

CHAPTER 6. APPROACHES, TOOLS AND TECHNIQUES FOR PUBLIC FINANCIAL MANAGEMENT IN SOUTH AFRICA

6.1 INTRODUCTION

In South Africa, as on the international front, public-sector organisations came under tremendous pressure to reform. The impulse for this concern for service delivery reform stemmed directly from the first democratic elections of April 1994 and the promise made by the newly elected government of a better life for all, especially the most historically disadvantaged sectors of society. The Public Service, the principal vehicle through which this promise for a better life was to be accomplished, naturally became the centrepiece of public attention and transformation became a major policy imperative.

In terms of public financial management in South Africa, the 1994 transition in government to a democratic state brought the realisation that renewed public financial management development initiatives were required, not only to fulfil the demands of the new constitutional framework, but also as a new approach to bring about the improved substantial outcomes sought in terms of fiscal sustainability, improved alignment of spending with the new national priorities and the maximisation of existing resources towards these priorities.

The South African public revenue and expenditure management systems have undergone substantial reform since 1994. While the early reforms shaped macroeconomic stability and strengthened public spending, the more recent emphasis of reform programmes has been on efficient resource allocation and effective service delivery. This resulted in the enactment of new financial legislation, the roll-out of a new intergovernmental system, which requires all three levels of government to formulate and approve their own budgets based on a newly introduced medium term expenditure framework (MTEF) and also revised formats for budget documentation, which include a strong focus on service delivery information. In addition, changes to the budget process have allowed role players to deliberate on key policy choices and on the matching of available resources to plans.

This chapter focuses on the approaches, tools and techniques to develop, measure, evaluate, monitor and report on financial performance management in the South African financial system. The chapter analyses the current legislative frameworks and

administrative arrangements, which provide an opportunity for financial performance management to enhance service delivery, poverty reduction and the achievement of the development goals.

6.2 SERVICE DELIVERY AND THE PROVISIONING OF AN ENABLING ENVIRONMENT

As discussed in Chapter 3, the goals of the modern state are to establish a public administration organisation based on governance and stewardship that can create an enabling environment for all its citizens to enjoy a good life. Access to public services is a right enshrined in the United Nations Declaration of Human Rights, in particular Article 21(2), which states: “Everyone has the right to equal access to public service.” Whenever they are affected, reductions to public expenditure, encompassing basic services such as water, electricity, health and education, impact directly on human beings. The preamble of the Constitution of the Republic of South Africa (1996) also states, as one of its objectives, the endeavour to improve the quality of life of all citizens and free the potential of each person. Taking the cue from the sentiments espoused in the Constitution (1996), one can argue that quality should be an essential life skill that is fundamental to the success of individuals and the public sector.

6.2.1 Constitutional arrangements for financial performance management

The Constitution (1996) states unequivocally that South Africa is one sovereign democratic state. This clearly indicates that the provinces created in terms of the Constitution (1996) are indeed part and parcel of one state. The Constitution (1996) is the supreme law of the Republic and law or conduct inconsistent with it is invalid and the obligations imposed by it must be fulfilled. As the supreme legal framework, any other law passed by Parliament, a provincial legislature or a municipal council must be in accordance with the contents and spirit of the Constitution (1996). All conduct must honour the spirit of the Constitution (1996) and of particular importance for managers is the fact that all conduct inconsistent with the Constitution (1996) is invalid. Managers should, therefore, ensure that their decisions and actions are continuously evaluated against all relevant sections in the Constitution (1996).

Section 195(1) of the Constitution (1996) serves as a reference point guiding the conduct of all public officials in every sphere of government. Section 195(1) provides

the following: “Public administration must be governed by the democratic values and principles enshrined in the Constitution...” These values are listed in Section 1 of the Constitution (1996) as human dignity, the achievement of equality, the advancement of human rights and freedoms, non-racialism and non-sexism.

Section 195(1) further stipulates other principles that should inform public service delivery. The most important are the following:

- 1) the maintenance and promotion of a high standard of professional ethics;
- 2) the efficient, economic and effective use of resources;
- 3) a development-orientated public administration;
- 4) services must be provided impartially, fairly, equitably and without bias; people’s needs must be responded to and the public must be encouraged to participate in policy-making;
- 5) transparency must be fostered by providing the public with timely, accessible and accurate information; and
- 6) public administration must be accountable.

Section 197 further requires that the Public Service must loyally execute the lawful policies of the Government.

Important financial aspects governing financial management are clearly stipulated in various sections in the Constitution (1996). Based on constitutional specifications there is one National Revenue Fund into which all money received, must be paid, except if excluded by an Act of Parliament and money may only be withdrawn from the National Revenue Fund in terms of an Appropriation Act (the Budget), or as a direct charge if provided for in the Constitution (1996) or an Act of Parliament. National, provincial and municipal budgets must promote transparency, accountability and the effective management of the economy, debt and the public sector.

The Constitution (1996) states that national legislation must establish a national treasury to ensure uniform financial practices, standards and norms on aspects such as the transfer of funds, contracts for goods and services, loans and guarantees. Other aspects relate to an independent commission on the remuneration of political office holders, the Financial and Fiscal Commission (FFC) on the equitable shares of the spheres of government, and the South African Reserve Bank as the central bank

of South Africa with its primary objective to protect the value of the currency in the interest of economic growth. The Constitution (1996) makes provision for provincial revenue funds, equitable shares of revenue for provinces and local governments, other conditional or unconditional allocations from the National Government, additional revenue raised by provinces and municipalities, and the arrangements on the enactment of provincial and local taxes. Also derived from the Constitution (1996) is the stipulation that the National Government must assist and empower all provinces to develop the administrative capacity to perform their functions (Constitution, 1996).

6.2.2 White Paper on Transforming Public Service Delivery (Batho Pele White Paper)

In line with the constitutional principles highlighted above, the White Paper on Transforming Public Service Delivery (Notice 1459/1997) has as its principal aim the transformation of the South African Public Service into a coherent, representative, competent and democratic instrument for executing government policies and meeting the needs of the people.

The White Paper on Transforming Public Service Delivery (Notice 1459/1997) asserts that it is vital that the transformation process be guided by a clear, comprehensive and commonly accepted vision of the fundamental principles to guide the composition and functioning of the Public Service. These principles represent a collective vision for public service transformation and provide that the Public Service needs to be, inter alia:

- 1) committed to the provision of high quality services to all South Africans in an unbiased and impartial manner;
- 2) responsive to the needs of the public;
- 3) representative of all sections and levels of South African society;
- 4) democratic in its internal procedures and in its relations with the public;
- 5) accessible, informative, accountable and open to public scrutiny; and
- 6) efficient, effective and productive.

To give effect to these broad principles, the White Paper on Transforming Public Service Delivery (Notice 1459/1997) requires national and provincial departments to make service delivery a priority. Chapter II of the White Paper on Transforming

Public Service Delivery (Notice 1459/1997) requires national and provincial departments to identify, among other things, the following:

- 1) a mission statement for service delivery, together with service guarantees;
- 2) the services to be provided, to which groups and at which service charges;
- 3) in tune with RDP priorities, the principles of affordability and the principle of redirecting resources to areas and groups previously under-resourced;
- 4) service standards, defined outputs and targets and performance indicators, benchmarked against comparable international standards;
- 5) monitoring and evaluation mechanisms and structures, designed to measure progress and introduce corrective action, where appropriate;
- 6) plans for staffing, human resource development and organisational capacity building, tailored to service delivery needs;
- 7) the redirection of human and other resources from administrative tasks to service delivery, particularly for disadvantaged groups and areas;
- 8) financial plans that link budgets directly to service needs and personnel plans;
and
- 9) potential partnerships with the private sector, non-governmental organisations (NGOs) and community-based organisations (CBOs), which will provide more effective forms of service delivery.

