A FRAMEWORK FOR ACHIEVING SPENDING EFFICIENCY IN A FISCALLY CONSTRAINED ENVIRONMENT

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Table of Contents

Abbreviations

BAS: Basic Accounting System

DPME: Department of Planning Monitoring and Evaluation

FOSAD: Forum of South African Directors-General

GDP: Gross Domestic Product

GTAC: Government Technical Advisory Centre

TCF: Technical Committee on Finance

MINCOMBUD: Ministers' Committee on the Budget

MTBPS: Medium Term Budget Policy Statement

MTEC: Medium Term Expenditure Committee

MTEF: Medium Term Expenditure Framework

MTSF: Medium Term Strategic Framework

NEDLAC: National Economic Development and Labour Council

NCOP: National Council of Provinces

PERSAL: Personal and Salary System

ZBB: Zero-Based Budgeting

Background

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

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

South Africa continues to experience a mismatch between spending plans and revenue outcomes. Since the 2008 financial crisis, government spending has been consistently higher than revenue, leading to a substantially higher government debt. Since then, government has been reducing spending growth by focusing on underspending programmes and those programmes growing faster than consumer price inflation. An across the board decrease approach in allocation for all programmes was implemented. The most significant disadvantage of this approach was inefficiency in some programmes i due to large reductions. This has therefore necessitated the conversation on conducting spending reviews. Spending reviews will not only support fiscal rigor but more efficient allocation of expenditures.

The main objectives of the spending reviews are to:

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

Operational improvements leading to improved programme impact
A number of programmes were implemented several years ago for a specific time and purpose. Some of these programmes are not contextually aligned to current priorities of government and no longer warrant allocation of funds yet remain in existence, at times, accounting for significant use of public resources.

Short-term budget cuts to reduce the budget deficit

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

The main targets of these spending reviews will be:

* Reallocating spending to match current government priorities
* Improving spending efficiency over the medium to long term
* Minimising the impact of spending reduction on service delivery while rapidly reducing the budget deficit
* Eliminating programmes that are no longer serving their intended purpose.

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

- Availability and the quality of performance information
- Time constraints for implementation
- Political support both at an executive level and the legislature
- Capacity and skills set needed.

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

As a starting point towards charting the process for the implementation of the proposed ZBB framework in South Africa, top down and bottom up approaches are proposed, which means:

- Parliament approves the spending ceiling tabled by the executive through the budget
- Departments work within their baselines to improve efficiency and reprioritise funds through the use of spending reviews.

Pyhrr's (1977)[1] theoretical framework for implementing ZBB, provides 4 key steps which departments could follow in line with the South African budgeting system.

Step 1: identify "implementation programmes"

One of the objectives of ZBB is to focus management's attention on the evaluation of activities and making meaningful decisions. Accordingly, to enable managers to conduct the evaluation, 'meaningful elements' or 'decision units', each aspect of the organisation must be defined and isolated for analysis and decision making, as stated by Pyhrr (1977) in the framework. For organisations with a detailed budget unit or cost centre structure as in the South African government, the 'decision unit' may correspond to that budget unit or cost centre or even in some cases the subprogramme. Spending reviews will be used to assist departments to identify programmes in which they can implement ZBB. Accordingly, departments will also have the discretion to identify their own implementation programmes for ZBB. The table below presents minimum criteria for selecting an implementation programme:

.   **The minimum criteria for selecting an implementation programme**

Identify implementation programmes Definition/features of an implementation programme	Minimum eligibility requirements for implementation programmes to be selected for further analysis by the departments
An **"implementation programme**" is a set of organised but often varied activities directed towards the achievement of specific policy aims. An implementation programme may encompass several different projects, activities and processes and may cross departments or spheres.	- Proportion of the implementation programme's budget relative to other programmes - Composition of spending (compensation of employees should not account for majority of the programme's budget) - Consistent underspending and or surplus as well as non-financial performance for the past three financial years - Implementation programme no longer aligned to departmental mandate. - Provided there are multiple stakeholders - buy in should be obtained from the main stakeholders involved in the design of the programme, implementation, budgeting, funding, monitoring and evaluation that feeds into oversight and reporting - All main stakeholders should agree on the implementation programme to be isolated for analysis and decision making

---

[1] Pyhrr, P. A. (1977). The Zero-base Approach to Government Budgeting. *Public Administration Review Vol. 37 No. 1*, 1-8.

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

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

- The purpose or objective of the 'implementation programme'
- Description of actions
- Costs and benefits
- Performance measures.
- Alternative means of accomplishing objectives
- Various levels of effort – benefits that the department will get for various levels of funding.

