PUBLIC FINANCIAL MANAGEMENT REFORMS FOR VALUE-FOR-MONEY IN SELECTED SOUTH AFRICAN PROVINCIAL GOVERNMENTS

by

TANIA AJAM

Submitted in partial fulfilment of
the requirements for the degree

PhD (Public Management)

in the

Faculty of Economic and Management Sciences

University of Pretoria

Supervisor: Prof. Dr. D. J. Fourie

February 2016

DECLARATION

I, Tania Ajam (Student Number: 12355896), declare the following:

- I understand what plagiarism entails and am aware of the University's policy in this regard.
- I declare that this thesis is my own, original work. Where someone else's work was used (whether from a printed source, the Internet or any other source), due acknowledgement was given and reference was made according to departmental requirements.
- I did not copy and paste any information directly from an electronic source (e.g., a web page, electronic journal article or CD ROM) into this document.
- I did not make use of another student's previous work and submit it as my own.
- I did not allow, and will not allow, anyone to copy my work with the intention of presenting it as his/her own work.
- This work has not previously been submitted by me for a degree at this or any other tertiary institution.

Signature

12 February 2016
Date

ACKNOWLEDGEMENTS

بِسْمِ اللَّهِ الرَّحْمَٰنِ الرَّحِيمِ

A wise Zulu proverb, *umuntu ngumuntu ngabantu*, recognises that our own individuality is profoundly shaped by our interactions with other human beings. I'd like to express my heartfelt gratitude to the exceptional individuals without whom this research journey would not have even been attempted, much less completed:

- my beloved mother and father – my first and best teachers - who encouraged my infinite curiosity about the world and equipped me with the intellectual tools to answer my own questions;
- my mentor, Dr Iraj Abedian, who has challenged me over the years to reflect on the complexities of fiscal policy and public financial management, a line of inquiry which has culminated in this doctoral thesis;
- Prof. Allen Schick, whose enormous scholarly contribution to research on budget reform never ceases to inspire me;
- my friend, Dr. Ramos Mabugu, for his critical, yet unfailingly constructive, feedback;
- Dr Idette Noome for her superb editorial support and
- my academic supervisor, Prof. David Fourie, for his invaluable guidance and encouragement.

Most of all, I'd like to thank the public finance practitioners from the treasuries who shared their time, experiences and insights so generously and frankly. These are men and women of integrity who initiated, and continue to sustain, PFM reform under extremely difficult circumstances. Their commitment to the mobilisation and stewardship of public resources is indispensable for realising our constitutional vision of a just, prosperous, non-racial and non-sexist South Africa.

ABSTRACT

Far-reaching public financial management (PFM) reforms have been implemented in South Africa in accordance with the Public Financial Management Act, 1999 (Act 1 of 1999) (PFMA). This study assesses the extent to which the PFMA and related reforms have achieved their initial objectives of enhancing value-for-money (the efficiency, effectiveness and equity of public expenditure) in provincial governments between 2000 and 2013. It also generates policy recommendations to enhance the effectiveness of future PFM reform in South African provincial governments.

Based on questionnaires administered to a sample of public financial management specialists from the National Treasury, seven of the nine provincial treasuries, and independent experts, a qualitative analysis provides a detailed understanding of factors triggering PFM reform in South Africa since the country's transition to a democratic order in 1994, reform objectives and critical success and risk factors in reform implementation.

To benchmark the PFM performance of the provincial Education and Health departments, a Public Financial Management Progress Index (PFMP index) is constructed for each of the nine provincial Education and Health departments for the period from 2007/2008 to 2013/2014, based on annual performance plans, budgets and audited financial statements. Analysis of the PFMP index indicates that, while there has been considerable progress in PFM reform, wide variation in the quality and effectiveness of PFM practice across the nine provincial Education and Health departments persists. Stability of the top administrative leadership, availability of PFM skills, varying degrees of accountability and departmental capability to establish PFM systems that conform to new accounting standards drive these variances in reform outcomes.

Based on current shortcomings in PFMA enforcement, fiscal accountability and PFM capacity, the study concludes by making recommendations on how the PFMA and its regulations can be reviewed in order to strengthen the link between planning and budgeting, enhance supply chain management, promote effective capital infrastructure spending, combat fraud and corruption, improve the quality of monitoring and reporting and clarify PFM roles and responsibilities. It advocates a sustained long term PFM capacity building programme in the provincial sphere, supported by complementary public service reforms (such as recruitment, performance and consequence management).

KEY WORDS

Public financial management reform, budget reform, New Public Management, fiscal constitution, institutional economics, provincial governments in South Africa, *Public Finance Management Act (Act 1 of 1999)*, intergovernmental fiscal relations, fiscal institutions.