The emphasis of a flexible framework is on putting people first in respect of public service delivery and calls for a shift away from inward-looking bureaucratic systems and attitudes towards a search for new ways of working which put the needs of the public first. Thus, a fundamental shift of culture needs to take place whereby public institutions are managed with service to the public as the primary goal. The framework consists of eight principles, derived from the policy goals set out in the White Paper on Transforming Public Service Delivery (Notice 1459/1997). These are consultation, service standards, access, courtesy, information, openness and transparency, responsiveness, and value for money. The principles are broad enough to embrace every public service, yet specific enough to ensure that tangible benefits will result from their application (White Paper on Transforming Public Service Delivery, Notice 1459/1997:15).

6.2.3 Public Service Regulations (Government Notice No. R.1 of 5 January 2001 as amended)

Since 2001, the new Public Service Regulations entail an integrated framework designed to promote effective performance. This framework allows departments to find creative, more efficient and effective ways of achieving policy goals. It facilitates the best route and enables departments to use learning effectively to change strategies. Part IV of the Public Service Regulations (Public Service Regulations, Government Notice No. R.1 of 5 January 2001 as amended) provides an outline for the management of performance.

In terms of Section C of Part III of the Public Service Regulations (Regulation 679 of 1999), executive authorities in the Public Service are required to establish and sustain service delivery improvement programmes for their departments. It would be irresponsible for any government to expect efficiency and effectiveness in the Public Service to occur incidentally. A deliberate attempt to promote these qualities is thus necessary. It appears, according to Masango (2000:66), that a performance management system, which is specifically geared towards excellence in service delivery, is one suitable mechanism in pursuit of the realisation of this objective. For instance, in terms of Section A of Part VIII of the Public Service Regulations (Public Service Regulations, Government Notice No. R.1 of 5 January 2001 as amended), state departments should enhance result-orientated organisational efficiency and effectiveness, as well as accountability for the use of resources. Performance management should be established in the Public Service. Performance management programmes should be directed towards ensuring that more and better services are delivered at the lowest possible cost. The ever-increasing public needs and demands, as well as the limited available resources, require that the status quo should not be perceived as adequate. Subsequently, more and better services should be produced with these scarce resources. Performance management is therefore necessary in order to improve productivity both quantitatively and qualitatively (Masango, 2000:66).

Performance management is seen as an integrated framework of systems and processes for the following (Masango, 2000:66):

- 1) aligning strategic intentions, decisions and activities across and in public service organisations;

- 2) aligning the organisation and management framework of individual departments towards achieving improved effectiveness, and for assessing its effectiveness both in terms of specific results and outputs and the impact of these on the lives of citizens (outcomes); and
- 3) aligning all those human resource processes, systems and practices designed to recruit, retain, support and develop individual staff and set them up to succeed.

Performance management is further regarded as a means, not an end. Its success will be assessed in terms of whether it contributes to creating the conditions for effective performance and finally, in terms of its contribution to overall effectiveness of outcomes. It is a process through which service delivery organisations can continuously clarify both what their goals are and should be, but also experiment and learn about the best ways of organising and managing to achieve these goals. The overall purpose of adopting new systems for performance management and development is to ensure the continuous improvement of the capacity of the public service to develop and implement policy in the public interest; and to provide mechanisms or assessing, reviewing and accounting for what is actually achieved.

6.2.4 Effective service delivery as the ultimate aim of performance management

Since 1994, the public sector has performed reasonably well in implementing government programmes and initiatives. Access to public services has improved, particularly the quality of life in those areas neglected under apartheid. However, it should be acknowledged that the state has not performed optimally in relation to public expectations. Quality and service standards have not always improved, despite massive increases in successive budgets. In some areas, service quality and standards have deteriorated. The pattern of poor quality outcomes despite large growth in real expenditure illustrated in the health and education sectors, which together make up 30% of government expenditure, is unfortunately repeated in some other delivery areas (The Presidency, Improving Government Performance: Our Approach, 2009: 3)

Based on the Empowerdex Service Delivery Index (Citydex) compiled from data sourced from Statistics South Africa, a comparison was made between the results of a community survey in 2007 and the results from the 2001 National Census (See

tables 6.1 and 6.2). Part of this measurement was based on the performance of municipalities, district councils, metropolitan municipalities and provinces on actual delivery (status index) as well as improvements in delivery over a period of time (the improvement index). The inclusion of an improvement index allows for the recognition of previously disadvantaged municipalities that have made improvements over the assessment period. The national average score for service delivery across the five key indicators based on the provisioning of five basic services, housing, water, electricity, waste removal and sanitation was 59.77 percent. The five service delivery elements were equally weighted at a maximum of 20 points consisting of 10 points for current status and 10 points for improvement over time (Empowerdex Service Delivery Index (Citydex), 2009:23).

Table 6.1: Overall final scores

Overall final scores (weighted for increase/decrease in households)		
1	Western Cape	68.50
2	Gauteng	68.10
3	Free State	62.80
4	Northern Cape	62.40
5	Mpumalanga	59.40
6	North West	56.40
7	KwaZulu-Natal	52.50
8	Eastern Cape	47.90
9	Limpopo	46.90

Source: Empowerdex Service Delivery Index (Citydex) 2009 (Economic Empowerment Agency) Johannesburg: City of Johannesburg. page 23.

Table 6.2: Status index and improvement Index

Status Index			Improvement Index	
1	Gauteng 83.10	83.10	Free State	52.30
2	Western Cape 82.60	82.60	Northern Cape	50.80
3	Northern Cape 78.10	78.10	North West	50.50
4	Free State 75.40	75.40	Mpumalanga	50.00
5	Mpumalanga 60.70	60.70	Kwazulu-Natal	49.50
6	North West 62.20	62.20	Limpopo	49.40
7	Kwazulu-Natal 61.40	61.40	Eastern Cape	49.20
8	Eastern Cape 50.60	50.60	Western Cape	48.40
9	Limpopo 46.80	46.80	Gauteng	47.40

Source: Empowerdex Service Delivery Index (Citydex) 2009 (Economic Empowerment Agency) Johannesburg: City of Johannesburg. page 23.

The status index is based on the current proportion of households that have access to a particular service. The improvement index is based on the percentage change of households with access to a particular service. Scores are calculated based on improvements compared with the percentage increase nationally. Overall, the Western Cape and Gauteng offer the best service delivery. Both provinces scored low on the improvement index because they were measured off a high base. Limpopo is the province with the worst service delivery, both in terms of the current status index and the weighted score. When assessing the improvement index, there was no major difference in improvements made to service delivery across the provinces (Empowerdex Service Delivery Index (Citydex), 2009:23).

The transition to democracy fostered hope for a society where all citizens would have the opportunity to realise their full intellectual, physical, social and spiritual potential. This vision was captured in the Constitution (1996) which spells out each citizen's entitlement to adequate housing, basic education, healthcare, food and water and social security. Although the rights are to be realised progressively over time within the available resources, the gap between vision and reality remains large.

Since the late nineties, for more than a decade, tax revenues increased as a result of economic growth and tax collection efficiencies. This creates the opportunity to finance massive increases in social services and social grants, while maintaining a prudent fiscal stance with low deficits. However, South Africa has not been exempt from the effects of the global recession and in the medium term service delivery organisations will face declining tax revenues and burgeoning expenditure pressures. In this context, the pursuit of value for money is imperative for the improvement of service delivery standards and service delivery organisations are compelled to do more with less. Wasteful and unproductive expenditure and corruption cannot be afforded. This process requires a commitment to convert the available inputs into those important outputs aligned with the unit cost of the provided services. Ensuring that the outputs deliver the outcomes that have been politically chosen, is a measure on whether government is being effective. Political executives have the responsibility of ensuring appropriate outcomes, and the Public Service has the responsibility for the outputs. This calls for a radical change in the service delivery approach guided by international imperatives such as the need for prioritisation, outcomes-based planning and financial performance management learnt from international experience (Luyt, 2008:7).