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

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

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

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

Once the different levels of effort have been defined, these are ranked in order of priority. The ranking process provides the department with the opportunity to allocate its limited resources in line with its key priorities. This process therefore establishes priority among the incremental levels of each implementation programme. Each decision package thus presents several alternatives for decision making, which include:

a) Either the operation may be eliminated if no decision packages are approved;
b) A reduced level of funding may be approved, that is, the minimum level of effort;
c) Funding may be maintained at the same level if the current level of effort is approved; or
d) There may be a need for increased funding if one or more increments above the current level are approved.

The evaluation and ranking of the formulated decision packages should be based on value for money, in other words rand value spent per outcome measure, that is:

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

Step 4: Prepare the detailed operating budget of the selected decision packages
In the final analysis, the department will have a number of decision packages which define the budget of each implementation programme. The decision packages will also define the specific activities and performance anticipated from each programme. This information will then provide the basis for the development of both the budget and operational or performance reviews during the year.

A standard template will be designed to be used by the two piloting departments, Public Enterprises and National Treasury. However, spending reviews will also be conducted for all other departments in preparation for the larger implementation of these reviews in the next fiscal year.

The implementation of spending reviews

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

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

Spending Review Methodology
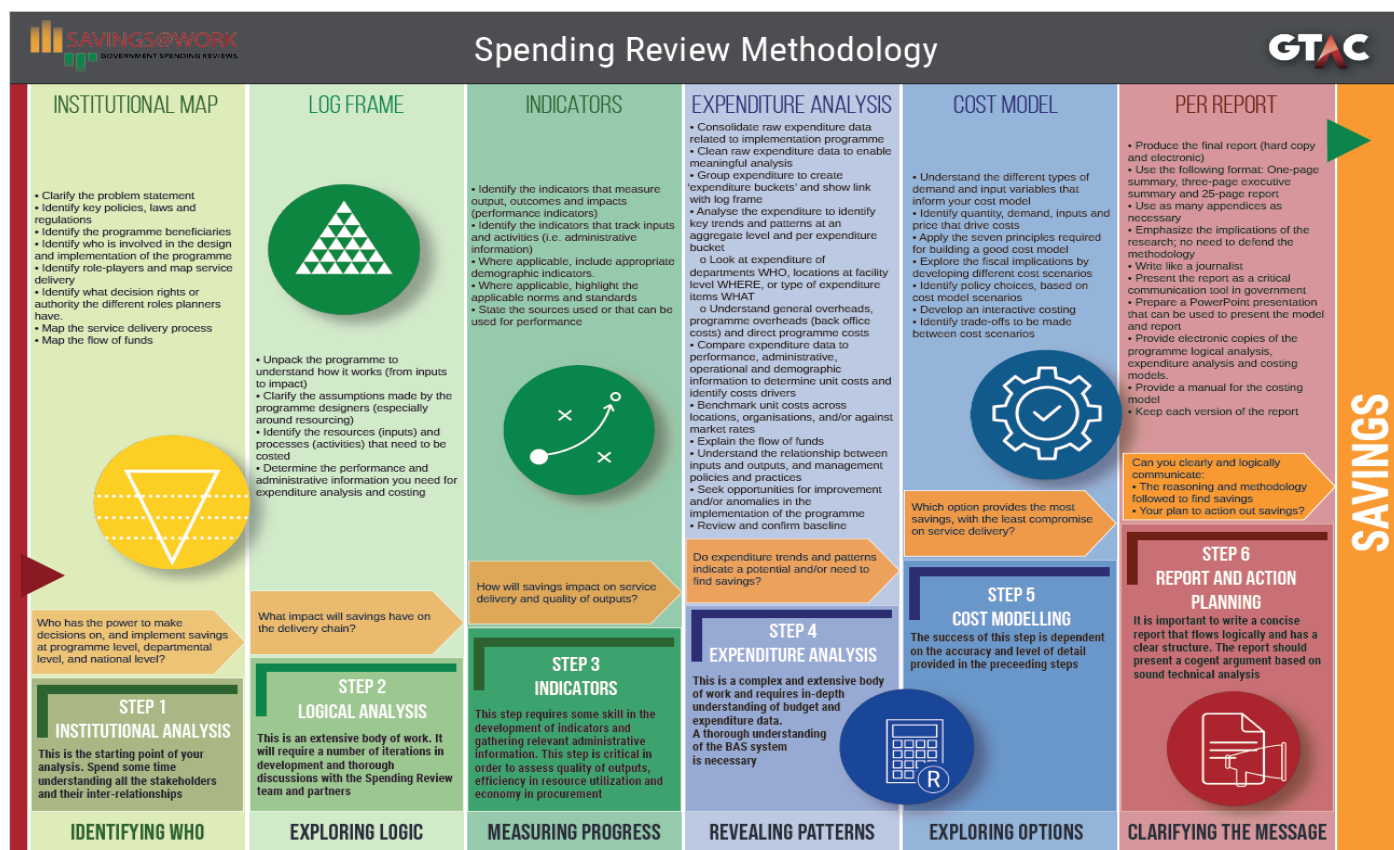
Roles and responsibilities

There are numerous ZBB stakeholders, who all play an important role in the budget process to ensure equity in the distribution of state resources, and that there is equal representation of the interests of all citizens in the Republic of South Africa. This ZBB framework proposes the following key stakeholders: Cabinet, Parliament, Nedlac, National Treasury and government.