CONTENTS

DECLARATION .... **I**

ACKNOWLEDGEMENTS .... **II**

ABSTRACT .... **III**

KEY WORDS .... **III**

LIST OF TABLES .... **IX**

LIST OF FIGURES .... **XIII**

LIST OF ACRONYMS AND ABBREVIATIONS .... **XIX**

CHAPTER 1: INTRODUCTION **1**

1.1 BACKGROUND 1
1.2 PURPOSE OF THIS RESEARCH 1
1.3 PROBLEM STATEMENT 1
1.4 RESEARCH OBJECTIVES 2
1.5 RATIONALE FOR THE STUDY AND CONTRIBUTION TO PUBLIC ADMINISTRATION 3
1.6 METHODOLOGY 4
1.6.1 Approach to the research 5
1.6.2 Data collection and data sources 7
1.6.3 Data analysis 9
1.7 LIMITATIONS OF THE STUDY 11
1.7.1 Only PFMA reforms are considered in the study 11
1.7.2 The focus is on PFMA reforms relating to value-for-money only 11
1.7.3 This study falls short of a full impact evaluation 11
1.8 ETHICAL CONSIDERATIONS 12
1.9 ASSUMPTIONS AND RISKS 12
1.9.1 PFM reform design and implementation is grounded in rationality 12
1.9.2 Proxies for informal institutions and other intangible factors are appropriate 12
1.10 AN ANALYTICAL FRAMEWORK: PUBLIC ADMINISTRATION AND PFM REFORM 13
1.10.1 Analytical framework 13
1.10.2 Key concepts and theoretical constructs 19
1.11 OUTLINE OF THE STUDY 22
1.12 SUMMARY AND CONCLUDING REMARKS 23

CHAPTER 2: PUBLIC ADMINISTRATION, BUDGET THEORY AND PUBLIC FINANCIAL MANAGEMENT REFORM **24**

2.1 INTRODUCTION 24

2.2 EVOLUTION OF BUDGETING THEORY IN PUBLIC ADMINISTRATION 25
2.3 PUBLIC ECONOMICS PERSPECTIVES ON BUDGETING THEORY 31
2.3.1 Early development of public finance/economics........ 32
2.3.2 Public choice, the new institutional economics and the economics of politics 35
2.3.3 Empirical application of public economics: budget policy and development........ 37
2.4 INFLUENCE OF PUBLIC SECTOR ACCOUNTING ON BUDGET THEORY 39
2.5 STATUS QUO: NO UNIFIED THEORY OF THE BUDGET 40
2.6 SUMMARY AND CONCLUDING REMARKS........ 42

CHAPTER 3: PFM REFORM IMPLEMENTATION: INTERNATIONAL AND SOUTH AFRICAN PERSPECTIVES 44

3.1 INTRODUCTION........ 44
3.2 THE PERCEIVED NEED FOR PFM REFORM 45
3.3 THE EVOLVING ROLE OF THE ACCOUNTING OFFICER........ 48
3.4 FACTORS DRIVING PUBLIC SECTOR REFORM ADOPTION, OBJECTIVES AND DESIGN: AN INTERNATIONAL PERSPECTIVE 50
3.5 FACTORS TRIGGERING PFM REFORMS IN SOUTH AFRICA 68
3.6 OBJECTIVES OF PFM REFORM IN SOUTH AFRICA 69
3.7 FACTORS INFLUENCING PFM REFORM IMPLEMENTATION TRAJECTORIES: AN INTERNATIONAL PERSPECTIVE 73
3.8 SEQUENCING PFM REFORMS: AN INTERNATIONAL PERSPECTIVE........ 82
3.9 SEQUENCING PFM REFORMS IN SOUTH AFRICA........ 91
3.10 CRITICAL REFORM SUCCESS AND RISK FACTORS: AN INTERNATIONAL PERSPECTIVE 92
3.11 CRITICAL SUCCESS AND RISK FACTORS IN SOUTH AFRICAN PFM REFORM 97
3.11.1 Key success factors supporting PFMA implementation........ 97
3.11.2 Critical risk factors and implementation challenges........ 103
3.12 IMPLEMENTING REFORMS IN DEVELOPING COUNTRIES 104
3.13 APPROACHES TO EVALUATING PFM REFORM PROCESSES 117
3.14 SUMMARY AND CONCLUDING REMARKS........ 122

CHAPTER 4: THE GENESIS OF THE PROVINCES AND THE BROAD PUBLIC SECTOR REFORM AGENDA........ 124

4.1 INTRODUCTION........ 124
4.2 THE BROADER CONTEXT OF PUBLIC SECTOR REFORM 124
4.3 PRE 1994: THE APARTHEID STATE MECHANISMS AND THE NEGOTIATED TRANSITION........ 125
4.4 1994-1999: GOVERNMENT OF NATIONAL UNITY – REDESIGNING THE MACRO-ORGANIZATION OF THE STATE AND POLICY FRAMEWORKS........ 132
4.4.1 The creation of the nine provincial governments........ 132