6.3 VALUE FOR MONEY IN SERVICE DELIVERY: A CONCEPTUAL FRAMEWORK

Changes to the current service delivery approach involve general governmental fiscal arrangements, however, these changes also covers the full spectrum of social, economic and political dimensions. This approach is based on the assumption that the fiscal activities of government are a reflection and culmination of the dynamic interaction between all these environmental dimensions within a particular time frame (Visser & Erasmus, 2002:1).

Management consists of various principles and aspects, of which financial management forms the basis of performance against objectives in terms of the available resources. *Financial management* in the public sector is defined as, all decisions and activities of management, as guided by a chief financial officer, which impact on the control and utilisation of limited financial resources entrusted to achieve specified and agreed strategic outputs (IDWG, 1995:3). The aim of financial management in the public sector is to manage limited financial resources with the purpose to ensure economy and efficiency in the delivery of outputs required to achieve desired outcomes (effectiveness), which will serve the needs of the community (appropriateness) (Visser & Erasmus, 2002:9).

It can be accepted that financial management in the public sector consists of all the decision-making and other functional activities to ensure the optimum utilization of scarce resources to achieve political goals effectively. As discussed in Chapter 5, the three main objectives of a sound public financial management system is aggregate fiscal discipline whereby a realistic sustainable budget is imperative, strategic allocation of resources and allocative efficiency by doing the right things and not merely doing things right and the efficient delivery of services.

Financial management ranges from daily cash management to the formulation of long-term financial objectives, policies and strategies in support of the strategic and operational plans of government organisations. Financial management includes the planning and control of capital expenditure, working capital management, interaction with the relevant treasury, funding and performance decisions. Financial management supervises the supporting financial and management accounting functions, which are predominately concerned with the collection, processing and provision of financial information and the planning, operation and control of the

supporting financial information systems. Financial management in any organisation consists of a number of processes. Table 6.3 sets out the framework and processes that relate to the South African public-sector environment (Inter-Departmental Working Group [IDWG], Framework for normative measures for financial management in the public sector. Report by the Inter-Departmental Working Group. Department of State Expenditure, 1995:3).

Table 6.3: Public financial management processes in South Africa

Process	Description
Strategic planning	A plan formulated which deals with the main outcomes that will be focused on. It includes high-level output objectives, performance measures
Budgeting	Determining the income and expenditure required to make the strategic plans a reality
Safeguarding	Implementing controls to ensure that the all the assets such as money, motor vehicles, computers and equipment are safeguarded against improper use, loss or theft
Monitoring	Monitoring actual results and performance against the budget through management reporting
Accountability	Reporting to all stakeholders by preparing financial statements, which are audited by the Auditor-General.

Source: Inter-Departmental Working Group [IDWG]. 1995. Framework for normative measures for financial management in the public sector. Report by the Inter-Departmental Working Group. Department of State Expenditure. page 3.

The public sector needs a clear management framework within which service delivery should happen to ensure value for money. In South Africa's public management framework performance management and budgeting should be integrated and linked to both strategic planning and actual service delivery. Actual performance should be independently and objectively evaluated against plans and reported for continuous improvement (Inter-Departmental Working Group [IDWG], Framework for normative measures for financial management in the public sector. Report by the Inter-Departmental Working Group. Department of State Expenditure, 1995:3).

Strategic plans detail the vision, mission, outcomes and objectives that a particular department would like to achieve over a given period of time. Plans also include information about the mix of outputs to be produced and information about timeliness, quantity and quality. Strategic plans usually cover more than one year of operations. The first year in the strategic plan is usually an operational plan, which details the operations for the coming financial year. For each of the activities, detailed roles and responsibilities are assigned. A detailed definition of inputs to achieve outputs and outcomes should also be provided in the operational plan. This includes human resources, information technology, information resources and physical resources such as building or office space. The information on activities, measures and target levels of performance is then used to draw up performance contracts for each of the officials in the organisation (Public Service Commission, State of the Public Service Report, The state of readiness of the public service for 2010 and beyond, 2009:10).

Budgeting is concerned with the linking of plans with resources used in service delivery to produce planned outputs for the achievement of long-term outcomes or objectives. Performance management involves the definition of performance targets and measures (indicators) against which actual performance is assessed. It is seen as far more than performance appraisal. It is linked to a broader set of systems designed to ensure integration and strategic alignment across the Public Service. These broader systems should facilitate the mutual reinforcement of decision and activity across sectors, functions and levels of the Public Service to ensure each effectively contributes to public outcomes. This will be achieved, however, not through uniformity and control over how one organises and, therefore, the imposition of a prescribed system, but by insisting on us taking the responsibility to organise in ways that will lead to effective public outcomes (Public Service Commission, State of the Public Service Report, The state of readiness of the public service for 2010 and beyond, 2009:10).

For a strategic plan to be a sound basis for a budget, it must have detailed the organisational structure. For each of the programmes, objectives need to be defined and aligned with organisation-wide objectives and policies. A budget for the programme has to be specified to show how the financial resources available to implement the programme will be utilised. Objectives must be measurable in order to facilitate performance assessments. That is, each of the objectives must have effectiveness indicators expressed in terms of timeliness indicators, quality indicators

(standards) and levels of service. It is also important to define qualitative indicators, although defining such indicators is often difficult.

Providing the information detailed above ensures that unit costs of producing outputs are known and embedded in budget estimates. It is also important to recognise that not all costs can be described at a unit level, which often contributes to unanticipated expenditures. Unit costs help legislatures approve budgets because they then know what public funds are to be spent on. A standardised budgeting format has been introduced and is widely used. Budgets are prepared based on the medium-term expenditure framework, which provides information on the budgetary implications of current and future programmes two years in advance. At national level, estimates of national expenditure provide information on objectives, policy and outputs. This is a major step towards integrating budgets with policy priorities. Provinces are not all as clear in their statements of planned expenditure. The variable quality of provincial expenditure plans could be resolved through a dedicated budgeting improvement programme (Public Service Commission, State of the Public Service Report, The state of readiness of the public service for 2010 and beyond, 2009:11).

6.4 LAW AND POLICY REGULATING PUBLIC FINANCIAL MANAGEMENT

The South African Government commenced with major financial management and budget reforms through the introduction of the medium-term expenditure framework (MTEF) in 1998, which was aimed at advancing and promoting growth and development. Legislation that was subsequently developed governing public financial management in the South African public service includes the following: The Public Finance Management Act (PFMA) (1/1999), as amended by Act 29 of 1999, and for local government there is the Municipal Finance Management Act (56/2003) (MFMA) and the Municipal Systems Act (32/2000), as well as the Municipal Systems Amendment Act (44/2003). Other Acts are the Preferential Procurement Policy Framework Act (5/2000), the Broad-Based Black Economic Empowerment Act (53/2003), the Division of Revenue Act (DoRA), which is passed by Parliament annually, the Appropriation Act, which is also passed annually and makes provision for the withdrawing of money from the National Revenue Fund in terms of the appropriation done by an Act of Parliament, the Intergovernmental Relations Framework Act (13/2005), the Public Audit Act (25/2004) and the Taxation Laws and Revenue Laws.

From the above discussion, the following are the most important pieces of legislation that drive public financial management in the South African context.

6.4.1 Public Finance Management Act (1/1999)

The Public Finance Management Act (1/1999), as amended by Act 29 of 1999, gives effect to section 216 and other sections of the Constitution. The PFMA (1/1999) applies to the national and provincial spheres and public entities under their ownership and control. Parliament, provincial legislatures and independent institutions established by the Constitution (1996) are also covered in this Act. The Municipal Finance Management Act (56/2003), covers the local government. The aim of the PFMA (1/1999) is to modernise the system of financial management in the public sector and the key objectives are to enable public sector management to manage and to be more accountable, to ensure the timely provision of quality information and to eliminate waste and corruption in the use of public assets.