Below are the steps in the ZBB process:

1

National Treasury works on the ZBB framework then presents to relevant stakeholders

2

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

3

National Treasury presents the outcomes of the spending reviews to Cabinet and relevant stakeholders

4

> **Once approved, departments implement these findings**

Summary of the roles and responsibilities

Institution	Roles
Cabinet	• Cabinet will in light of the ZBB framework conduct policy priority ranking as aligned with the MTSF priorities as well as that of the ruling political party. • These national policy priorities are set by Cabinet, which in turn forms the basis of the planning and budgeting process. • The Minister of Finance will during the process provide recommended spending ceilings as well as the ZBB outcomes to Cabinet.
Parliament	• The ZBB framework will provide Parliament with a clear understanding of the methodology and approach to the rollout of the process in departments over the MTEF period • Furthermore, departments will be required, during the rollout process, to provide Parliament with information on the outcomes of the ZBB undertaken in the said departments in order to allow for greater oversight • Parliament will monitor spending and performance in line with priorities identified through the ZBB process.
NEDLAC	• Nedlac will conduct stakeholder engagements and discussions on the ZBB framework and implementation.
National Treasury	• The National Treasury to be the guarantor of the implementation of the spending review process. • Develop and publish the ZBB framework, which sets out a clear methodology and the parameter of the exercise • Integrate the ZBB into the budget process • Recommend the top-down expenditure ceilings to Cabinet • Provide constant monitoring and follow up of the ZBB process, and set out clear timelines for feedback reporting purposes • Provide departments with capacity and skills training from external experts on the process • Lock the ZBB findings into multi-year budgets and ensure in-year follow-ups • Facilitate the process of piloting the ZBB on the two departments mentioned in the second adjustment budget process • Bear the financial implications emanating from the ZBB process (Catch 22 scenario, invest money in order to save money) • Work closely with strategic departments, such as Department of Planning Monitoring and Evaluation & Department of Public Service Act.
Line Departments	• Adhere to ZBB timeframes • Extensive evaluation of programme efficiency and effectiveness and the evaluation and prioritisation of different levels of effort. Outcomes of programme evaluations by the DPME can be utilised for this

	• Internal and external communication (between departments: concurrent functions and levels of management to arrive at optimal decisions on approaches and approvals) • Determine decision packages amounting to the total budget request. • Identify and define activities or projects with purposes/objectives • Determine cost categories, costing through conducting spending reviews and cost benefit analysis • Identify different funding levels with effect on capability of the activity to perform stated objective • Determine alternative approaches to complete the same objective • Specify implications of selected or not selected approaches • Data input, control and consolidation.
Department of Planning Monitoring and Evaluation (DPME)	• Planning documents should be aligned to the ZBB process through reducing time frames. In addition, institutions will continue to manage and monitor implementation of advised ceilings and headcount numbers with the view to identify the sources of cost pressures to ascertain corrective measures, with the support of treasuries • Alignment of the annual National Evaluation Plan with programmes identified by departments for purposes of ZBB assessment • Complete the programme evaluations to assist departments to make final decisions on ZBB evaluations in a timely manner • Monitor progress of the ZBB from the performance point of view.
Concurrent functions	• Relevant statutory regulations (Schedule 4 and 5 of the Constitution) Intergovernmental Fiscal Relations Act (1997), Intergovernmental Relations Framework Act (2005) remain unchanged in terms of powers, responsibility and functions.

The budget process

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

MONTH	TASK	ROLE-PLAYERS	FORUM/S	OUTPUTS REQUIRED
June – July	Compilation of budget submissions by departments and public institutions. **Departments will be using spending reviews for these submissions.** Formulation of recommendations to technical committees **based on the outcomes of the spending reviews**	Departments Public institutions National Treasury Department of Public Service and Administration (DPSA) Department of Planning, Monitoring and Evaluation (DPME) Department of Cooperative Governance (DCoG)	Bilateral and technical group interactions [2]	Written and data budget submissions to function groups **based on spending reviews**
End June – July	Consultation between the Executive Authority of Parliament and Minister of Finance before submission of budget by Parliament of South Africa (in line with s17(1) (b) (d) of Financial Management of Parliament and Provincial legislatures Act, 2009	Minister of Finance Speaker of National Assembly Chairperson of National Council of Provinces (NCOP) Secretary of Parliament	MTEC hearings	Recommendations to the Minister of Finance