4.4.2 The modernisation agenda ... 138
4.5 2000-2008: THE MBEKI ADMINISTRATION: POLICY IMPLEMENTATION AND COORDINATION ... 142
4.6 2009–2015: THE ZUMA ADMINISTRATION ... 148
4.7 SUMMARY AND CONCLUDING REMARKS ... 153

CHAPTER 5: PFM REFORMS IN SOUTH AFRICA: A PROVINCIAL PERSPECTIVE. 156

5.1 INTRODUCTION ... 156
5.2 PRE-1994: THE APARTHEID FISCAL LEGACY ... 157
5.3 THE FISCAL CONSTITUTION OF 1996 ... 160
5.3.1 The fiscal constitution and the intergovernmental system ... 161
5.3.2 The fiscal constitution and justiciable socio-economic rights ... 166
5.3.3 The fiscal constitution and PFM reforms ... 167
5.4 1994-1999: MACRO-STABILISATION AND THE LEGISLATIVE FRAMEWORK FOR PFM REFORMS . 169
5.4.1 Tax reform ... 169
5.4.2 Fiscal policy and macroeconomic stabilisation ... 170
5.4.3 Creating the South African intergovernmental fiscal system ... 175
5.4.4 Financing the progressive realisation of socio-economic rights ... 180
5.4.5 Early PFM reforms ... 181
5.5 2000-2008: IMPLEMENTING THE PFMA ... 187
5.5.1 Roles and responsibilities: the political-administrative interface ... 193
5.5.2 Financial planning: linking plans and budgets ... 200
5.5.3 In-year and annual reporting ... 209
5.5.4 Financial management reforms ... 212
5.5.5 Accounting reforms ... 226
5.5.6 Accountability cycle and legislative oversight-related reforms ... 230
5.6 2009-2015: CONSOLIDATING AND DEEPENING PFM REFORMS ... 235
5.6.1 Uneven enforcement, consequence management and weak accountability ... 239
5.6.2 Capacity ... 241
5.6.3 Deferral of the PFMA Review ... 249
5.6.4 Regulatory compliance ... 251
5.6.5 Relationship between treasuries and line departments ... 252
5.6.6 Anti-corruption focus ... 253
5.6.7 Public entities ... 257
5.7 ASSESSMENTS OF PFM REFORM IMPLEMENTATION TO DATE ... 258
5.8 PERCEPTIONS OF PFM PROGRESS TO DATE ... 270
5.9 SUMMARY AND CONCLUDING REMARKS ... 272

CHAPTER 6: AN OVERVIEW OF PROVINCIAL GOVERNMENT FISCAL PERFORMANCE....275

6.1 INTRODUCTION....275
6.2 AGGREGATE PROVINCIAL GOVERNMENT FISCAL TRENDS....275
6.2.1 Provincial revenue trends....275
6.2.2 Provincial expenditure trends....278
6.2.3 Provincial budget balances....280
6.3 PROVINCIAL BASIC EDUCATION FISCAL TRENDS....284
6.4 PROVINCIAL HEALTH FISCAL TRENDS....299
6.5 SUMMARY AND CONCLUDING REMARKS....310

CHAPTER 7: PFM REFORM IMPACT ON PROVINCIAL BASIC EDUCATION AND HEALTH DEPARTMENTS....313

7.1 INTRODUCTION....313
7.2 THE PUBLIC FINANCIAL MANAGEMENT PROGRESS INDEX: OBJECTIVE AND STRUCTURE....313
7.3 ASSESSING PFM REFORM PROGRESS IN PROVINCIAL EDUCATION DEPARTMENTS....319
7.3.1 Budget planning and control....319
7.3.2 Budget execution....322
7.3.3 Financial reporting and audit opinion....327
7.3.4 Audits of Predetermined Objectives....340
7.3.5 Financial leadership and governance....342
7.4 BENCHMARKING PROVINCIAL EDUCATION DEPARTMENTS....343
7.5 BENCHMARKING PROVINCIAL HEALTH DEPARTMENTS....346
7.6 SUMMARY AND CONCLUDING REMARKS....350

CHAPTER 8: INTERPRETATION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS....353

8.1 INTRODUCTION....353
8.2 SUMMARY OF THE KEY FINDINGS....353
8.2.1 Objectives of PFM reforms and factors triggering reform in South Africa....354
8.2.2 The PFM reform implementation trajectory....356
8.2.3 Key success and risk factors for South African PFM reform....357
8.2.4 Remarkable early reform achievements in the first decade....358
8.2.5 PFM reform shortcomings: enforcement, capacity and accountability....359
8.2.6 Delays in reviewing the PFMA and the proliferation of regulations....362
8.2.7 Strategic issues when reviewing the PFMA....363
8.2.8 Attenuated political will and degrading fiscal institutions....365
8.2.9 Provincial government revenue and expenditure outcomes....367

