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Definition of Budget Analysis

- Budget analysis is an ART and not a Science.



¹²

Types of Analyses

- Policy
- Risk
- Efficiency
- Management
- Cost and Benefits
- Evaluation



⁸

Sources of Data

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



¹¹

Categories of Questions BA can Ask

- Chronological
- True or false
- Informational
- Logical
- Analytical



⁷

Prioritization Process

- Vote for political party every 5 years
- Parliament elects President and executive
- Minister's Committee on the budget (MinComBud) approve broad priorities
- Medium Term Expenditure Committee (MTEC) reviews finer details



¹⁰

Purpose of Budget Analysis

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

Policy – Budget – Delivery link ≠ diff. sectors

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graph LR
    Policy[Policy] --> Budget[Budget]
    Budget --> Delivery[Delivery]
  
```



Activity 1: Uses of budget information

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

▪ Questions:

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

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Budgeting System and Oversight

▪ Questions:

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

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Outcomes

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

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Budgetary Principles

- Aggregate Fiscal Discipline
 - Effective control of resources
- Allocative Efficiency
 - Allocating resources according to strategic priorities
- Operational Efficiency
 - Utilizing resources in a way that maximizes outputs

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Formulation of Budget

1. Policy Prioritization
 - Starts with setting priorities and deals with inevitable trade-offs at Cabinet / EXCO level
2. Financial Planning
 - Splitting fiscal resources among competing needs
 - Achieving value for money
 - Requires analysis of cost of each activity
3. Budgeting
 - Sets out expected resources to achieve agreed outputs

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Implementing the Budget (1)

4. Financial Management
 - Mix of human skills, institutional & regulatory arrangements and information collection procedures
5. In-year Monitoring
 - Various 'levels' of monitoring (e.g. activity manager, political office bearer, legislature – to track allocative eff.)
6. Control
 - Financial control at management level

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¹⁹ ²⁰ **Implementing the Budget (2)**

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

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²¹ **Activity 2: Implementing the budget**

- For each stage of the budget implementation process described below, say how it relates to legislative oversight:

1. Policy prioritisation
2. Financial planning
3. Budgeting
4. Financial managements
5. In-year monitoring
6. Control
7. Reporting
8. Accounting
9. Auditing

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²¹ **Accountability - Definition**

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

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

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²² **Elements of Accountability**

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

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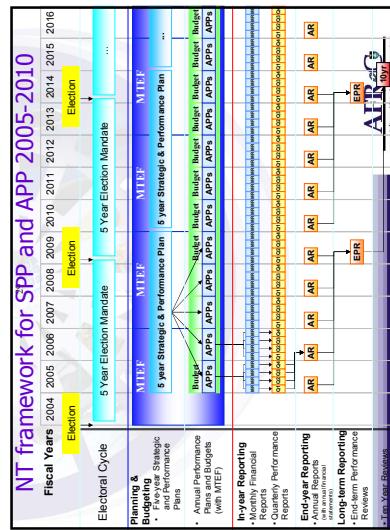
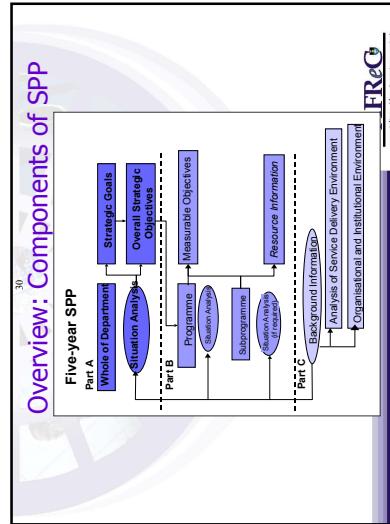
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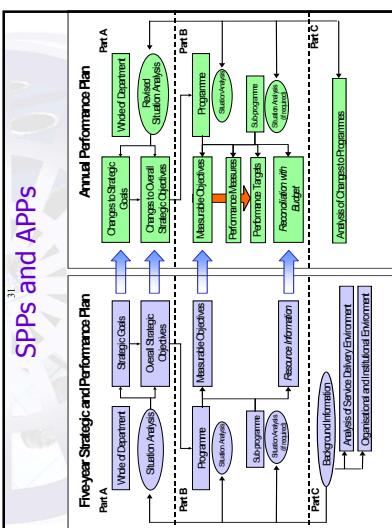
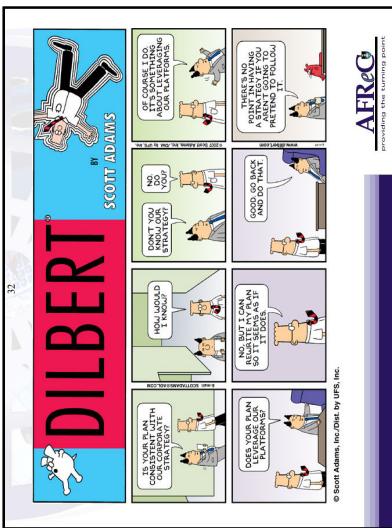
²³ ²⁴ **Financial Oversight**

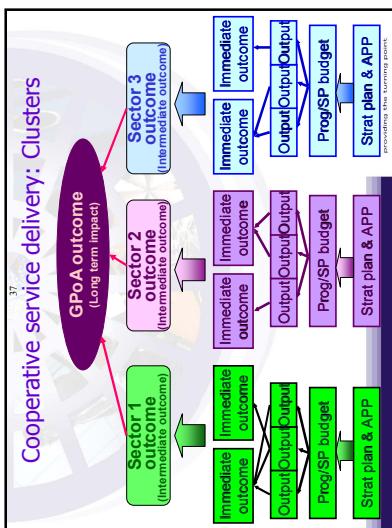
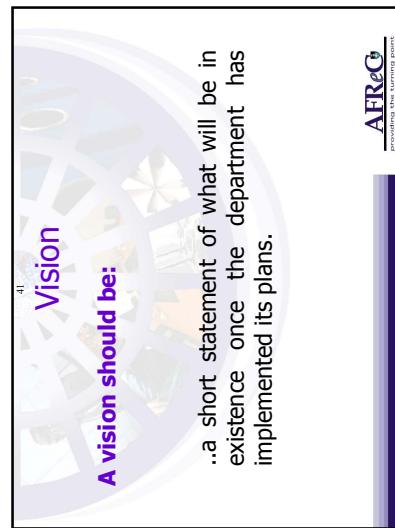
INSTITUTION	RESPONSIBLE FOR	OVERSIGHT OVER	ACCOUNTABLE TO
Parliament / NCOP	/	Oversight	Cabinet
Legislature	/	Oversight	Provincial Executives
Cabinet Provincial Executives	/	Outcomes / alternative efficiency	Ministers / MECs
Ministers/MECs	Outputs		Dept Managers / HODs
Departmental Managers / HODs	Transformation of inputs into outputs		Cabinet / Provincial Exec
			Legislature/ Parliament

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45

Mission examples

- KZN Dept. of LG & TA Mission Statement:
 - "The Department will promote PEOPLE-CENTRED, ACCOUNTABLE AND VISIBLE LOCAL GOVERNANCE THAT ACCELERATES SERVICE DELIVERY AND ENSURES SUSTAINABLE COMMUNITIES."
- DME mission
 - "To regulate and promote the minerals and energy sector for the benefit of all.

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46