The purpose of the PFMA (1/1999) is therefore to regulate financial management, to ensure that all revenue, expenditure, assets and liabilities are managed efficiently and effectively, to stipulate the responsibilities of persons entrusted with financial management; and to provide for other matters relating to financial management. In South Africa, the PFMA (1/1999) is one of the most important pieces of legislation and promotes the objective of good financial management in order to maximise delivery through the efficient and effective use of limited resources. As financial accountability was undermined by different pieces of legislation that applied for different entities, the PFMA (1/1999) replaces the various national and provincial Exchequer Acts, which was regulating financial management with a narrow focus on expenditure control. The PFMA (1/1999) adopts an approach to financial management, which focuses on outputs and outcomes, rather than the rule-driven approach of the past. The Act is part of a broader strategy of improving financial management in the public sector.

The PFMA assumes that the political head of a department (Cabinet Minister or a provincial MEC) is responsible for policy matters and outcomes; this includes seeking parliamentary (or provincial legislature) approval and adoption of the department's budget vote. The administrative head (director-general of a national department or head of department of a provincial department) is responsible for outputs and implementation, and is accountable to Parliament or provincial legislature for the

management of the implementation of that budget. Other officials, including all line function managers, are responsible for ensuring that functions are executed in such a way that they comply with the prescripts of the PFMA (1/1999), to protect the accounting officer. This approach is in line with the approach of the Public Service Regulations, which rely on a performance-driven system based on measurable outputs (National Treasury, Guide for Accounting Officers, 2000:2-5).

6.4.2 Treasury Regulations

The Constitution (1996) (Chapter 13) confers extensive powers on the National Government to determine the financial management framework over all organs of state, in all spheres of government. The National Government must, through national legislation, determine uniform treasury norms and standards. The National Department of Finance and the National Treasury as government's executive structures for financial and fiscal matters are responsible for managing South Africa's national government finances and are expected to monitor and enforce these norms. The National Treasury, therefore, not only implements the budget of the National Government, but also plays a financial oversight role over other organs of state in all spheres of government. The PFMA makes provision for the establishment of provincial treasuries, which are responsible for preparing and managing provincial budgets, and enforcing uniform treasury norms and standards as prescribed by the National Treasury and the PFMA (1/1999).

The National Treasury is mandated to promote the Government's fiscal policy framework to co-ordinate macroeconomic policy and intergovernmental financial relations, to manage the budget preparation process, to facilitate the Division of Revenue Act, which provides for an equitable distribution of nationally raised revenue between national, provincial and local government and to monitor the implementation of provincial budgets.

In terms of Section 76 of the PFMA, the National Treasury issues and periodically updates Treasury Regulations. These regulations establish generally recognised accounting practices. The uniform norms and standards required by the Constitution (1996) have been established by the National Treasury and the Accounting Standards Board establishes accounting standards.

In terms of the PFMA, the National Treasury can make regulations that are extensions of the Act, for the management and control of certain financial aspects. The regulations must be published for public comment in the national Government Gazette, before their enactment. The National Treasury must make regulations, among others, concerning any matters relating to the PFMA (1/1999), the recovery of losses and damages, the management of trust money and property, and the rendering of free services. The regulations also stipulate the arrangements for the writing off of state money, assets and amounts owed to the state, the procedures, for the recovery of losses and damages, the cancellation or variation of contracts to the detriment of the state, the handling of claims, payments as an act of grace, asset management and arrangements concerning gifts and donations by or to the state.

6.5 MANAGEMENT IMPLICATIONS OF RESPONSIBILITY AND ACCOUNTABILITY FOR FINANCIAL PERFORMANCE MANAGEMENT

As already mentioned in Chapter 2, accountability is a key requirement of good governance. To be accountable in general terms means to give reasons for and explanations of what one does (Normanton, 1966:1). This implies that an explanation should be provided, that a reckoning should be given, of the manner in which a specific function or assignment has been carried out. One could therefore argue that the most significant characteristic of accountability is the requirement that an explanation should be provided, i.e. reasons have to be given for an action, inaction or even insufficient action. In order to obtain clarity on the important term of *accountability* it should be defined as (Normanton, 1966:1) “ ... public accountability (consists) in a statutory obligation to provide for independent and impartial observers holding the right of reporting their findings at the highest levels in the State, any available information about financial administration which they may request”. It could be deduced from the above-mentioned that accountability concerns a statutory obligation to provide reasons for actions (mostly resulting in the expenditure of public funds). It also implies that the reasons requested have to be provided.

To *be responsible* means (Concise Oxford Dictionary) “to be liable to be called to account or to be the primary cause for something that has happened”. Stated in simplified terms, it implies that someone could be called to give reasons for a specific action or inaction. The following two references from the Constitution (1996) provide clarity: Section 92(1): “The Deputy President and Ministers are responsible for the powers and functions of the executive assigned to them by the President”, and

Section 92(2): “Members of the Cabinet are accountable collectively and individually to Parliament for the exercise of their powers and the performance of their functions”. In a similar manner, Section 84(2) states unequivocally that the President is responsible for *inter alia*, the assenting to and signing of Bills, making specific appointments, summoning the National Assembly, the National Council of Provinces or Parliament to an extraordinary sitting.

Combining the two terms, one could state that someone is responsible for carrying out a specific action or assignment. Thereafter, such a person could be required to provide reasons for any success or failure, i.e. may be held accountable, for example the personnel officer is responsible for sending a letter of appointment to a successful candidate for a particular post. If a delay occurs in sending the letter, the personnel officer could be called to account, i.e. has to provide reasons for the failure to give effect to the instruction (Gildenhuys, 1997:157).

6.5.1 Accounting officers

Placed centrally within the public financial management framework and related financial processes is the administrative head of service delivery organisations, also referred to as the accounting officer. The PFMA, the Treasury Regulations and other legislation confer specific key responsibilities on accounting officers and clarify the division of responsibilities between the administrative head (the accounting officer) and the political head (executive authority). The executive authority is responsible for policy choices and outcomes, while the accounting officer implements the policy and achieves the outcomes by taking responsibility for delivering the outputs defined in the departmental budget. In this way, accounting officers are empowered by unambiguously conferring on them a clear set of responsibilities. The accounting officer prepares the departmental budget (specified in terms of measurable objectives) for the executive authority to approve and present to the legislature for approval.

The functions of an accounting officer can be divided into the preparation and submission of the department’s draft budget to the relevant treasury and the execution of the approved departmental budget. Accounting officers are responsible for the operation of basic financial management systems, including internal controls in departments and any entities they control. They must implement measures to ensure that departments do not overspend their budgets and are responsible for

regular financial reporting according to prescribed time frames. Accounting Officers are to publish annual reports in a prescribed format including performance reporting. In terms of the modernised approach of financial management in the public sector in order to enhance financial performance and to maximise the capacity to deliver services, the PFMA enables accounting officers to manage but, at the same time, holds them accountable for the resources they use (Visser & Erasmus, 2002:41).

6.5.2 Capacity for financial performance management

Derived from the findings in Chapter 2, good governance is about performance and conformance in the way public servants take decisions and implement policies. The concept of *governance* underlines the need for a shift from traditional and rigid public administration practices and procedures to alignment with possible ‘best practices’ in an environment characterised by political oversight.

6.5.2.1 Public financial management transformation

Based on statutory arrangements prior to 1994, the first six years of South Africa’s new democracy were characterised by centrally prescribed bureaucratic rules and specifically by strictly controlled public financial processes, which allowed little scope for managerial discretion. Mundane issues had to be referred for “Treasury approval”, regulating how money was used to “buy” inputs, and diverting attention from the delivery of the outputs that the inputs were intended to achieve. This approach did not clearly define responsibilities, and resulted in poor accountability and value for money.

Since 1999 and in order to maximise the capacity of public service organisations for effective service delivery, Hood’s (2007:11) doctrine of “hands-on professional management in the public sector” (Chapter 2) became evident in the approach of allowing accounting officers to manage but, at the same time, holding them accountable for the resources they use. In terms of this approach, clear lines of accountability were established supported by broad frameworks of best practices, which managers can adopt or, where necessary, adapt with a greater emphasis placed on output controls. Table 6.4 is an exposition of the key areas of public financial management transformation in public service organisations (National Treasury, Guide for Accounting Officers, 2000:6).