---

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

MONTH	TASK	ROLE-PLAYERS	FORUM/S	OUTPUTS REQUIRED
End July – September	Formulation of recommendations to technical and political committees	Departments Public institutions Function groups Technical Committee on Finance (TCF) MTEC	Function group interactions [3] 10x10 meeting/s [4] MTEC hearings TCF meeting/s FOSAD	Recommendations to political committees on information to be tabled in MTBPS, should include: • fiscal framework • key national government spending priorities • division of revenue • substantial adjustments to conditional grants
End September – October	Formulation of recommendations to Cabinet	MINCOMBUD	MINCOMBUD meeting/s Cabinet meeting/s	Approval of recommendations to be tabled in MTBPS
End October	Tabling of the MTBPS	Minister of Finance Parliament		MTBPS publication including: • fiscal framework • key national government spending priorities • division of revenue • substantial adjustments to conditional grants
End October – November	Draft allocation letters Finalisation of details of National government allocations to be included in Budget	Function groups MTEC MINCOMBUD Cabinet	MTEC hearings FOSAD MINCOMBUD meeting/s Cabinet meetings	Final national government allocation letters

---

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

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

MONTH	TASK	ROLE-PLAYERS	FORUM/S	OUTPUTS REQUIRED
December – February	Finalisation of recommendations to be tabled in Budget Drafting of budget documentation	MTEC MINCOMBUD Cabinet National departments and public institutions	MTEC hearings FOSAD MINCOMBUD meeting/s Cabinet meetings	Budget review publication Appropriation bill Division of revenue bill Estimates of national expenditure publications People's guide to the budget Tax proposals
February	Tabling of budget	Minister of Finance Parliament		Budget tabled
March – July	Adoption of budget expenditure legislation	National Assembly National Council of Provinces	Hearings Debates Adoption of bills	Budget adopted

Initial project plan for implementation for all departments

	Mar				Apr				May					June				July				Aug					Sept			
	8	15	22	29	5	12	19	26	3	10	17	24	31	7	14	21	28	5	12	19	26	2	9	16	23	30	6	13	20	27
Inception																														
Invite Steering Committee members							23																							
Finalise website, update																														
Finalise project plan																														
Steering Committee 1: project plan,aims & goals for S.R 2021 confirmed					4																									
DDG:PF informs FOSAD on S.R. 2021 & Conference																														
Email to all NT participants with invitation to launch of project, including booklet and online resources (DDG:PF Office)								25																						
Email to all National dept DG with invitation to launch of project (DDG:PF Office)								26																						
Email to all **Public Entities** with invitation to launch of project (DDG:PF Office)								26																						
Onboarding of the PF: CD @ PF ManCo Meeting																														
GTAC team prepatory workshop										12-14																				
Onboarding workhops for 2021 S.R with **PF**																														
- Aim of S.R																														
- Institutionalisation											19																			
- Topic selection/ data issues - consider Public Entities																														
- Report writing template																														
Confirm logistics of name sof participants																														
Onboarding workhops for 2021 S.R with **National Departments, Public Entities**																														
- Aim of S.R																														
- Introduction to methodology/ website											17																			
- Cluster break aways (topics, data etc)																														
- Plenary																														
Topic finalisation and feedback to Steering Committee								▓																						
Aim / Goal for 2021 S.R expressed in NT Budget guidelines									▓	▓	▓	▓																		
Conference — Invites out					▓	▓																								
Preparatory session							▓																							
Virtual Conference					▒	▒	▒	▒		▒																				
Level 3 Analysis — Steps 1 to 3: Data stressing tesing, Institutional maps, business processes and indicators																														
GTAC planning workshop										14																				
Workshop											19																			
Working sessions- checking in by TA weekly												▓	▓																	
Interview programme managers												▓																		
Master class on decision tree																														
Submission of outputs													▓																	
Quality assurance with CD													▓																	
Step 4: Expenditure Analysis																														
GTAC planning workshop														10																
Workshop															14															
Excel master class																21														
Working sessions- checking in by TA weekly																	▓	▓	▓	▓	▓									
Submission of outputs																				▓	▓									
Quality assurance																				▓										
Show and tell (Exp analysis, possible savings, options for institutionalisation)																				20										
Step 5: Savings and Trade Offs																														
Workshop: Savings and Trade offs																					28									
Workshop: Writing skills																					28									
Working sessions- checking in by TA weekly																						▓	▓							
Submission of outputs																							▓							
Quality assurance																							▓							
Step 6: Recommendations & Report																														
Working sessions- checking in by TA weekly																						▓	▓							
Insert writing master class																								▓						
Submission 1st draft																							10							
Submission 2nd draft																									23					
Final draft																										30				
Recommendations & action planning																											6			

A framework for achieving spending efficiency in a fiscally constrained environment

13

Conclusion

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