8.2.10 PFMP Index: benchmarking provincial Education and Health departments 368
8.3 RECOMMENDATIONS 369
8.3.1 A process to reinvigorate the PFMA 369
8.3.2 Specific areas for technical review and enhancement.. 370
8.3.3 Complementary public service reforms 377
8.4 BROADER PUBLIC GOVERNANCE ISSUES SHAPING PFM REFORM 378
8.4.1 More effective oversight by Parliament and the provincial legislatures..................... 378
8.4.2 Policy uncertainty on the fate of provincial governments...................................... 378
8.4.3 Political commitment to PFM within the Executive 378
8.5 POLICY INSIGHTS FOR OTHER DEVELOPING COUNTRIES 380
8.6 CONCLUDING REMARKS 382

BIBLIOGRAPHY 383

ANNEXURE 1: AGGREGATE PROVINCIAL FISCAL DATA..412

ANNEXURE 2: PFMP INDEX VARIABLES FOR PROVINCIAL EDUCATION DEPARTMENTS 421

ANNEXURE 3: PFMP INDEX VARIABLES FOR PROVINCIAL HEALTH DEPARTMENTS 426

ANNEXURE 4: QUESTIONNAIRE...431

LIST OF TABLES

Table 1: Composition of interview sample participating in the strategic PFMA overview 8
Table 2: Composition of interview sample participating in the detailed departmental PFMA implementation review 9
Table 3: Traditional disciplinary boundaries expanded: how traditional approaches have influenced each other 41
Table 4: Recent influential public management philosophies 58
Table 5: Role of politicians and civil servants in three ideal type models and weaknesses in practice 61
Table 6: Respondents' rating of PFM reform triggers (percentage) 68
Table 7: Respondents' rating of PFM reform objectives (percentage) 71
Table 8: Risk management in devolved and centralized budget management systems 114
Table 9: Contrasting the public value management and NPM approaches 65
Table 10: Researching public management reforms 119
Table 11: Estimated number of civil servants in 1993 130
Table 12: Official provincial unemployment rate (percentage), 2001 to 2014 149
Table 13: Summary of South African Public Expenditure and Financial Accountability (PEFA) Assessment Scores 260
Table 14: Summary of implementation factors and their impact on PFM reform outcomes 262
Table 15: Average compliance of national departments to Public Finance Management Act as measured by the Financial Management Capability Maturity Model, 2011 and 2012 264
Table 16: Summary of national, provincial and public entity outcomes, 2011/12 to 2013/14 267
Table 17: Material misstatements corrected during the 2013/14 audit 267
Table 18: Respondents' perceptions of PFMA progress (%) 270
Table 19: Respondents' perceptions of provincial PFM outcomes (%) 272
Table 20: Provincial receipts by province in R billions, 1997/98 to 2013/14 275
Table 21: Provincial sources of revenue as an average share of total provincial receipts, 1997/98 to 2013/14 276
Table 22: Nominal and real average annual growth rates in revenue by province, 1997/98 to 2013/14 277
Table 23: Total expenditure (payments) by province in R billions (actual audited), 1997/98 to 2013/14 278

Table 24: Spending by functional area as an average share of total provincial expenditure (payments), 1997/98 to 2013/14 279
Table 25: Budget balance by province in R billions, 1997/98 to 2013/14 281
Table 26: Budget balance as a percentage of the total expenditure by province, 1997/98 to 2013/14 282
Table 27: Basic Education expenditure (payments) by province in R billions (actual audited), 1997/98 to 2013/14 285
Table 28: Nominal and real average annual growth rates in Basic Education expenditure by province, 1997/98 to 2013/14 286
Table 29: Expenditure by economic classification as an average share of total basic Education spending, 1997/98 to 2013/14 (%) 287
Table 30: Nominal and real average annual growth rates in Basic Education expenditure by economic classification and province, 1997/98 to 2013/14 289
Table 31: Number of educators by province, 1999-2013 290
Table 32: Average annual growth rates in educators by province, 1999 to 2013 291
Table 33: Number of learners by province in millions, 1999 to 2013 292
Table 34: Average annual growth rate in learner numbers by province (percentage), 1999 to 2013 293
Table 35: Learner-educator ratios by province, 1999 to 2013 293
Table 36: Basic education spending per learner in Rands, 1999/00 to 2013/14 295
Table 37: National Senior Certificate pass rates by province, 2010 to 2013 296
Table 38: Provincial Health expenditure (payments) by province in R billions (actual audited), 1997/98 to 2013/14 299
Table 39: Nominal and real average annual growth rates in Health expenditure by province, 1997/98 to 2013/4 300
Table 40: Expenditure by economic classification as an average share of total Health spending, 1997/98 to 2013/14 301
Table 41: Nominal and real average annual growth rates in Health expenditure by economic classification and province, 1997/98 to 2013/4 302
Table 42: Primary health care headcount (in millions), 2000-2013 303
Table 43: Expenditure per PHC visit in Rands by province, 2000/1 to 2013/14 304
Table 44: Selected health status indicators by province 2012 305
Table 45: Estimates of population dependent on public health services, 2013 306
Table 46: Number of health facilities by province in 2012 307
Table 47: Percentage share of health facilities by type and province in 2012 307
Table 48: Public sector health personnel per 100 000 of the population by province, 2012 308