Table 6.4: Public financial management transformation in South Africa

Arrangements prior to 1999	Arrangements after 1999
<ul style="list-style-type: none"> • Stable and balanced demand for services vs limited resources • Centralised budgeting • One-year incremental budgeting system • Budget policy separation 	<ul style="list-style-type: none"> • Unstable and imbalanced demand for services vs limited resources • Decentralised budgeting • Multi-year budgeting - medium-term expenditure framework (MTEF) • Budget policy alignment • Empowering managers • Enhancing accountability • Linking planning and budgeting • Service delivery indicators • Performance budgeting

Source: Adapted from National Treasury, *Guide for Accounting Officers*, Public Finance Management Act, October 2000, page 1-4.

As part of the mentioned public financial management reforms, various public financial management training interventions and development initiatives with the support of external donor organisations were launched in the South African Public Service.

The Financial Management Improvement Programme II, sponsored by the European Commission with €7.95 million was implemented to raise the SA Government's financial management performance and to strengthen the finance management capacities at national, provincial and municipal level through supporting the implementation of the PFMA (1/1999) and the MFMA (56/2003) and from there initiate the professionalisation and capacity building process in all governmental financial units. As such, a high emphasis is placed on the strengthening of operational capacity at municipal and provincial governments' public financial management abilities. This will mainly be achieved through capacity building interventions and creating institutional mechanisms to sustain these interventions. The programme is intended to contribute to the improved performance by the National Treasury, to improve the performance of selected provinces in terms of especially monitoring and supporting municipalities in their quest for high standards of financial management and to deliver a road map for future interventions to improve public financial management at provincial and municipal level.

The Municipal Finance Management Technical Assistance Programme (MFMTAP) sponsored by the International Bank for Reconstruction and Development and the World Bank, started in the 2005 MTEF cycle for three years, focused on the provision of technical assistance in implementing municipal financial management reforms in terms of the Local Government Financial Management Grants. Through the programme, about 30 advisors were placed in municipalities for a period of two years. Additionally, roving advisors were allocated to five provincial treasuries to assist provinces in performing their role in respect of the MFMA (56/2003). The World Bank country office supports the Government in the management of the emerging municipal bond market, the establishment of the Municipal Financial Recovery Service, an analysis of local government pension funds, and the strengthening of the Government's oversight role in municipal public-private partnerships.

The Consolidated Municipal Transformation Programme (CMTP) sponsored by the United Kingdom's Department for International Development (UK DFID) is a five-year (£11 million) programme funded in terms of a bilateral agreement between the United Kingdom's DFID and the South African Government. The programme is aimed at making a real difference in eight municipalities in three South African provinces, namely Limpopo, KwaZulu-Natal and the Eastern Cape. The purpose of the CMTP is to support the emergence of municipalities that offer democratic participation and wider, affordable and financially sustainable service delivery. Simply put, this translates into support for the development of a well-structured, informed local municipality, which complies with the legislation, encourages citizen participation and ensures that interventions reflect citizens' needs and priorities. The programme funds integrated service facilitators, many with an international background, along with financial advisors appointed by the National Treasury in the municipalities to assist in key areas. The programme also funds activities in the areas of municipal journalism, anti-corruption and HIV/Aids.

The Local Governance and Development Programme of the German Technical Corporation (GTZ) implements various public financial management reform initiatives aimed at strengthening local government programmes, the enhancement of business development services and local economic development, and facilitation of municipal finance management capacity programmes. With the support of USAID, the Housing and Municipal Services Programme focuses on South Africa's efforts to rollout a new municipal budget process to 175 municipalities through technical assistance in capital investment planning, improved budget information management, monitoring

and training. The Democracy and Governance Programme facilitated anti-corruption reforms during 2006. USAID also funded operations of the Department of Justice’s forensic audit unit to prosecute embezzlement, training of corruption prosecutors and establishing two commercial crime courts. Future plans are to assist municipalities to institute transparent hiring, procurement and complaint resolution systems.

Although various programmes were initiated to strengthen operational capacity and to enhance public financial management abilities, research has shown that public service organisations still fail to deliver the goods and services required to accelerate economic growth, reduce poverty and inequality and improve the lives of all South Africans. It is also evident that the main problem is not necessarily due to inadequate funds, but it is about the changing role of operational managers in terms of the alignment of strategic and operational plans with financial management best practices (see table 6.5).

Table 6.5: The changing role of operational and financial managers

	Financial manager	Operational manager
Accountability	Provide financial information that assists the operational manager with the implementation of policies	Manage objectives and activities that lead to the institution’s outputs and the effective, efficient and economical achievement of objectives
Costing	Promote costing systems and skills in order to support the operational manager in this regard	Is responsible for key decisions that relate to costing, such as the type and quality of services to be provided
Monitoring and evaluation	Support operational managers in monitoring & evaluating expenditure in relation to budgets and objectives	Monitor and evaluate expenditure in relation to budgets and objectives; monitor and interpret output and outcomes of service delivery
Revenue and expenditure	Link revenue and expenditure to programme objectives and overall output of institution	Take corrective management decisions where financial information reveals possible deviation in expenditure projections and plans
Cash flow	Manage and monitor cash and procurement	Provide information on cash flow implications of programme and projects
Reports	Prepare monthly and annual reports for all of the above	Prepare monthly and annual reports for all of the above

Source: Adapted from South Africa. National Treasury. 2000. *Guide for accounting officers*, National Treasury: Pretoria. page 3-9.

Successful integration of strategic and operational plans and budgets requires that operational or line managers be held accountable for the inputs that are allocated to resource their strategic plans. Better budgeting, in terms of the PFMA (1/1999), extends accountability not only to expenditure of inputs, but more importantly, to the efficient and effective achievement of outputs in line with strategic priorities. *Let managers manage* therefore entails considerable changes to the customary functions and responsibilities of public sector financial and operational managers as illustrated in Table 6.5.

According to Plant (2006:5), strategic and operational planning characterised by a top-down process in service delivery organisations has to align with the day-to-day operations and with the performance management and development system. The Senior Management Service members' performance agreements must be linked to the strategic plan and the budget of a service delivery organisation, therefore the setting of the key responsibilities and output targets should be derived directly from the required outputs of the organisation's strategic plan. The Senior Management Service members are responsible for tactical level management in service delivery organisations and are also known as programme managers (Public Service Senior Management Handbook. 2003:Chapter 4, Section 7).

6.5.2.2 Tactical level programme management capacity

Programme management is the process of managing several related activities with the intention of improving the performance of service delivery organisations. Programme management also emphasises the co-ordinating and prioritising of resources across activities, managing links between the activities and the overall costs and risks of the programme. At tactical level, programme management provides a layer above the management of activities at operational level and support a higher-level vision, goals and objectives at strategic level (See Figure 6.1) (Minnaar, 2010:38).

Programme managers are non-financial senior executive managers (deputy directors-general), who are appointed by the accounting officer for the effective and orderly management and administration of line and staff functions in government organisations. According to Visser & Erasmus (2002:43), programme managers

assume responsibility for programmes and are the critical link between the strategic level of the organisation and the operational level dealing with the execution of activities. Minnaar (2010:38) refers to programme managers as senior managers who operate at the tactical level as the first level of implementation with the operational level as the second level of implementation.

Figure 6.1: Planning levels



Source: Adapted from Minnaar, F. 2010. *Strategic and performance management in the public sector*. Pretoria: Van Schaik. page 38.

Programme managers are accountable to the Departmental Budget Advisory Committee, under the chairmanship of the accounting officer, for the success of their programmes. The budget advisory committee provides budgeting advice within and for the government organisation. This committee allows for inputs and participation from programme managers, programme co-ordinators, the chief financial officer (CFO), budget managers and departmental accountants. The budget advisory committee is the critical link between the strategic, tactical and operational level of the organisation in order to ensure optimal financial performance and strategic alignment as a prerequisite for effective performance budgeting (Visser & Erasmus, 2002:42).