EC Dept of Transport

Table 25: Strategic Objectives for programme 3: Traffic Management

STRATEGIC GOAL:
To facilitate and promote traffic safety and control through Engineering, Education and Enforcement throughout the province.

STRATEGIC OBJECTIVES:

- To promote and facilitate traffic safety by actively pursuing the 'Alive & Alive' campaign.
- To maximise traffic control and law enforcement.
- To enhance the management of the National Traffic Information System (Natis) and the Traffic Management System (Trafman).
- Ensuring road safety engineering standards on the existing and new provincial road network by undertaking road safety audits and promoting proper signage on provincial roads.

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44

Mission

A mission statement should include:-

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

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47

Strategic objectives

- More concrete and specific than strategic goals
- But not completely SMART
- Each strategic goal will have strategic objectives
- Should also focus on: service delivery, management/organisation, financial management, training and learning
- Fewer strategic objectives the better!

Why?

- Should relate to outputs of dept
- Must be achievable by the department itself
- Unintended consequences between objectives?

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43

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Strategic Goal

- Describes a future end-state – desired outcome that is supportive of the mission and vision.
- Should focus on: service delivery, management/organisation, financial management, training and learning:
 - What are links between kinds of strategic goals?
 - Should span at least 5 years.
 - Broad, may not be quantifiable.

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**Performance measurement
and management**

Activity: Strategic objectives

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

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

W/C Dept of SSPA

STRATEGIC GOAL	STRATEGIC OBJECTIVE	MEASURABLE OBJECTIVE
4. Poverty Reduction	4. To ensure that the province has a strategy to reduce poverty.	9. The poverty reduction strategy is implemented.
	5. The department has programmes in place to align to the poverty reduction strategy.	10. Integrated programme is piloted and implemented in 4 targeted areas.
	6. To facilitate strategic partnerships with other government departments and relevant stakeholders to ensure integration of plans, programmes and budgets	11. Integrated poverty reduction plans and programs are supported by no less than 3 additional departments
		12. At least 24 Municipalities of Understanding are entered into by provincial Government departments and local authorities as well as service providers.

Three components of a good objective

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

Defining objectives

"Measurable objectives" need to:

- Reflect organisational priorities,
- Be related to activities and resources,
- Adhere to **S.M.A.R.T.** principle:

Specific
Measurable
Appropriate
Realistic
Time-bound
E, and R?

Why assess Performance Measures?

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

57

It only refers to activities. It does not refer to any level of performance - and is therefore not measurable!

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

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Example Measurable Objective

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

Surely, this is an appropriate measurable objective?

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What's wrong with this MO?

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

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Change in focus

- Measurable objectives change the focus from activities to outputs and outcomes.
- For example:

From Administer polio vaccines to children under 6 years old in certain hospitals.

To To eradicate polio among children under 6 years in certain areas.

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Objectives checklist

Primary output	Is it observable? <input type="checkbox"/>
Intended impact	Can you see what impact it will have? <input type="checkbox"/>
Level of performance	Is it measurable? <input type="checkbox"/>

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Revised Objective

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

Further improvements?

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Performance Measures & Indicators