TABLE 49: SELECTED INDICATORS OF PUBLIC HEALTH SERVICE ACCESS BY PROVINCE, 2011............ 309
TABLE 50: SELECTED HEALTH SERVICE OUTPUTS BY PROVINCE, 2011 309
TABLE 51: PERCENTAGE OF PUBLIC HEALTH SERVICE USERS HIGHLY SATISFIED WITH THE SERVICE RECEIVED, 2009 TO 2011 310
TABLE 52: DEFINITION OF PFMP INDEX INDICATORS 315
TABLE 53: PFMP INDICATOR RANKING AND DATA SOURCES 317
TABLE 54: PROVINCIAL EDUCATION DEPARTMENT AUDIT OUTCOMES, 2000/1 TO 2013/14................. 328
TABLE 55: RANKING OF PROVINCIAL EDUCATION DEPARTMENT AUDIT OPINIONS, 1997/98 TO 2012/14 329
TABLE 56: PROVINCIAL EDUCATION DEPARTMENT PFMP INDEX, 2007/8 TO 2013/14 344
TABLE 57: PFMP INDEX SUMMARY FOR PROVINCIAL EDUCATION DEPARTMENTS 345
TABLE 58: PROVINCIAL HEALTH DEPARTMENT PFMP INDEX, 2007/8 TO 2012/13 347
TABLE 59: PFMP INDEX SUMMARY FOR PROVINCIAL HEALTH DEPARTMENTS 350
TABLE 60: REVENUE (RECEIPTS) BY PROVINCE, 1997/98 TO 2014/15 (ACTUAL AUDITED) 412
TABLE 61: EXPENDITURE (PAYMENTS) BY PROVINCE IN R BILLIONS, 1997/98 TO 2014/15 (ACTUAL AUDITED) 414
TABLE 62: BASIC EDUCATION EXPENDITURE (PAYMENTS) BY PROVINCE IN R BILLIONS, 1997/98 TO 2014/15 (ACTUAL AUDITED) 416
TABLE 63: HEALTH EXPENDITURE (PAYMENTS) BY PROVINCE IN R BILLIONS, 1997/98 TO 2014/15 (ACTUAL AUDITED) 419

LIST OF FIGURES

FIGURE 1: A CONCEPTUAL FRAMEWORK FOR THE ANALYSIS OF PUBLIC FINANCIAL MANAGEMENT REFORM IMPLEMENTATION 14
FIGURE 2: DIMENSIONS OF FISCAL PERFORMANCE 15
FIGURE 3: POLLITT AND BOUCKAERT'S MODEL OF PUBLIC MANAGEMENT REFORM 52
FIGURE 4: CONTEXTUAL FACTORS AND THE SCOPE FOR INSTITUTIONAL CHANGE 80
FIGURE 5: PROBLEM-SOLVING LEARNING AS A DRIVER OF INSTITUTIONAL CHANGE 82
FIGURE 6: ILLUSTRATION OF THE "PLATFORM APPROACH" 89
FIGURE 7: ILLUSTRATIVE HIERARCHICAL STRUCTURE OF A PFM SYSTEM 91
FIGURE 8: REAL GDP GROWTH RATE, 1982 TO 2014 143
FIGURE 9: TRENDS IN THE NUMBER AND VALUE OF FINANCIAL MISCONDUCT CASES IN R MILLIONS, 2006/07 TO 2011/12 269
FIGURE 10: PERCENTAGE CHANGE IN AVERAGE REMUNERATION PER PUBLIC SECTOR WORKER, 1990 TO 2013 (NOMINAL AND CONSTANT 2000 PRICES) 283
FIGURE 11: PERCENTAGE DEVIATION FROM AVERAGE LEARNER-EDUCATOR RATIO BY PROVINCE, 1999 AND 2013 294
FIGURE 12: PERCENTAGE DEVIATION IN BASIC EDUCATION SPENDING PER LEARNER BY PROVINCE, 1999/00 AND 2013/14 296
FIGURE 13: NATIONAL SENIOR CERTIFICATE PASS RATES AND ELIGIBILITY TO REGISTER FOR A BACHELOR'S DEGREE RATES BY PROVINCE, 2013 298
FIGURE 14: PERCENTAGE DEVIATION IN SPENDING PER PHC VISIT FROM AVERAGE SPENDING BY PROVINCE, 200/01 AND 2013/14 304