6.5.2.3 Operational level responsibility managers

Responsibility managers function at the operational level below that of programme managers and head the different functional entities within a programme. They are fully qualified line and staff functionaries who have the responsibility to administer human and physical resources in the most economic, efficient and effective way, enabling these functional entities to deliver the best possible services or products to the public (National Treasury, Guide for Accounting Officers, 2000:6).

The tasks of responsibility managers can be divided into functional and financial categories. Functionally, responsibility managers have to plan and manage the physical execution of the duties of their functional entities. Financially, as illustrated in Table 6.6, responsibility managers have to administer and manage the resources allocated to them in such a way that their functional entities deliver the best possible service or product at the lowest cost. The different tasks in terms of the financial function consist of the compilation of estimates of expected expenditure, compliance to financial policy and procedures to be followed by their functional entities in accordance with relevant financial regulations in collaboration with the programme manager and financial managers. Responsibility managers incur expenses in order to accomplish the functions of the department and control functional budgets in coordination with the budget advisory committee, which include the monthly evaluation and control of expenditure. Responsibility managers must initiate suitable remedial actions to adjust the actual expenditure trends to the planned estimates, and they manage and exercise control over state property, human resources, documentation, evidence, accounting records, cash and income (Visser & Erasmus, 2002:41).

The success of financial performance management in government organisations depends to a large extent on the appointment of highly trained and competent responsibility managers. These officials are the backbone of the functional management and administration of resources, which enables government organisations to attain their determined goals and objectives (Minnaar, 2010:38).

6.5.2.4 Performance-based budgeting

In the case of the Government, the budget is a financial plan, and it is expected that accountability is provided in a political system, consisting of Parliament and other

oversight authorities such as the Office of the Auditor-General (Lee & Johnson, 1977:10). Budgeting often demands the making of policy choices driven by the insufficiency of funding. Funds are always in short supply and, therefore, finances have to be carefully managed to maximise efficiency and effectiveness. The focus is on the goods and services to be delivered rather than merely calculating and concentrating on the input costs (Walker & Mengistu, 1999:30).

Since the 1960s, the planning, programming and budgeting system (PPBS) has been used. The planning, programming and budgeting system according to Golembiowski & Robin (1997:490) is elaborated as: "a rational decision-making technique which may be used to make more systematic decisions, given a set of objectives and the information at hand". In the planning, programming and budgeting system, the emphasis is on the long-term outcomes rather than the short-term activity-based benefits. It is a process by which objectives and resources are combined to achieve a cohesive programme of action of government (Golembiowski & Robin 1997:491). PPBS budgeting gives due consideration to the pursuit and achievement of policy objectives.

Since the introduction of budgetary reform in 1999, the planning, programming and performance budgeting system has been in vogue in South Africa. Multi-year budgeting was introduced to remove uncertainty from the planning and forecasting process. The medium term expenditure framework (MTEF) was introduced where budgeting is done on a tri-annual basis (Walker & Mengistu, 1999:23). The first year entails the actual allocation of funds and the two outer years are projections of possible allocations. Although budgeting is done on a tri-annual basis, allocations are done annually. Multi-year budgeting has been an elusive myth in South Africa since all budgets are prepared annually and the outer-year projections are not in line with what is ultimately requested or received. However, it does entice accounting officers to plan programmes and projects in anticipation of receiving projected allocations. The myth was obscure in the 2009/10 financial year due to the global financial meltdown and poor revenue outlook in South Africa. Budgets were drastically cut instead of being increased as projected in the previous years, and this had a serious if not deleterious effect on service delivery.

Of late, there has been a shift from programme budgeting to performance budgeting. This is an important consideration since it places renewed focus on performance management and the quest to optimise productivity of employees in the Public

Service. According to Golembiowski & Robin (1997:289), while programme budgeting was effectiveness-orientated, performance budgeting was efficiency-oriented. Policy-makers have to choose between different alternatives to achieve the desired goals after having carefully conducted cost-benefit analyses and impact-assessment studies to ascertain the most efficient route to follow in policy implementation. Lee & Johnson (1977:9) state that in performance-based budgeting, the focus is on holding managers accountable and demanding efficiency of actions through a performance management system.

Performance-based budgeting in the public service began in America in the 1960s under the Planning Programme Budgeting System (PPBS) (De Woolfson, 1975:390). The intention of the Planning Programming Budgeting System was to shift the locus of budgeting from annual reviews to medium-term projections through programmes based on outputs rather than inputs (Bevan, 1983:730). Behn (2003:590) states that the evolution of the Planning Programme Budgeting System to performance-based budgeting shifted the focus away from line-item expenditure to either performance purpose or to specific performance targets.

It is significantly noted that since 1996, the National Treasury has adopted, with some amendments, a Planning Programme Budgeting System to give budgets a structural framework and set the trajectory for performance-based budgeting. The current performance-based budgeting system provides foundational guidelines for performance management systems with all government departments. While it is easy to measure and assess the performance of a department from a performance-based budgeting perspective, this, however, is not clearly evident when compared with the performance of individuals in departments. Accordingly, Telleria, Little, & MacBryde (2002:339) found in their research that the team-based approach to performance management had the effect of integrating all business processes to produce goods or provide services. The performance of individuals, especially those who perform support and administrative functions, cannot be easily measured. The actions of individuals singularly do not support the strategy of the organisation. It needs collective action.

Apart from putting more emphasis on results, performance budgeting provides more and better information on government goals and priorities, and on how different programmes contribute to achieving these goals. The approach also encourages greater emphasis on planning, and provides information on what is working and what

is not. Citizens will continue to demand results for their tax money and, in spite of the challenges associated with this approach, there will be a continuing need for performance information and performance budgeting (OECD, 2008c:8).

6.6 FINANCIAL PERFORMANCE MANAGEMENT AND OVERSIGHT

Government institutions dealing with public administration may be termed institutions performing agency functions for the political authorities. These agencies are funded by means of legislative authorisation with the result that they should, therefore, after performing their functions, and based on the principle of stewardship, account for their performance to the relevant legislature.

According to the Constitution of the Republic of South Africa (1996), Parliament is the highest legislative authority in South Africa. A parliamentary committee on finance has been established to advise Parliament on all aspects relating to financial management. The committee must ensure that the overall financial principles that are set in policy documents are reflected in the budgets, that the budget structures are understandable by the parliamentarians, that the macro economic and fiscal policies are acceptable, and that the budget processes are practical. The committee will also evaluate the recommendations by the Financial and Fiscal Commission (FFC) on the revenue-sharing formula between national and provincial levels as well as between provinces.

