as being the determinants in how much can be produced. According to the inputs approach, the available budget determined how much outputs a department can produce. However, this approach has not always resulted in

105 The Presidency (2010)

106 Ibid

positive results. Massive increases in expenditure on services have not always yielded the desired results<sup>107</sup>.

The following description of terms is imperative to understand the link between inputs, activities, outputs, outcomes and impact:

- **Inputs:** Measure what is put into the process. For example, the amount of money budgeted or the staff allocated to a particular programme or project. These are all resources that contribute to the production and delivery of outputs. They include finance, personnel, equipment and buildings.
- **Activities:** These are the processes or actions that use a range of inputs to produce the desired outputs, and ultimately outcomes.
- **Outputs:** Measure direct products of a particular programme or project. The final products, or goods and services produced for delivery. For example, the number of beneficiaries receiving a particular good or service.
- **Outcomes:** Measure the results of the policy or programme. The medium-term results for specific beneficiaries that are the consequence of achieving specific outputs. Outcomes should relate clearly to an institution's strategic goals and objectives set out in its plans. For example, increased health, educational levels, availability of time.
- **Impact:** These are the results of achieving specific outcomes, such as reducing poverty and creating jobs.

The outcomes approach is long term strategic plan starting by determining the outcomes that will impact the lives of the citizens, who are an important determinant in what a department does in conjunction with other departments that contribute towards the same outcome. Figure 1 shows the inputs approach starting from inputs and ultimately contributing to outcomes. The outcomes approach on the other hand, starts by identifying where

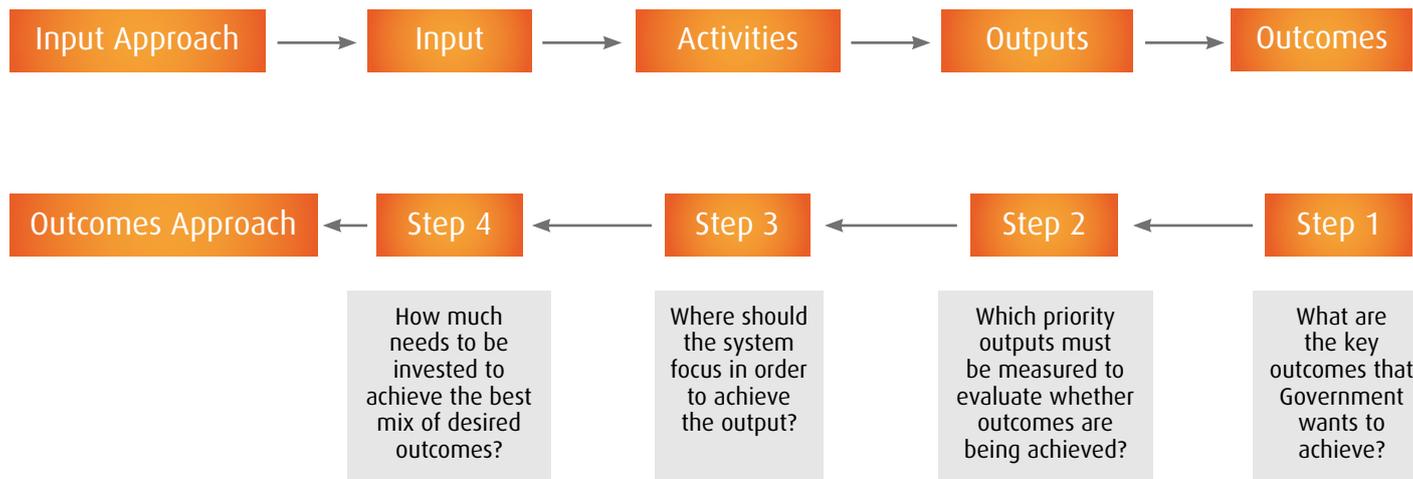
107

Ibid



South Africa wants to be in the future (Vision 2025) by stating the outcome, which then determines how resources will be structured to achieve that outcome.

**Figure 1: Input – Outcome Approach**



## The Outcomes Approach

The Outcomes approach is designed to ensure that government is focused on achieving the expected real improvement in the lives of all South Africans. The outcomes approach clarifies what is expected to be achieved, the process of how it will be achieved and monitoring and evaluation of whether the targets are met or not. This will help spheres of government to ensure that the services delivered by government result in the improvement of the lives of citizens rather than carrying out functions that will not translate to outcomes changing the lives of people.

*Outcomes planning* means planning backwards from the outcomes that have to be achieved and to work out how these will be achieved. The outcomes that have to be achieved have to be identified; thereafter the outputs that will ensure that those outcomes are achieved must also be determined. Activities that contribute to the outputs must be identified and resources needed to achieve the activities allocated accordingly.

*Focusing on outcomes* clarifies which role players need to be involved to ensure that the outcome is achieved. Plans will involve identifying what outputs are needed to achieve the outcome. These plans will be implemented by a government entity responsible for the area of work each of the outputs involves. Every Rand spent must contribute to an improvement in people's lives.

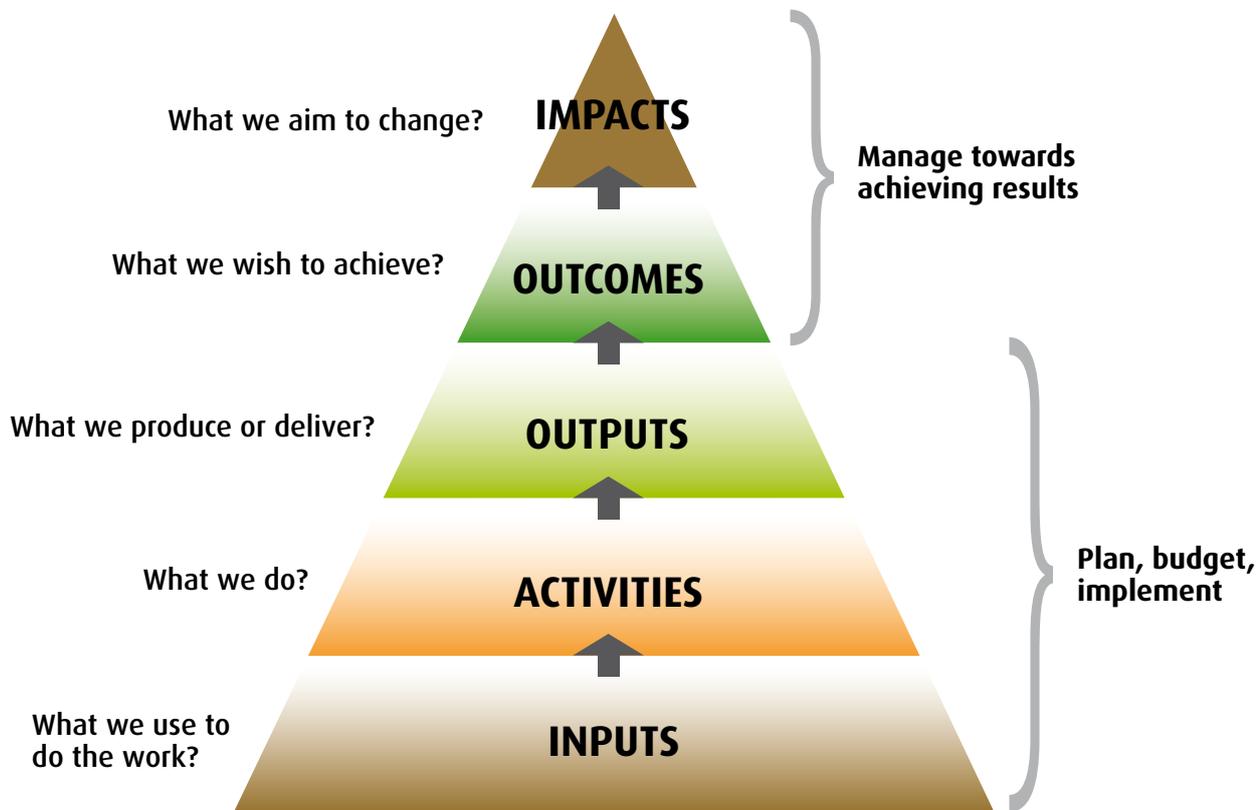
*Monitoring and evaluation of outcomes creates the basis for accountability and learning.* Assessment of what impacts and outcomes were achieved will enable decision makers to assess what works and assists in identifying where areas for improvements are.