LIST OF ABBREVIATIONS AND ACRONYMS

ANC	African National Congress party
AO	Accounting Officer
BEE	Black Economic Empowerment
CoE	Compensation of employees
CFO	Chief Financial Officer
CPO	Chief Procurement Officer
CODESA	Convention for a Democratic South Africa
COSATU	Congress of South African Trade Unions
DoRA	*Division of Revenue Act* tabled in Parliament each year
DA	Democratic Alliance party
DG	Director-General
DPSA	Department of Public Service and Administration
DPME	Department of Planning, Monitoring and Evaluation
DTI	Department of Trade and Industry
EC	Eastern Cape Province
FS	Free State Province
GDP	Gross Domestic Product
GT	Gauteng province
GWM&E	Government-wide Monitoring and Evaluation
GRAP	Generally Recognised Accounting Practice
HoD	Head of Department
HR	Human resources
IDASA	Institute for Democracy in South Africa
IFMS	Integrated Financial Management System
IGFR	Intergovernmental fiscal relations
IPFA	Institute of Public Finance and Auditing
IT	Information technology
KZN	KwaZulu-Natal Province
LP	Limpopo Province
M&E	Monitoring and Evaluation
MEC	Member of the (provincial) Executive Council
MinComBud	Ministers' Committee on the Budget
MinMEC	Intergovernmental forum comprising a national Minister and his/her nine provincial MEC counterparts
MP	Mpumalanga Province

MFMA	*Municipal Finance Management Act,* 2003 (Act 56 of 2003)
MTEF	Medium Term Expenditure Framework
NC	Northern Cape Province
NDP	National Development Plan
NGO	Non-governmental organization
NIE	New Institutional Economics
NP	National Party
NPM	New Public Management
NW	North West Province
OECD	Organization for Economic Cooperation and Development
OSD	Occupation Specific Dispensation
PALAMA	Public Administration and Leadership and Management Academy
PEFA	Public Expenditure and Financial Accountability
PERSAL	Personnel and Salary system
PHC	Primary health care
PFM	Public Financial Management
PFMP	Public Financial Management Progress (Index)
PFMA	*Public Finance Management Act, 1999* (Act 1 of 1999)
PPFA	*Preferential Procurement Policy Framework Act,* 2000 (Act No. 5 of 2000)
PRC	Presidential Review Commission on Public Sector Reform
PSC	Public Service Commission
SARS	South African Revenue Services
SCM	Supply chain management
WC	Western Cape Province
WPTPS	*White Paper on the Transformation of the Public Service, 1995*
WPTPSD	*White Paper on the Transformation of Public Service Delivery, 1997*

CHAPTER 1: INTRODUCTION

1.1 Background

The extensive and ongoing public financial management (PFM) reforms across all three spheres of government (national, provincial and local) in South Africa since 1994 have already had impressive results in many areas, such as the creation of a credible, integrated PFM system and enhanced fiscal transparency. In this respect, South Africa was rated second in the world in the *2012 Open Budget Index Report* (International Budget Partnership 2012). Attempts to improve the value-for-money and impact of public expenditure have, however, been acutely disappointing (Ajam & Aron 2007). Despite substantial and sustained investments in public education, public health and housing, especially compared to the investment made in other countries at similar stages of development, the policy outcomes, especially in provincial and local spheres, continue to be poor (Presidency 2009).

1.2 Purpose of this research

The purpose of this research is to assess whether the implementation of the *Public Finance Management Act,* 1999 (Act 1 of 1999) (hereafter referred to as the PFMA) and related reforms have improved the value-for-money achieved by South African provincial governments over the period from 1999 to 2014. The insights gained from analysing the lessons learnt from the PFMA implementation experience to date are then used to make recommendations to improve the effectiveness of future PFM reform in provincial governments.

1.3 Problem statement

Far-reaching PFM reforms have been engendered by the PFMA and have been implemented for more than a decade in South African provincial governments. However, there has been limited systematic research on the impact of this sustained reform agenda, especially in relation to the extent to which improved value-for-money in public spending has been achieved in the provincial sphere.