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

65

Quantity

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



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Activity: Measurable objectives

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

66

Dimensions of Performance Measures

- Quantity
- Cost
- Quality
- Timeliness



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Objectives checklist

Primary output	<input type="checkbox"/>	Is it observable?	<input type="checkbox"/>
Intended impact	<input checked="" type="checkbox"/>	reduce the failure rates of matric pupils	<input checked="" type="checkbox"/>
Level of performance	<input checked="" type="checkbox"/>	within the targeted delivery period and according to prescribed standards	<input checked="" type="checkbox"/>

67

[National Treasury Generic Format for APPs]

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

Sub Programme Strategic Objective	Measurable Objective	Performance Measure Indicator	Base 2004/05	Actual 2005/06	Budget 2006/07	Target 2007/08	Target 2008/09



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68 Timeliness

- Provide parameters for how often, or within what time-frame, outputs will be delivered.
- Measured by turnaround times, waiting or response times (deliver service yearly/quarterly).

Examples:

- Whether the brief and instructions to the Minister have been completed within the deadline;
- Proportion of case reviews conducted by due date;
- Percentage of responses answered within a given timeline;
- Children enrolled yearly.

69 Performance Measures & Indicators: Examples

- Performance measure (1)
 - Date of publication
- Performance measure (2)
 - Date audit report finalised (could also have "number of reports finalised")
 - Date on which recommendations are implemented;
 - Number of KZN Institutes delivering full range of ABET services.

66 Quality

- Reflect service standards based on customer needs and contribute to government outcomes.
- Product or service should fit intended purpose.
- Balance efficiency with effectiveness so that price is not predominant factor.

May address:

- Parent relations, quality of schooling.

Examples:

- Number of parent complaints filed;
- Minimum standards of electronic connectivity at schools;
- Minimum set of qualifications attained by teachers.

70 Performance Indicators (PIs)

- Performance Measures (PMs) relate to outputs
- Performance Indicators (PIs) measure outcomes.
- Are therefore quite difficult to assess and use because outcomes are affected by many external factors.
- PIs cover more than one programme.

Types:

- Statistical:** percentage of grade 12 graduations.
- Composite:** percentage of schools with access to water and sanitation services.
- Qualitative:** number of schools connected with DoE approved electronic and computer capabilities.
- Opinion:** percentage of citizens satisfied with service delivery.

67 Cost

- Should reflect full cost of producing an output
- Should include unit cost for each deliverable described under quantity targets

Examples

- Cost per unit of materials used;
- Average annual operating cost per learner per year;"
- Cost per ABET targeted individual served;
- Total operating expenditure.

71 Evaluating Performance Measures & Indicators

Be aware of perverse incentives!

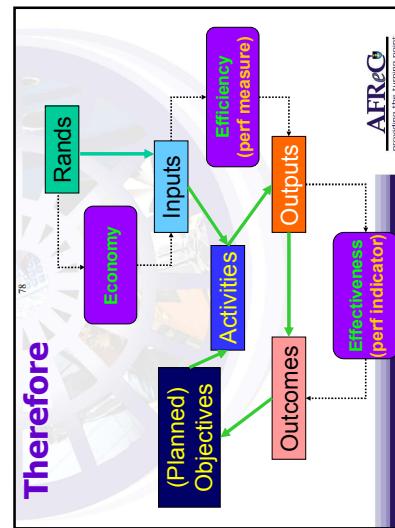
E.g. if a performance measure is the number of schools built, property developers might use cheap labour and cheap building materials in order to increase productivity levels, but in fact effectiveness and efficiency are compromised.

E.g.: "number of policies, guidelines, and legislation formulated..."

Performance Targets

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

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Evaluating Performance Targets

Key Characteristics of Targets

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

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Framework for evaluating performance

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

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PMI's: Conti....

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

Are these appropriate?

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Examples: Performance targets

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

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Activity: Performance measures

79

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

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