Following my earlier comment, I think that these definitions should be moved up in this chapter.

Managing for outcomes requires attention to the Full Delivery Chain. The chain starts with the outcome that has to be achieved and then define the output measures that must be used to check if delivery is on track. The chain then describes the key activities that need to be successfully carried out to achieve the outputs and closes by listing the crucial inputs. Figure 2 depicts the full delivery chain starting from outcomes to inputs.



**Figure 2: Outcomes Approach (source) National Treasury**



## Government priorities- 12 Outcomes

The Government has identified twelve outcomes based on the election manifesto of the ruling party and the Medium Term Strategic Framework (MSTF). The outcomes reflect the desired development impacts that will be achieved given government's policy priorities. Each outcome is clearly articulated in terms of measurable outputs and key activities to achieve outputs.

The twelve key outcomes that have been identified and agreed to by Cabinet are:-

1. Improved quality of basic education.
2. A long and healthy life for all South Africans.
3. All people in South Africa are and feel safe.
4. Decent employment through inclusive economic growth.
5. A skilled and capable workforce to support an inclusive growth path.
6. An efficient, competitive and responsive economic infrastructure network.
7. Vibrant, equitable and sustainable rural communities with food security for all.
8. Sustainable human settlements and improved quality of household life.
9. A responsive, accountable, effective and efficient local government system.
10. Environmental assets and natural resources that are well protected and continually enhanced.
11. Create a better South Africa and contribute to a better and safer Africa and World.
12. An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship.

## Outcome Performance System

The purpose of the outcome performance system is not limited to measuring outcomes and outputs. It serves as a mechanism to guide the direction of policy implementation to ensure that what is done is what matters most. The system will serve to assess individuals' and collectives of people, to evaluate an institution's effectiveness and even to assess the validity of a policy<sup>108</sup>.



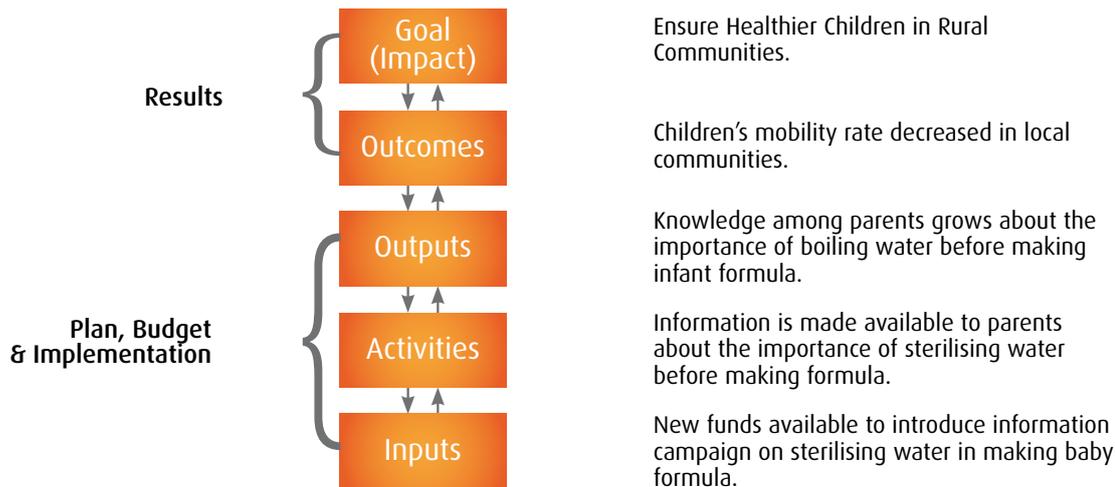
Political principals have the responsibility of ensuring appropriate outcomes, and the public service have the responsibility for the outputs. The approach taken by the Presidency is guided by three imperatives learnt from international experience. These are:-

- The need for prioritisation.
- Outcome based planning.
- Performance management with a focus on a few priorities.

### How will the outcomes performance management system work?

The following table serves as an example of a Performance Information Framework for the Department of Health:

**Figure 5 Example of a Performance Information Framework**



National Treasury improved the format of the Estimates of National Expenditure to include performance information, with the purpose of increasing the transparency of government spending in relation to performance in the attainment of objectives. This was aimed at developing a more results-oriented budgeting structure linking the use of resource to performance.<sup>109</sup> Targeted indicators and interventions assists in measuring progress in the achievement of government objectives.

All government institutions are encouraged to pay particular attention to develop indicators that measure economy, efficiency, effectiveness and equity in expenditure.<sup>110</sup> Where possible, indicators that directly measure inputs, activities, outputs, outcomes and impact should be sought. However, even the best performance indicator would be of limited value if it is not used to identify service delivery and performance gaps, thereby contributing towards the setting of future targets and working towards better results. Determining the set of appropriate indicators depends on the nature of the institution's mandate. It is therefore important for an analyst to determine the extent to which performance indicators are effectively designed to measure, particularly inputs, activities and outputs. This should determine the level of alignment between performance indicators departmental mandate and programmes, as well as determine whether performance indicators are consistent with the indicated inputs,

**The formatting of this table is a problem as it does not read well. This can be sorted out in design stage.**

To attain an outcome, all key partners that contribute to achieving the outcome must be involved. Delivery agreements are collective agreements that in most cases involve all spheres of government and a range of partners outside government. These agreements will reflect government's delivery and implementation plans for its foremost priorities.