Significant amounts of fiscal resources are allocated annually to provincial governments, both as a proportion of total main budget expenditure and as a percentage of the Gross Domestic Product (GDP). Despite PFMA reforms, in many provincial governments, these budget allocations still do not seem to be effectively and efficiently translated into quality services to uplift the intended beneficiaries (particularly the poor, and vulnerable groups such as children, the aged and the disabled) whose socio-economic rights, which are to be progressively realised within available state resources, are affirmed by the *Bill of Rights* of the *Constitution of the Republic of South Africa*, 1996 (Act 108 of 1996)(hereafter referred to as the Constitution).

Public policy outcomes have tended to stagnate or even deteriorate (for example, Health and Basic Education outcomes), especially with regard to the quality of services, rather than merely extending access to services (Presidency 2009). PFM systems and practice in provincial departments remain weak – this is evident from successive Auditor-General's Reports, and from interventions by the national government in the Limpopo and Gauteng provincial governments in 2011/12 in terms of section 100 of the Constitution (which essentially placed them under national administration). Substantial fruitless and wasteful expenditure and even outright corruption seem to be a perennial feature of provincial audit findings by the Auditor-General (for example, Auditor-General 2011a).

Approaches to PFMA implementation in provincial governments therefore need to be revised urgently in order to achieve better value-for-money from public expenditure in the provincial sphere, in the interests of social equity and future economic growth.

There are a number of factors which could affect the value-for-money efficacy of PFM reforms in provincial governments. These relate to both the design of PFMA reforms and the effectiveness of their implementation. Empirical analysis of the implementation experience in provincial departments to date is required to identify elements in the initial PFMA design which can still be improved. Approaches to identifying and resolving the implementation barriers encountered in the reform process could inform policy recommendations to enhance the value-for-money impact of ongoing PFM reforms at the provincial level. Given that performance-enhancing reforms have been phased in incrementally over a period of more than a decade since 1999, this is an opportune time for critical reflection on the progress made thus far and on ways to enhance the longer-term reform trajectory on the basis of experiential learning.

1.4 Research objectives

The overarching research questions, based on the above problem statement, are therefore the following:

> ***Has the implementation of PFMA reforms aimed at enhancing value-for-money had a positive impact on the efficiency, effectiveness and equity of provincial public expenditure between 2000 and 2014, and which factors have contributed this outcome?***

In order to address these two research questions, this study:

(i) describes the factors which triggered PFM reforms in South Africa after its transition to a democratic order in 1994, the initial objectives of PFMA reforms and the sequencing of reform implementation;

(ii) assesses the extent to which the PFMA and related reforms have achieved their initial objectives of enhancing PFM and thereby improving value-for-money (the efficiency, effectiveness and equity of public expenditure) in provincial governments between 2000 and 2014;

(iii) identifies the underlying factors explaining actual PFM reform outcomes to date in relation to the initial reform objectives (*inter alia* contextual factors across provinces, reform strategy design, implementation-related factors and the overall coherence of PFM reform); and

(iv) proposes recommendations to enhance the effectiveness of future PFM reform in South African provincial governments in relation to value-for-money.

1.5 Rationale for the study and contribution to Public Administration

Internationally, an extensive literature on budget and PFM reforms in the public sector has emerged since the 1950s, predominantly in developed countries such as the United States, the United Kingdom, Canada, Australia and New Zealand. (The literature survey in Chapters 2 and 3 provides a detailed overview of these PFM reforms.) Recently, this body of research has been extended to developing countries in Africa, Asia and Latin America. Because of the predominant emphasis in the past on developed countries' experiences, much of the existing public administration literature on budget and PFM reform tends to emphasise the design of reform programmes, rather than their implementation. This is perhaps because developed countries may not, to the same extent, face the severe constraints on PFM skills, finances, infrastructure and institutional capacity which confront their developing country counterparts during the reform implementation process (Allen, 2009; Diamond 2003a).

The public sector governance environment in South African provincial governments displays some of the characteristics of advanced countries (such as sophisticated PFM legislation, high degrees of fiscal transparency, and strong public sector unions), but also some of the characteristics of less developed countries (such as a lack of implementation capacity, shortages of critical PFM skills, and inadequate computerized financial management systems). There are substantial variations across the nine South African provincial governments in terms of their PFM performance and capability. Any analytical framework applied to PFM reforms therefore has to accommodate the both the advanced and under-developed features of public administration in the South African provincial governments, and shed light not only on the reform design, but also, crucially, on its implementation.

In South Africa, value-for-money reforms (at the level of policy intent and at the level of implementation) tend to be poorly documented both by government and by academia. This is possibly because, after 1994, the South African government embarked on a complete legislative and policy overhaul in a very short period of time, prompted by the adoption of the new Constitution in 1996. A slew of fundamental policy reforms were initiated, ranging from health, education, and social security policy to policy on roads and economic infrastructure (Presidency, 20030, many of which had a much higher political profile than PFM and performance-related reforms.