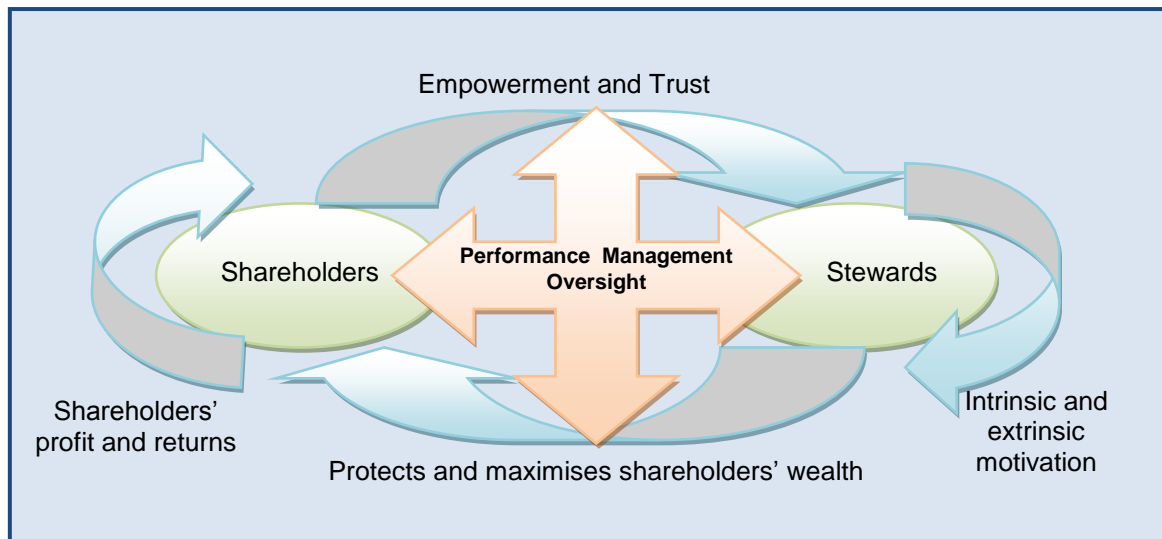
In the monumental book by Normanton (1966:2) *public audit* is defined as "a special device for making public accountability a reality". It is important to note that the auditing thus undertaken should in all respects be independent. That implies that the state (supreme) audit institution should be independent of government and be able to express an opinion or a finding if it is found that wasteful action has occurred. Supreme audit institutions carry out the external audit of public service organisations and are one of the key links in the formal system of financial accountability. The strengthening of audit institutions can therefore result in significant improvements to the effectiveness of public financial management and accountability systems as a whole. As a general rule, Parliament is able to perform its oversight functions most effectively when it uses and can rely upon the audit institution's audit work. The real impact of any audit institution becomes viable when the legislature provides a forum for the presentation and discussion of its audit results and acts as an ally in ensuring corrective actions are taken (DFID, 2005a:6).

In South Africa the Auditor-General Act (12/1995) was passed by Parliament, enshrining the Auditor-General's independence in accordance with the Constitution (1996). The Auditor-General Act (12/1995) determines, among others, the conditions of service and functions of the Auditor-General. In terms of this Act, the Auditor-General is responsible for the investigation of the accounts of any public institution and the reporting thereon to Parliament.

According to Visser & Erasmus (2002:39), “traditionally the audit function verified compliance, from a deficiency approach, with effectiveness and efficiency, and audit reports focused on expended funds only. The audit function is, however, precisely that: the reporting on an ex post facto basis with no intention of prevention.” The fact that areas of mismanagement and ignorance of sound financial management procedures and processes are identified cannot be denied, however, the need for proper performance auditing remains a very high priority. Performance auditing serves a valuable purpose in that programmes and accounts are audited beyond the scope of mere compliance with legislation, regulations, rules and unauthorised expenditure. The need for performance evaluation of strategic and operational plans based on continuous monitoring and evaluation could complement the function exercised by the Auditor-General.

The Standing Committee on Public Accounts (SCOPA) serves as Parliament's most important committee on matters of finance. This committee has the responsibility to oversee the effective, efficient, economical and transparent management of departments. It is to this committee that the Auditor-General reports and based on the Auditor-General's reports, the committee then decides on action to be taken. SCOPA may recommend sanctions against accounting officers, ranging from salary reductions and demotions to dismissals. In serious cases, it may also recommend that charges of financial misconduct be brought against the officials. During the public hearings of SCOPA, the emphasis is mostly on aspects such as the implementation of effective internal controls, the initiation of disciplinary steps, the quality and validness of feedback reporting and the remedial steps that were taken after the problem was disclosed (Visser & Erasmus, 2002:49).

Figure 6.2: The stewardship model in the domain of financial performance management and oversight



Source: Adapted from Abdullah, H. & Valentine, B. 2009. *Fundamental and ethics theories of corporate governance*. Faculty of Economics and Management, Graduate School of Management, University Putra Malaysia, EuroJournals Publishing: Putra, Page 11.

Figure 6.2 shows the critical relationship between stewardship and the domain of financial performance management and oversight. As analysed in Chapter 2, in the domain of financial performance management and oversight, the concept of *stewardship* emphasises the public servants' responsibility to utilise and develop all resources entrusted to them by the stakeholders in the most economic, efficient and effective way. Institutions for oversight and external auditing plays a vital role in good governance as *stewardship* also refers to 'wise' administrative practices to achieve good governance practices related to financial performance management. However, it is important to stress the fact that oversight is not only about protection and maximisation of stakeholders' wealth, but also about empowerment of stewards and the development of trusting relationships aligned with the principles of good governance. The relationship between governance, stewardship, financial performance management and oversight creates the ideal performance platform as a requirement for financial reform initiatives as discussed in Chapter 5 (Donaldson & Davis, 1991:65).

6.7 GOVERNMENT REFORM PROCESS AND DESCRIPTION OF RECENT AND ON GOING REFORMS

The Government of South Africa has embarked upon a number of very successful public financial management reforms since the mid-1990s. The reform agenda has focused on the establishment of a legal and regulatory framework to strengthen and improve the transparency, comprehensiveness and credibility of the budget, debt management and external scrutiny and oversight.

The public financial management reform approach has evolved away from a comprehensive integrated approach centred on a single integrated strategy, with emphasis on sequencing and co-ordination, to a more incremental one. Implicit in the approach of reform was a focus on the three main objectives of a sound public financial management system. These were achieving fiscal discipline, the efficient delivery of services and the strategic allocation of resources. This appears to work because the main fundamental changes to public financial management have already been achieved and the focus is now more on capacity development rolled out to the provinces and municipalities. The approach can remain effective in delivering on improvements because the approach has already made the major transition to a reformed public financial management system and is now focusing upon continuing improvements of the reformed systems informed by the lessons learnt through the decade-long reform experience.

Future reforms will focus away from input controls to delivered outputs supported by improved financial reporting and public and parliamentary access to budget and fiscal documents, and the introduction of audit committees to better hold budget managers accountable. Responsibility was devolved to spending departments for spending choices and use of funds within approved ceilings and against policy commitments. Finally, there will be a better alignment of policy, planning and budgeting. The South African system recognises this and structures the integration of political and administrative practices to ensure that funding choices align with the priorities of the Government, and that political oversight is reinforced. Based on a shift to a multi-year budgeting framework to allow the re-allocation of resources to new priorities, the budget process includes various mechanisms to manage uncertainty and maximise funding and policy predictability over the medium term. This approach also allows for alignment with policies at the margin through the use of rolling baselines, a contingency reserve and a disciplined budget process.

There are five main areas of public financial management reform activity planned, which principally involve the National Treasury, SARS and the Office of the Auditor-General. These are the amendments to the legal and regulatory framework, which include the introduction of a Money Bill Amendment Procedure and Related Matters Bill, the Financial Management Improvement Programme, the improvement, upgrading and integration of the transverse computer systems, the revenue modernisation programme, and the improvements in external scrutiny and public financial performance monitoring.

A framework for managing performance has been developed and at the moment work is being done to improve the Strategic Planning Framework, among others. This comes out of the awareness that strategy and budgets are often not effectively linked. The National Treasury is currently developing national guidelines to improve processes to ensure that when plans are developed, there is an explicit requirement to link this to the budget.

6.8 PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY ASSESSMENT

A public expenditure and financial accountability (PEFA) assessment was initiated and sponsored by the European Commission and was carried out between June and September 2008. It was undertaken with the formal agreement and active support of the Government of South Africa. The assessment adopted the widely accepted methodology of the Public Financial Management Performance Measurement Framework (PFM-PMF) issued by the PEFA multi donor programme in June 2005. The approach was based on a careful consideration of the demonstrated observable public financial management systems, procedures and practices in South Africa at the time of the assessment as determined through direct interviews with government officials and the reviews of official documents and reports. It was also based on the use of corroborating evidence sought from a variety of independent sources wherever possible.