### Case Study

Outcome 10: Environmental assets and natural resources that are well protected and continually enhanced.

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109 National Treasury (2008)

110 National Treasury (2007)



## Outputs

- Enhanced quality and quantity of water resources
- Reduced greenhouse gas emissions, climate change and improved air and atmospheric quality
- Protected biodiversity

## Indicators (for output on protected biodiversity)

- % of land mass under conservation
- % of coastline prohibiting fishing or any form of harvesting or extraction
- Recovery of key fisheries (hake, abalone and rock lobster stocks)

## Key activities (for output on protected biodiversity)

- Declaration of priority areas for expansion of protected areas
- Strengthen compliance and enforcement and institute patrols in protected areas
- Expansion of fresh water and marine aqua-culture

## Inputs required (for output on protected biodiversity)

- Conservation scientists and planners
- Finance, technology and capacity building support
- Finalisation and implementation of the Integrated Fisheries Security Strategy

## Issues for consideration during budget analysis

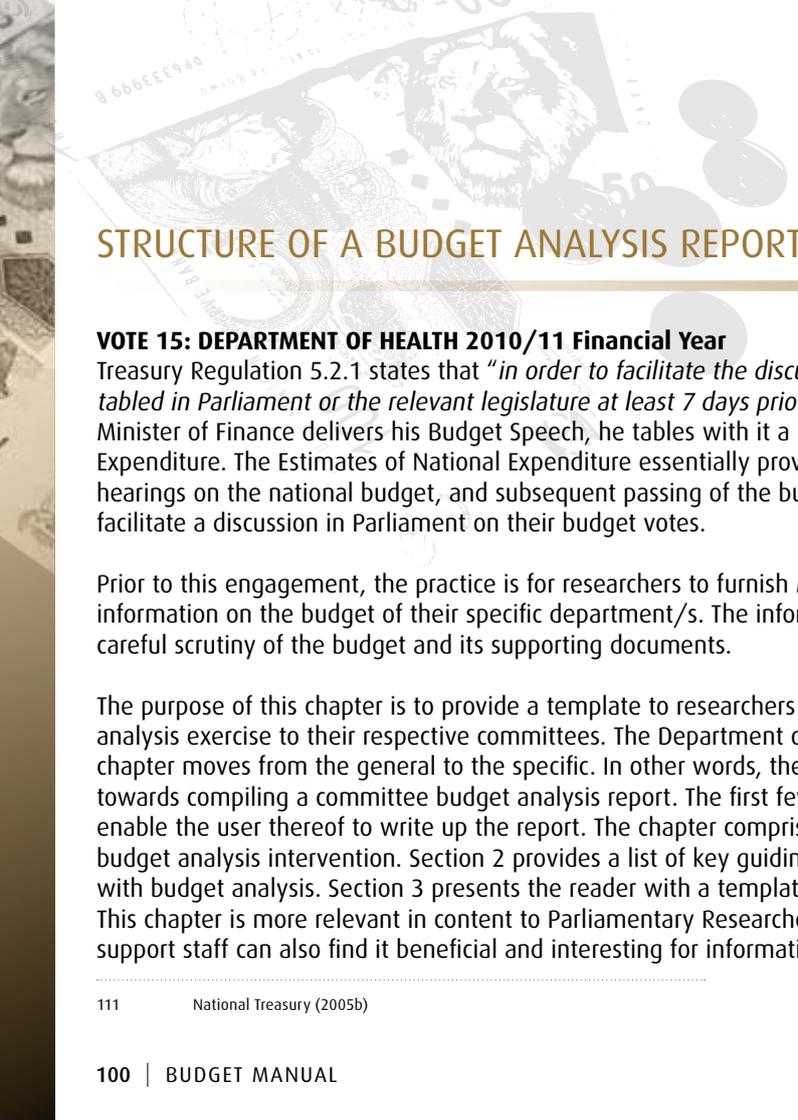
During the budget analysis, the budget analyst should ascertain whether performance indicators and performance measures are clearly stated in the ENE. This provides an indication of whether funds are allocated to achievable and measurable objectives and whether the achievement of such objectives will change the quality of life of South Africans. This will also ensure that funds are

budgeted to the envisaged outputs, as stated in the strategic or business plan, and to verify that the outcomes are clearly stated per programme and are consistent with the strategic plan.

## Summary

The chapter provided a discussion of the importance of performance information in monitoring government accountability and programme performance, and also highlighted the importance of allocating resources to outputs and ultimately outcomes that change people's lives. This promotes effectiveness, efficiency and economy in budget allocation and implementation, thus exposing any material deficiencies. It also outlines the way in which funds are aligned to government programmes and strategic plans, and the way in which such plans can be achieved over time.





# Chapter chapter 6

## STRUCTURE OF A BUDGET ANALYSIS REPORT

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### **VOTE 15: DEPARTMENT OF HEALTH 2010/11 Financial Year**

Treasury Regulation 5.2.1 states that “*in order to facilitate the discussion of individual votes, the approved strategic plan must be tabled in Parliament or the relevant legislature at least 7 days prior to the discussion of the department’s budget vote*”.<sup>111</sup> When the Minister of Finance delivers his Budget Speech, he tables with it a number of other documents including the Estimates of National Expenditure. The Estimates of National Expenditure essentially provides details of the budget of each department’s vote. Following hearings on the national budget, and subsequent passing of the budget by Parliament, individual departments get a chance to facilitate a discussion in Parliament on their budget votes.

Prior to this engagement, the practice is for researchers to furnish Members of their relevant parliamentary committees with information on the budget of their specific department/s. The information is presented in the form of a report, which is the result of careful scrutiny of the budget and its supporting documents.

The purpose of this chapter is to provide a template to researchers that will enable them to present their findings of a budget analysis exercise to their respective committees. The Department of Health is used as a case study to develop such a template. The chapter moves from the general to the specific. In other words, the reader is provided with information that will guide him/her towards compiling a committee budget analysis report. The first few sections of the chapter provide the building blocks that will enable the user thereof to write up the report. The chapter comprises three sections. Section 1 gives an overview of the key areas of budget analysis intervention. Section 2 provides a list of key guiding questions that can be asked to enable the analyst to commence with budget analysis. Section 3 presents the reader with a template that can be used to write a Committee Budget Analysis Report. This chapter is more relevant in content to Parliamentary Researchers. However, Members of Parliament and other committee support staff can also find it beneficial and interesting for information purposes.

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111 National Treasury (2005b)



### **Key areas of budget analysis intervention**

Budgets, by any standard, reflect the priorities of government. It is therefore critical that an analysis of the budget can only be conducted if those responsible for the analysis understand the priorities of Government. There are many factors that a budget analyst could analyse in a complex public finance setting. Only when we know what is important, what is a priority, can we begin the task of budget analysis.

In addition to understanding what the priorities of government are, it is important to note that an analysis of a budget can also be done as a test of aggregate fiscal discipline and operational efficiency. Aggregate fiscal discipline and operational efficiency, together with allocative efficiency make up the three principles of budgeting. Budget analysis can test for aggregate fiscal discipline by comparing actual spending with budgeted allocations, thereby assisting the early detection of over-spending. In so far as it concerns checking for operational efficiency, one can check how efficiently inputs were used to produce outputs.

Budget analysis can be regarded as an art and not a science. Each budget analysis requires a different approach. In other words, as National Treasury put it, there is no single methodology for executing budgets. In doing budget analysis, the analyst employs skills and habits that he/she has acquired during previous budget analyses.<sup>112</sup> Budget analysis requires individuals to think analytically about policy and programme issues. Some of the reasons advanced by National Treasury for conducting a budget analysis are:<sup>113</sup>

- To answer questions (included in the next section).
- To determine aggregate, programme and unit costs.
- To determine how much time it takes to start or complete a particular project.
- To make better decisions at every level of public administration.
- To maintain fiscal discipline.
- To assess/examine proposals for funding.

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112 National Treasury (2006)

113 National Treasury (2006)

- To describe what the allocated budget can buy in terms of goods and services.
- To monitor what goods or services are actually delivered.
- To assess the quality of expenditure.
- To determine trends of expenditure or deficits or surpluses.

An individual that is well versed in budget methodology will be able to deduce from the budget and its accompanying documentation various areas of interest. Being well versed in budgeting entails having an understanding of the following:

- Aim of the Vote.
- Purpose of each programme within the Vote.
- Strategic overview of the Vote.
- Expenditure trends in the Vote, Programme and Subprogramme.
- Different levels of goals/objectives (strategic goals, strategic objectives, measurable objectives).
- Performance aspects (indicators, service delivery targets, outputs).
- Priorities of the Vote.

The key areas of budget analysis intervention focus on adequacy, priority, progress and equity.<sup>114</sup> Each of these key issues is defined by a question which essentially addresses fundamental aspects of how to address the specific key issue. However, the key areas of efficiency and effectiveness will only be able to be addressed later on in the budget cycle – i.e. once the appropriated funds are spent.

In conducting a budget analysis, we assess the following:

- Adequacy – relates to how much is allocated to a specific vote, programme, subprogramme or Standard Chart of Accounts (SCoA) item, as well as whether this is adequate or enough to enable the department to achieve its goals. The user will be able to distinguish between nominal versus real allocations in order to aid the reader in his/her judgment.

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114 Idasa (2005)

- Priority – at the vote level, priority relates to how much is spent, for example, on each programme. The user will be able to establish what the priority programmes of the department are. This can also be applied on a programme level – in other words, what are the priority subprogrammes per programme?.
- Progress - progress can only be established over time. The important question in this regard is: year-on-year progress, what changes have been effected in monetary and percentage terms between two years or two periods? Information on progress reveals information on government’s level of commitment to specific issues.
- Equity - the key question that is posed to deduce information on equity is whether resources/funds have been spent fairly or equitably? Information on equity reveals information on unit expenditure. In other words, the analyst needs population data to draw conclusions on whether resources were allocated equitably.

### **Guiding questions<sup>115</sup> in budget analysis**

An important prerequisite for conducting budget analysis is to formulate questions that will guide the analyst in drafting the Committee Budget Analysis Report. National Treasury suggests focusing on the following guiding questions prior to writing up a budget analysis report:

- How will the department pay for what it wants to buy? Are its revenue projections realistic?
- What are the main features of the departmental budget?
- Within which context is the budget tabled i.e. allocations to other departments, proposed sources of revenue, etc?
- What will the department’s budget buy?
- Is the departmental budget buying the best possible mix of services? How will you ascertain if this is the case?
- What else will the departmental budget be spent on?

115 The Estimates of National Expenditure is submitted as part of the budget documentation submitted by the Minister of Finance on Budget Day. The figures as shown in the Estimates of National Expenditure are informed by the Strategic Plan of the Department. The information as indicated in the Strategic Plan of the Department is informed by the Departmental Annual Report. So in other words, the information provided in the case study cannot be used exclusively to address case study questions. The reader must look beyond the information provided here to answer questions.



- How much will the department pay for goods and services? (Is the cost reasonable? (i.e. cost-effectiveness and value for money) Where there are major changes from last year's departmental budget, do you know the reasons for the increases or decreases of particular items? Are the increases justified (compared to current and previous expenditure on other priorities)? Do you know the consequences of the proposed budget cuts?
- What additional information would you need to enhance your analysis?

Budget analysis emphasises attention to detail. The budget analyst should, therefore, as part of the preliminary work, and in addition to answering the questions listed above, establish the following in relation to the budget:

- How your answer compares to last year.
- How your answer is likely to project into the next year.
- How your answer is likely to project into the next three years.
- The reasons for these changes.

Answers to these questions will guide the analyst in writing up the Committee Budget Analysis Report. The most important source of information to be used to conduct budget analysis is the Estimates of National Expenditure. For the purposes of this chapter, extracts from the 2010 Estimates of National Expenditure are provided in the three tables below (tables 12, 13 and 14).

When conducting a budget analysis, the focus should not exclusively be on an analysis of the Estimates of National Expenditure. Together with departmental strategic plans and other financial policy documents, the Estimates of National Expenditure in essence represents a forward-looking view of the department. The analyst should also take a backward looking approach when conducting budget analysis. This requires the analyst to also interrogate other policy reports of the departments, especially Annual Reports.

Tables 12, 13 and 14 present examples of the outline of budget information and figures according to the format presented in the Estimates of National Expenditure, which is one of the most important reference documents to be considered when conducting a budget analysis. The budget of the Department of Health has been selected as an example in this regard.

Vote 15: Department of Health- Expenditure Estimates (2010/11 MTEF).

**Table 12: Department of Health Expenditure Estimates (2010/11 MTEF)**

Programme	Audited outcome		Adjusted appropriation		Revised Estimate	Medium-term expenditure estimate		
	2006/07	2007/08	2008/09	2009/10		2010/11	2011/12	2012/13
R million								
1. Administration	175.6	213.6	241.0	260.4	260.4	264.8	299.9	330.9
2. Strategic Health programmes	2 658.8	3 096.3	4 129.5	5 791.3	5 688.3	7 294.9	8 774.4	10 147.6
3. Health Planning and Monitoring	301.3	309.1	342.1	396.4	393.4	406.9	426.1	454.2
4. Health Human Resources Management and Development	1 576.0	1 613.6	1 705.3	1 799.0	1 799.0	1 897.1	2 011.7	2 111.8
5. Health Services	6 566.7	7 465.8	8 949.9	10 086.1	9 794.1	11 528.8	12 083.5	12 681.7
6. International Relations, Health Trade and Health Product Regulation	59.7	64.3	96.6	90.2	90.2	104.5	112.4	118.5
<b>Total</b>	<b>11 338.0</b>	<b>12 762.7</b>	<b>15 464.5</b>	<b>18 423.5</b>	<b>18 025.5</b>	<b>21 497.0</b>	<b>23 707.9</b>	<b>25 844.7</b>

Source: National Treasury (2010a), adapted.