The purpose was to assess the current status of the public financial management system of the central government. The assessment's restriction to the coverage of the central government public financial management systems means that it provides a snapshot of the public financial management systems, procedures and practices of

only about a third of the public-sector public financial management activity. Given the concurrent roles of the national versus provincial governments, only a limited opportunity is presented to assess technical and allocative efficiency. Given the National Government's role to be principally policy, regulation, oversight, revenue administration, debt and cash management, budget release management, and monitoring and evaluation, this assessment provides limited opportunity to assess the efficiency of expenditure management or the effectiveness of the application of expenditure even where funds may have been allocated at an aggregate level to areas of strategic priority; these functions being principally the role of the provincial governments.

When viewed from the perspective of the objectives of a sound public financial management system, namely aggregate fiscal discipline, strategic allocation of resources and the efficient delivery of services; South Africa scores very well with respect to aggregate fiscal discipline. The public financial management systems are capable of allocating resources in accordance with priorities. The utilisation of a three- to five-year macro fiscal framework, with a definite budget calendar that facilitates the meaningful bottom-up participation by government organisations, along with the very successful integration of cash management and debt management, and the achievement of predictable budget releases and effective payroll management all point to efficient delivery of services. However, these positives were negatively impacted by some procurement and non-salary expenditure management challenges. The public financial management systems provide financial feedback at the end of the service delivery cycle, namely the receipts by front-line facilities such as primary schools and primary healthcare facilities.

Also derived from the assessments are a number of areas that might influence future service delivery initiatives. Any assessment of one level of government without an assessment of the other levels might produce a distorted picture.

6.8.1 The concurrent role of the central government with the provincial governments

The central government is responsible for regulation, policy and planning, revenue administration, cash and debt management, consolidated financial reporting and monitoring and evaluation. The provincial governments are responsible for delivering on the effectiveness of the strategically allocated funds of the central government;

and for service delivery. These concurrent roles lead to a somewhat shared role of public financial management. Consequently, an assessment of the public financial management systems, procedures and practices of central government is more a measure of the legal and regulatory framework, the main institutional arrangements and the level of aggregate fiscal discipline achieved. It measures only to a degree the achievement by way of the strategic allocation of resources (front end), since it would require the provincial governments working as partners to deliver on the effectiveness (back end) of such strategically allocated resources.

The assessment of the central government did not provide much opportunity to measure service delivery. For example, the Department of Health is directly responsible for managing three medical laboratories. All hospitals and clinics are operated directly by the provinces. Consequently, a full picture of the strategic allocation of resources and efficient service delivery will only emerge when PEFA assessments have been applied to the provinces.

6.8.2 The implementation of transverse computerised systems

The central government has implemented a number of transverse computerised systems that operate on country-wide networks, which facilitate the full country-wide roll-out of a number of the public financial management systems. These include the revenue administration systems for income tax, VAT and customs duties; the Basic Accounting System (BAS), which provides computerised accounting across all departments and PERSAL, which is the system used to manage the payroll.

The two systems together provide an opportunity for the integration of cash management and debt management. There is also the LOGIS system used for procurement, but this is not yet available across all departments.

6.8.3 Aggregate fiscal discipline

With respect to aggregate fiscal discipline, South Africa's well-developed debt strategy, and comprehensive transparent management of debt; effective fiscal risk assessment and oversight of public enterprises; credible medium-term fiscal forecasts (revenue, net borrowing and debt service, and expenditure), which serve as the basis for top-down budgetary discipline; well-managed budget releases and a comprehensive and effective commitment control process all point to the ability to

deliver strongly on aggregate fiscal discipline. This is further strengthened by a strict commitment control system supported by an effective cash management system. However, there remain some concerns with respect to the accrual of expenditure arrears, commitment reporting and procurement management.

6.8.4 Strategic allocation of resources

South Africa has in place a number of important steps towards achieving a budgetary process that is fully capable of the strategic allocation of resources. However, there are still a number of important steps that are not fully implemented such as the development of sector strategy fiscal frames and full costings of the sector strategy elements with a more direct link to the medium-term expenditure framework. The budget classification in South Africa is well capable of supporting a policy-based budgeting process and thus provides a necessary input for achieving the strategic allocation of resources. South Africa issued the medium-term policy framework to serve as its national development framework, which includes a clear articulation of its development policy objectives. Although the development objectives do not rely heavily on donor inputs, there are missed strategic opportunities that arise due to a lack of close alignment of donor grants with the budget process and a broad absence of timely reporting on project and programme achievements consolidated into the national consolidated financial reporting framework. The effectiveness of the central government's success in allocating resources strategically, followed by disciplined budget releases in accordance with such strategic considerations will still rely upon provincial governments to deliver on such strategy as well as the incorporation of effective monitoring and evaluation to inform and continue evolving and refining strategy.

Particularly important to assessing the impact of policy objectives is the tracking of resources received by front-line service delivery units such as primary schools and primary healthcare facilities. The consolidation of provincial budget statements with their detailed reports on primary school and primary healthcare receipts of cash and kind by the National Treasury into the Provincial Budgets and Expenditure Review presents a sound basis to better manage the achievement of effectiveness.

6.9 REINFORCING PERFORMANCE IN PUBLIC FINANCIAL MANAGEMENT

A man kept searching for his wallet under the street lamp because, he said, it was too dark in the back alley where he had lost it.

Although the post-bureaucratic reform thesis holds that public administration must become anticipatory, flexible, results-orientated, customer-driven, values-based and entrepreneurial, the pure adoption of private-sector practices and methodologies to the public sector is analytically incorrect and inappropriate in practice (Kuye *et al.*, 2002:20). For business production in a competitive market, the return on outcomes and the worth of activities are most easily measured by the price the buyer is willing to pay; the net social utility of the producer is well approximated by his/her profits during a given period, the 'bottom line'; and persistent losses will drive companies out of business. This is so, however, only when the buyer gets all the benefits of the product and (indirectly) pays all the costs. When indivisibilities and external effects exist (positive, or negative such as water pollution), or where there cannot be a competitive market as for public goods, the 'bottom line' is not as easy to define, the activity is assigned to the public sector, and the measurement of the impact of public-sector activity therefore becomes a major and complex issue.

On the other hand, to limit the notion of public 'performance' only to compliance with budgetary appropriations, or to literal observance of rules and regulations, leads over time to forgetting the real purpose of spending monies obtained from the public at large. Eventually, this generates a 'culture' of means rather than ends, disregard for the public, and the legendary bureaucratic mentality that considers it a success to formulate tight and internally consistent controls, regardless of whether they are necessary or even helpful in executing the functions assigned to the state by the people. Thus, partly from mounting frustration with the unresponsiveness of large bureaucracies, and partly from the logic of the new public management, which has emerged in advanced Anglo-Saxon economies in the last decade, several developed countries and some developing countries have made increasing use of 'performance' concepts and 'results' indicators, both in their managerial practices and in the formulation and execution of public expenditure programmes. In some cases, the real difficulties of measuring performance in the public sector have been recognized and the resulting ambiguities tolerated and adjusted to. In other cases, partial or misleading notions of performance have been adopted simply because they are easier to measure.

It is particularly necessary to present the full complexity of the performance issue both because greater performance orientation is very important and because its introduction is sometimes advocated as a very simple and self-evident matter.

6.10 CONCLUSION

A 'high-performing' public-sector organisation is results-driven, i.e. has a culture of continuously improving performance, receives and allocates funding aligned with cost-effective delivery, is responsive to change, encourages innovation by seeking a balance between risk and opportunity, has a strong customer focus, and last but certainly not least, is highly transparent about its performance to its stakeholders.

A sound public financial management system allows government to make the best use of all available resources and will resolve the quest to efficiently and effectively utilise public resources to meet the needs of the community in an equitable manner. Public financial management is not merely a question of spending more, but requires adequate capacities for managing public finances in order to maximise the impact of public resources.

The main concern of public financial management is how to efficiently and effectively utilise public resources to meet the needs of the community in an equitable manner. A sound public financial management system allows governments to make the best use of all available resources, including international development assistance, to improve the quality of life of society. This includes both managing expenditure and raising revenue. Raising revenue is essential for development and state-building.