Change to 2009 Budget estimate				1 365.4	967.4	1 883.0	2 845.1	3 944.3
<b>Economic classification</b>								
<b>Current payments</b>	<b>655.0</b>	<b>728.9</b>	<b>916.8</b>	<b>1 149.7</b>	<b>1 036.7</b>	<b>1 063.0</b>	<b>1 122.1</b>	<b>1 172.4</b>
Compensation of employees	231.7	258.6	292.5	329.1	329.1	369.7	403.4	442.4
Goods and Services	423.3	470.3	624.3	820.5	707.5	693.3	718.7	730.0
of which:								
Consultants and professional services: Business and advisory services	21.4	118.2	124.7	147.9	146.4	145.1	147.9	139.7
Inventory: Medical supplies	133.8	81.0	103.9	266.5	166.5	110.7	110.7	109.8
Lease payments	36.3	42.3	46.8	53	53.0	51.3	57.6	59.8
Travel and subsistence	72.5	89.9	127.7	106.3	103.3	125.3	127.9	134.9
<b>Transfers and subsidies</b>	<b>10 206.7</b>	<b>12 011.7</b>	<b>14 506.1</b>	<b>17 247.4</b>	<b>16 962.4</b>	<b>20 403.3</b>	<b>22 552.8</b>	<b>24 637.7</b>
Provinces and municipalities	10 206.7	11 552.7	14 028.7	16 702.5	16 417.5	19 852.8	21 971.8	24 030.4



Departmental agencies and accounts	282.7	301.9	315.9	335.9	335.9	355.6	374.4	390.4
Universities and technikons	-	0.4	0.7	1.0	1.0	1.1	1.1	1.2
Non-profit institutions	120.1	156.0	160.2	206.0	206.0	193.8	205.5	215.7
<b>Payments for capital assets</b>	<b>69.3</b>	<b>22.0</b>	<b>41.4</b>	<b>26.4</b>	<b>26.4</b>	<b>30.7</b>	<b>33.0</b>	<b>34.7</b>
Buildings and other fixed structures	0.3	-	-	-	-	-	-	-
Machinery and equipment	24.1	21.7	41.4	26.4	26.4	30.7	33.0	34.7
Software and other tangible assets	44.9	0.3	-	-	-	-	-	-
<b>Payments for financial assets</b>	<b>3.5</b>	<b>0.1</b>	<b>0.2</b>	-	-	-	-	-
<b>Total</b>	<b>11 338.0</b>	<b>12 762.7</b>	<b>15 464.5</b>	<b>18 423.5</b>	<b>18 025.5</b>	<b>21 497.0</b>	<b>23 707.9</b>	<b>25 844.7</b>

Source: National Treasury (2010a), adapted.

Vote 15: Department of Health- Departmental Receipts (2010/11 MTEF).

**Table 13: Department of Health-Departmental Receipts (2010/11 MTEF)**

	Audited outcome			Adjusted appropriation	Revised Estimate	Medium-term expenditure estimate		
R thousand	2006/07	2007/08	2008/09	2009/10		2010/11	2011/12	2012/13
<b>Departmental receipts</b>	<b>33 303</b>	<b>41 193</b>	<b>31 188</b>	<b>33 730</b>	<b>33 730</b>	<b>31 457</b>	<b>32 776</b>	<b>32 919</b>
Sales of goods and services produced by department	32 146	39 447	29 676	28534	28534	30 451	31 776	32 265
Sales of scrap, waste, arms and other used current goods	41	67	71	80	80	84	88	92
Interest, dividends and rent on land	212	297	249	246	246	252	252	263
Transactions in financial assets and liabilities	904	1 382	1 192	4 870	4 870	670	670	299
<b>Total</b>	<b>33 303</b>	<b>41 193</b>	<b>31 188</b>	<b>33 730</b>	<b>33 730</b>	<b>31 457</b>	<b>32 776</b>	<b>32 919</b>

Source: National Treasury (2010a), adapted.

Vote 15: Department of Health: Programme 6 – International Relations, Health Trade and Health Product Regulation

**Table 14: Department of Health – Programme 6: International Relations, Health Trade and Health Product Regulation with subprogrammes (2010/11 MTEF)**

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
R million							
Multilateral Relations	31.4	36.7	61.5	45.1	50.7	57.1	58.6
Food Control and Non-Medical Health Product Regulation	3.5	4.3	6.4	6.5	7.2	7.8	8.1
Pharmaceutical and Related Product Regulation and Management	24.8	23.3	28.7	38.7	46.6	47.4	51.7
<b>Total</b>	<b>59.7</b>	<b>64.3</b>	<b>96.6</b>	<b>90.2</b>	<b>104.5</b>	<b>112.4</b>	<b>118.5</b>
Change to 2009 Budget estimate				3.3	3.7	-1.4	-0.9
<b>Economic classification</b>							
<b>Current payments</b>	<b>58.3</b>	<b>63.8</b>	<b>96.1</b>	<b>89.4</b>	<b>103.7</b>	<b>111.5</b>	<b>117.6</b>
Compensation of employees	30.7	32.6	35.9	39.6	42.8	45.1	47.4
Goods and Services	27.6	31.2	60.2	49.8	61.0	66.4	70.3

of which:							
Consultants and professional services:	0.3	0.1	5.5	1.8	2.2	2.3	2.5
Business and advisory services							
Lease payments	1.0	2.0	2.5	1.5	1.9	1.9	2.1
Travel and subsistence	13.5	15.5	30.1	18.4	22.0	23.3	25.3
<b>Transfers and subsidies</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	-	-	-	-
Households	0.1	0.1	0.1	-	-	-	-
<b>Payments for capital assets</b>	<b>1.3</b>	<b>0.4</b>	<b>0.4</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>	<b>0.9</b>
Machinery and equipment	1.3	0.4	0.4	0.9	0.8	0.8	0.9
<b>Total</b>	<b>59.7</b>	<b>64.3</b>	<b>96.6</b>	<b>90.2</b>	<b>104.5</b>	<b>112.4</b>	<b>118.5</b>

Source: National Treasury (2010a), adapted

### Template for Committee Budget Analysis Report

Essentially, a Committee Budget Analysis Report should provide members of the specific parliamentary committee with a summary overview of the most significant aspects of a vote. In addition to the actual analysis, the report should also raise questions in order to clarify budgetary decisions. These questions are important as they guide committees in performing their oversight role.

The Committee Budget Analysis Report consists of the following sections, which are discussed in more detail below:

- Introduction and Background.
- Aim of the Vote.
- Policy priorities of the Department.
- Quantitative analysis of the Vote, inclusive of:
  - Analysis at vote level
  - Analysis at programme level;
  - Analysis at subprogramme level;
  - Analysis by economic classification;
  - Analysis of transfers and subsidies; and
  - Analysis of departmental receipts.

## Budget Analysis Report Template

### Introduction and background

This section provides an example of a practical budget analysis exercise of a specific department. A good starting point would be to examine the department's Strategic Plan, Annual Performance Plan and Annual Report to gain a thorough understanding of the purpose (i.e. the aim of the vote and its programmes) and past performance (i.e. service delivery objectives and outcomes) of the department in order to conduct a budget analysis. Budget analysis goes beyond just a mere analysis of numbers, a greater part of budget analysis is to review strategic priorities and past performance (i.e. assess alignment of performance indicators and targets to the Vote and programme objectives) and link it to the budget allocations to assess whether the budget was effective in realising the strategic priorities/outcomes of the Department. The examples that follow in the text boxes below are based on the Department of Health Vote.



### **Aim of the vote**

The aim of the vote can be established from the Estimates of National Expenditure, whereby a statement captures the social and economic policy objective and management outcome that the department aims to achieve. The aim of the vote must also correspond with the vision and mission statements as reflected in the departments latest Strategic Plan and Annual Report. Since the Estimates of National Expenditure covers a period of 7 years, the analyst should also establish how the aim of the vote changed over the last 7 years, that is, highlight changes in policy direction or policy priorities. Any significant changes in the way the aim of the vote is stated should be mentioned.

The aim of the Department of Health is to promote the health of all people in South Africa through an accessible, caring and high quality health system based on the primary health care approach. (National Treasury, 2010a).

### **Policy priorities of the Department**

The Estimates of National Expenditure also contains a section that provides the strategic overview of the department. The strategic overview covers the department's strategic priorities over the medium term. The Strategic Plan provides a more detailed description of the department's priorities by expanding on the situational context on which the priorities are based and identifies the key activities and outcomes to be achieved within each priority area. The analyst should also assess alignment between policy priorities identified in the department's Strategic Plan and national priorities. A paragraph describing the department's priorities and alignment thereof to national priorities should be included in the Committee Budget Analysis Report.



The Medium-Term Strategic Framework (MTSF) (2009-2014) of National Government has identified ten strategic priority areas. Strategic Priority 5 speaks to Improving the health of all South Africans with a specific focus on the following<sup>6</sup>:

- Introduce a National health Insurance Fund (NHI) and phase in within the next five years;
- Implementation of Occupation Special Dispensation (OSD) and filling of vacant posts; and
- Cut HIV incidence by 50% and reach 80% of those in need of ARV treatment by 2011.

The key strategic priorities for the national Department of Health, as identified in the 2009/10-2011/12 Strategic Plan are<sup>7</sup> :

- Provision of Strategic leadership and creation of Social compact for better health outcomes;
- Implementation of National Health Insurance (NHI);
- Improving the Quality of Health Services;
- Overhauling the health care system and improving its management;
- Improved Human Resources Planning, Development and Management;
- Revitalisation of infrastructure;
- Accelerated implementation of the HIV/AIDS strategic plan and increased focus on TB and other communicable diseases;
- Mass mobilisation for the better health of the population;
- Review of drug policy; and
- Strengthen Research and Development

The analyst can therefore make a statement on whether or not there is any alignment between the key strategic priorities identified by the national Department of Health and the MTSF strategic priority 5. For example, the key strategic priorities: implementation of NHI, improved Human Resources Planning, Development and Management and the accelerated implementation of the HIV/AIDS strategic plan of the national Department of Health is directly aligned to the MTSF strategic priority 5.

## Analysis at Vote level

An analysis at Vote level should focus on the allocation to the Vote vis-à-vis the total national budget and cluster classification. This will allow the analyst to draw conclusions on what priority the specific Vote enjoys within the national budget and cluster classification. An analysis of the proportion of the Vote to the national budget and within the cluster over a number of years will help the analyst to deduce government's level of commitment to specific strategic outcomes vis-à-vis the specific Vote. The analyst should indicate the year-on-year change in monetary and percentage terms. The change should be reflected in nominal as well as real terms. An expression of a value or a percentage in real terms takes into account the effects of inflation and therefore reflects the real purchasing power of money and the real growth in budget allocations.

The Estimates of National Expenditure provides explanations for some of the changes in budget allocations. However, if the analyst has a good understanding of their sector of interest, they would ideally be informed of documented and non documented reasons why changes occurred. Changes over the MTEF would be found in the Estimates of National Expenditure. Prior changes would be found in amongst others, the Adjusted Estimates of National Expenditure, Annual Report, and other financial policy documents.

Over the last four financial years, the overall budget of the Department of Health increased by R10.2 billion (i.e. annual nominal increase of 89.6 per cent or in real terms an increase of 40.7 per cent) from R113 billion in 2006/07 to R21.5 billion in 2010/11. On average the budget allocation for Vote 15 increased by 8.9 per cent in real terms<sup>8</sup> over the four-year period. The growth in the budget allocations of Vote 15 over the four-year period are mainly attributed to increases in transfers in the HIV and Aids Conditional Grant and the Hospital Revitalisation Grant. In 2010/11, Vote 15 received R21.5 billion or 2.6 per cent of the total national budget of R818.1 billion in 2010/11 and 14.1 per cent of the total Social Cluster budget of R152.7 billion in the 2010/11 financial year.

The Department of Health's priorities over the medium-term include: strengthening governance; developing a national health insurance system with public consultations scheduled for the 2010/11 financial year; revising national core standards for health facilities, which has to be finalised in 2010/11; developing a revised plan for national human resources for health in 2010/11; introducing new policies in 2010/11 to strengthen efforts to combat HIV and Aids, as well as continuing with efforts to ensure that all children under the age of one are fully vaccinated against pneumococcal infection and the rotavirus and implementing a mass immunisation campaign for measles.

Vote 15 expenditure will therefore focus on the expansion of HIV/Aids treatment, subsidise the mass immunisation campaign for measles, as well as provide increased funding to the Office of Standards Compliance for the Hospital Quality Assurance Programme to increase the functioning and the number of hospitals audited over the 2010/11 MTEF period.

Source: National Treasury (2010)

It is important, in this analysis, for the analyst to observe how the budget has increased or decreased, as well as to evaluate whether any change that is effected to the budget is sufficient for the department to carry out its mandate. In conclusion, the analyst should express an informed opinion on the Vote budget and its performance i.e. what the budget has bought and what it intends to buy.

### **Analysis at programme level**

This section should be introduced with a statement of the purpose of the different programmes and include a summary of the key performance indicators and targets for each programme. The analyst should first establish what the proportion of each programme is to the overall Vote allocation. Through this, the analyst will be able to draw conclusions on the priority of the programme vis-à-vis the Vote.

The analyst should express monetary or percentage changes in the programme's budget in both nominal and real terms over the period under review. Furthermore, provide reasons for any significant changes in the programme's budget. In conclusion, the analyst should make a statement regarding the programme's performance in relation to its budget allocation.



Programme 6: International Relations, Health Trade and Health Product Regulation is primarily concerned with:

- Developing and implementing bilateral and multilateral agreements to strengthen the national health system, conclude agreements on the recruitment of health workers from other countries and mobilise international resources to support the implementation of priority health programme.
- Ensuring food safety by developing and implanting food control policies, norms and standards, and regulations.
- Regulating trade in medicines and pharmaceutical products to ensure access to safe and affordable medicines.

Programme 6 accounts for R104.5 million or 0.5 per cent of the total budget of Vote 15 in the 2010/11 financial year. The budget allocation for this programme has increased from R59.7 million in 2006/07 to R104.5 million in 2010/11. This represents a nominal increase of 75.0 per cent or in real terms an increase of 29.9 per cent. When calculating the average growth of the programme's budget allocations over the four-year period in real terms it amounts to an average annual growth rate of 6.8 per cent.

In respect of the measurable performance objectives, the Department of Health, in the first half of 2009/10 financial year commenced with developing the electronic document management system in order to fast track registration and re-registration of medicines. The document attributes were completed and preparations were made for training. In 2010/11 the Department of Health intends to improve patient safety through the pharmacovigilance plan for monitoring extreme drug resistant tuberculosis, improve the regulation of medicines by having a functional electronic document management system and legislation will be developed to establish the functioning of the South African Health Products Regulatory Authority.

The International Relations, Health Trade and Health Product Regulation Programme is comprised of three subprogrammes, which are Multilateral Relations, Food Control and Non-Medical Health Product Regulations, and Pharmaceutical and Related Product Regulation and Management. The bulk of the Programme budget allocation is distributed between the Multilateral Relations and Pharmaceutical and Related Product Regulation and Management subprogrammes. Therefore the bulk of the funds allocated to the International Relations, Health Trade and Health Product Regulation Programme are primarily spent on membership fees to international health agencies such as the World Health Organisation and to fund international bilateral and multilateral activities, as well as fund the development of Information Technology (IT) systems to assist in the registration of medicines.

### Analysis at subprogramme level

Similar to the processes followed at the Vote and Programme levels, an analysis at subprogramme level commences with a statement of the purpose of the different subprogrammes. Following this, the analyst should establish the priority of the subprogramme vis-à-vis the Programme budget.

It would also be expected of the analyst to evaluate the subprogramme's budget allocations over a number of years (i.e. current year, three years prior and the two outer years of the MTEF period) and draw conclusions on nominal and real monetary and percentage changes in relation to overall Programme performance.

Depending on the number of programmes and subprogrammes in the Vote, it might not be necessary to specify each one. In that case, priority should be given to subprogrammes that are crucial to the mandate of the department, subprogrammes that have been significantly increased or decreased, as well as new subprogrammes that arise from reprioritisation.

Within the International Relations, Health Trade and Health Product Regulation Programme, the Pharmaceutical and Related Product Regulation and Management subprogramme is primarily concerned with regulating trade in medicines and pharmaceutical products to ensure access to safe and affordable medicines. This subprogramme accounts for R46.6 million or 44.6 per cent of the total budget allocation in the 2010/11 financial year, and its allocation increases at a nominal rate of 87.9 per cent or in real terms an increase of 39.4 per cent from R24.8 million in 2006/07 to R46.6 million in 2010/11. This represents an average annual increase of 8.7 per cent in real terms in the subprogramme's budget allocation over the four-year period.

The projected increase in the budget allocation for the Pharmaceutical and Related Product Regulation and Management subprogramme can mainly be attributed to supporting the establishment of the new medicines regulatory authority and the electronic document management system in order to fast track the registration of medicines.

Source: National Treasury (2010)



## Analysis by economic classification

An analysis of the economic classification of expenditure should focus on current payments, transfers and subsidies, and payments for capital assets at Vote level, as well as at the programme level. The focus should be two-fold. First, it should express the SCoA level 2 items (i.e. current payments, transfers and subsidies, payments for capital assets and payments for financial assets) as a proportion of the total budget Vote. Secondly, it should establish what the trends are with respect to the SCoA level 2 item proportions over a number of years.

An important aspect of the analysis of the SCoA level 2 items relates to transfers and subsidies. Transfers and subsidies include all unrequited payments made by a government unit.<sup>116</sup> When making reference to transfers and subsidies, the emphasis should also be on those agencies falling under the specific department. The analysis with regard to SCoA level 2 items can be cascaded down to programme level.

The analyst should also do an analysis of SCoA level 3 items<sup>117</sup> at Vote and programme levels. The prominent items at a SCoA level 3 include Compensation of Employees and Goods and Services. It is also important to go further to check the proportion of the current budget allocated to sub-components within certain SCoA 3 level items and highlight any concerns. For example, the proportion of the Goods and Services budget allocated to contractors, travel and subsistence, as well as consultants and outsourced services.

The analysis by economic classification would include an in-depth analysis of expenditure patterns by each economic classification category, as well as a summary of expenditure on agencies (this specifically refers to departmental transfers to agencies). However, it does not include an analysis of agency expenditure.

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116 National Treasury (2003)

117 Level 3 SCoA items under Current payments include Goods and services, Compensation of employees, etc. See National Treasury's "Reference guide to the New Economic Reporting Format (2003) for a complete listing of SCoA levels for expenditure and receipts."



### Example:

The analysis is based on the economic classification of the Health Vote expenditure in Table 12.

With regard to economic classification, the current payments budget is allocated R1.1 billion or 5.0 per cent, the transfer and subsidies budget is allocated R20.4 billion or 94.9 per cent and payments for capital assets is allocated R30.7 million or 0.1 per cent in 2010/11.

The current payments budget grew at an average annual rate of 16.5 per cent over the period 2006/07 to 2009/10 and is expected to increase by 5.0 per cent over the 2010/11 medium-term expenditure framework. The current payments budget is comprised of the following two components: compensation of employees (R369.7 million or 34.8 per cent) and goods and services (R693.3 million or 65.2 per cent). The allocation for the compensation of employees increased by 12.3 per cent between 2009/2010 and 2010/11.

The largest expenditure components in the good and services budget in 2010/11 include:

- Consultants and professional services: Business and advisory services – R145.1 million or 20.9 per cent;
- Inventory: Medical supplies – R 110.7 million or 16.0 per cent; and
- Travel and subsistence – R125.3 million or 18.1 per cent.

Consultants and professional services was the fastest growing expenditure item in the goods and services budget over the period 2006/07 to 2009/10 at average of 89.8 per cent.

With regard to the transfer and subsidies budget, agencies have been allocated the following amounts in 2010/11:

- Provinces and municipalities receive R19.9 billion, which is an increase of 20.9 per cent from R16.4 billion in 2009/10;
- Departmental agencies and accounts receive R355.6 million, which is an increase of 5.9 per cent from R335.9 million in 2009/10;
- Universities and technikons receive R1.1 million, which is an increase of 10.0 per cent from R1.0 million in 2009/10;
- Non-profit institutions receive R193.8 million, which is a decrease of 5.9 per cent from R206.0 million in 2009/10.

The total allocation of R30.7 million for the payments for capital assets has been allocated to machinery and equipment in 2010/11. The allocation is expected to increase to R34.7 million in 2012/13 at an average annual rate of 6.3 per cent.

### **Analysis of departmental receipts**

In addition to departments receiving their annual appropriations through the passing of the Appropriation Bill into law, departments also get revenue from various sources. In the economic classification of revenue, the second level of reporting (i.e. the SCoA level 2 revenue classifications), the following items appear:

- Tax receipts.
- Sales of goods and services other than capital assets.
- Transfers received.
- Fines, penalties and forfeits.
- Interest, dividends and rent on land.
- Sales of capital assets.
- Financial transactions in assets and liabilities.

The analysis with regard to the above items should primarily focus on the proportion of these items to total departmental receipts because the Estimates of National Expenditure does not go beyond SCoA level 2 in reporting on receipts. The Estimates of National Revenue goes beyond the SCoA 2 level but at an aggregate level. In other words, it does not show a breakdown of departmental receipts, but rather an aggregate of what the South African Revenue Service collected versus what it had planned to collect in the form of revenue.

An important aspect of each of the above sub categories for the budget analysis report relates to trend analysis. For each of the above sub categories, reference should be made to increases/decreases in budget allocations (expenditure and revenue) over a number of years.



### **Example:**

The analysis is based on the departmental receipts of the Health Vote expenditure in Table 13.

Total departmental receipts amount to R31.5 million in 2010/11, which is a decrease of 6.7 per cent from R33.7 million in 2009/10. Over the 2006/07 to 2009/10 period departmental receipts increased at an average annual rate of 0.4 per cent. Over the next three years, departmental receipts are expected to grow at an average annual rate of 2.3 per cent to R32. 9 million in 2013/14.

Sales of goods and services produced by the department is the largest contributor to departmental receipts at R30.5 million or 96.8 per cent in 2010/11. Over the 2006/07 to 2009/10 period, sales of goods and services declined at an average annual rate of 3.9 per cent. Interest, dividends and rent on land amounts to R252 000 in 2010/11, which is an increase of 2.4 per cent from R246 000 in 2009/10.

### **Issues for Consideration by the Relevant Committee**

This section represents the final part of the budget analysis report. Essentially, once the analyst has completed the report up to this point, the pertinent issues that were highlighted throughout the report should be summarised in this section. The issues highlighted in this section should also relate to issues in the departmental audit report of the previous year, the Estimates of National Expenditure and the Departmental Strategic Plan. The purpose of this section is to prepare committee members for engagement with the department regarding important departmental issues. This section can also include specifically formulated questions emanating from the analyses.

## Summary

This chapter provided an overview of budget analysis at a practical level. The chapter introduces the analyst to the rationale for conducting a budget analysis, and also lists specific key budget intervention points which the analyst can use as a point of departure in deciding the specific areas of the budget to analyse. Budget analysis moves from the general to the specific. Therefore, before commencing with the analysis, the analyst must do preparation work, which entails writing down important quantitative details from which to begin. Once this is done the analyst can then perform the specific quantitative analysis.

The chapter further presents a Committee Budget Analysis Report template, which starts with an analysis at vote level and then cascades down to an analysis of SCoA level 3 items. The chapter moves from the premise that budget analysis goes beyond an interrogation of the Estimates of National Expenditure, and should also focus on departmental strategic plans and Annual Reports.

## CONCLUSION

Budget analysis is an effective tool for detecting irregularities in government spending. Discrepancies in revenue and expenditure can be brought to the notice of Parliament. In this way, it becomes easy to monitor government expenditure. The timing of budget analysis is critical when it comes to engaging with policy makers.

Budget analysis further holds government, elected and appointed officials accountable to their stated policy priorities. Budget analysis has an immediate and measurable impact on the lives of the citizenry by changing the power relations between the different sectors of society, and creating a long-term vision for the society.

This manual serves to assist Members of Parliament and researchers in analysing the annual government budget, and seeks to communicate to Members and researchers that they require specific analytical skills to conduct a budget analysis. What is needed is a thorough understanding of budget concepts, principles and logic. The following check-list can be beneficial:

- Acquiring budget documents.
- Understanding the budget documents.
- Reviewing total and departmental allocations.
- Reviewing programme-wide expenditures.
- Identifying beneficiary-wide average cost or allocation.
- Highlighting the difference between actual spending and proposed allocations.
- Understanding and preparing for budget preparations, presentation, and the debate on the budget.

This manual will not only assist in improving understanding of the budget, but also the apparatus of the government in concrete terms. It will also assist to measure, in monetary terms, how serious the government is about achieving its stated priorities.

Parliamentary budget work is critical to the effectiveness of Parliament in improving the quality of lives of citizens. Parliament's work on the central budget is both important and requires support because of its complexity. In this regard, it is vital for Parliament to have a well-resourced administrative service, including research services that will enable it to undertake its oversight duties effectively.



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## FOOTNOTES

<sup>1</sup> Level 2 SCoA items (expenditure) include current payments, payments for capital assets and transfers and subsidies. See National Treasury's *"Reference guide to the New Economic Reporting Format (2003)"* for a complete listing of SCoA levels for expenditure and receipts."

<sup>2</sup> This analysis can be extended to payments for capital assets, and transfers and subsidies and the specific SCoA level 3 items.

<sup>3</sup> This analysis can be extended to payments for capital assets, and transfers and subsidies and the specific SCoA level 3 items.

<sup>4</sup> Level 2 SCoA items (receipts) include tax receipts, sales of goods and services, sales of capital assets, financial transactions in assets in liabilities. See National Treasury's *"Reference guide to the New Economic Reporting Format (2003)"* for a complete listing of SCoA levels for expenditure and receipts."

<sup>5</sup> National Treasury (2010b)

<sup>6</sup> The Presidency (2009)

<sup>7</sup> National Department of Health (2009) not in references

<sup>8</sup> Real growth rate figures have been calculated based on a deflator, i.e. the average CPI Headline inflation index provided by Statistics South Africa (Stats SA).

The average CPI index for 2010 has not yet been released by Stats SA, and therefore nominal values for 2010/11 have been deflated using the 2010 November CPI index.