There are some official documents on value-for-money-related reforms (for example, annual Budget Reviews and position papers from the National Treasury), but these tend to be largely descriptive rather than analytical. There are however a few exceptions, such the *Presidential Review on Public Sector Reform* in 1998 (Presidential Review Commission 1998). Furthermore, official analysis tends to be confined to a short-term horizon: the last two years' actual expenditure, the next year's budget and the two outer year projections of the Medium Term Expenditure Framework (MTEF). By analysing data over the longer term, this study contributes to the Public Administration discipline in South Africa by providing a richer perspective on how PFM reforms have evolved over time, their interactions with other elements of public sector reform and their impact to date. Given that PFM reforms are inherently a medium- to long-term enterprise, for the first time there is a sufficiently long time-series of provincial financial and service delivery data on the basis of which to draw defensible, evidence-based conclusions and identify underlying trends.

Finally, a value-for-money focus intrinsically combines both the financial and non-financial dimensions of public sector performance. Consequently, this study is inherently inter-disciplinary and has to go beyond the traditional domain of Public Administration to draw on public economics (including institutional economics), public sector accounting, monitoring and evaluation and intergovernmental fiscal relations (IGFR). The realm of public management and governance (New Public Management, accountability frameworks, etc.) is particularly pertinent once reform implementation (rather than just design) becomes important, as is the case in the South African context.

1.6 Methodology

A methodology describes the techniques employed in research to collect and analyse data (Leedy & Ormrod 2013). Hence, the choice of methodology is crucial in determining the nature and sequencing of research activities, how progress is made and what constitutes the end product. The research objectives of this study are both descriptive, in that the aim is to describe a public administrative phenomenon (progress with the value-for-money dimensions of the PFMA compared to the initial objectives) and explanatory, in that the aim is to identify the underlying drivers of, or barriers to, achieving PFM implementation success. This section provides a rationale for the mixed method methodology selected to support the research objectives of this study, drawing on both qualitative and quantitative data and analysis.

1.6.1 Approach to the research

The study begins by defining a conceptual framework for analysing South African PFM reforms, drawing on a comprehensive survey of international and local literature in Chapters 2 and 3. The core elements of this analytical model are summarised in section 1.10 on page 13. This conceptual framework informs the design of a questionnaire administered to a sample of public financial management specialists in the National Treasury, in seven of the nine provincial treasuries, as well as independent experts outside the treasuries. Invitations to participate in the interviews underpinning this research study were extended to the heads of all nine provincial treasuries, but only seven responded positively (Gauteng, the Free State, Eastern Cape, Limpopo, Mpumalanga, North West and the Western Cape). Given the voluntary nature of the research, this response rate is high, and the sample is sufficiently representative of the South African provincial sphere. The independence of experts outside the treasuries not only provides more diverse and impartial perspectives on PFM reform implementation, but also serves as a means to validate the information and opinions shared by the treasury officials.

The aim of this qualitative approach, which is based on semi-structured interviews, is to obtain a rich and detailed understanding of PFM reform progress and dynamics, as well as to investigate the underlying causal factors in particular provincial contexts. Policy-makers and public administration practitioners tend to value perspectives that are context specific, because they are aware that the interplay of historical, political, administrative, economic and cultural factors often culminates in unique administrative contexts where uncritical transfer of policy responses from one setting to another may be of limited usefulness (Luton 2010).

This qualitative analysis is supplemented by a rigorous quantitative analysis of aggregate expenditure and revenue trends across provincial governments and associated service delivery outputs, with a specific focus on the Basic Education and Health sectors. While Higher Education (universities and technical and vocational colleges) is an exclusive competence of the national government, implementation of Basic Education (primary, secondary and pre-primary schooling) is a concurrent (shared) function in which policy is set by the national sphere but implementation and budgeting is carried out by the provincial governments. Similarly, Health is also a concurrent function in terms of the Constitution. The high level provincial expenditure and revenue trends are probed further by drilling down into disaggregated financial and non-financial (service delivery) data of the nine provincial Education departments and the nine provincial Health departments.

Both the quantitative analysis and the qualitative analysis aim to identify the underlying explanatory factors for the observed revenue and expenditure trends.

Finally, to benchmark the PFM performance of the provincial Education and Health departments, a Public Financial Management Progress Index (PFMP index) for the period 2007/08 to 2013/14 is constructed for each of the nine provincial Education departments and for each of the Health departments, drawing on official financial management-related documentation such as annual performance plans, budgets and audited financial statements. The period from 2007/08 to 2013/14 was the only one for which all of the variables used in the PFMP index were available. Section 7.2 on page 313 describes the variables used to construct the PFMP index in greater detail. Employing a methodology which encompasses both quantitative and qualitative dimensions permits triangulation to verify the reliability and validity of the research findings.

The aggregate and sectoral analyses, as well as the benchmarking across provincial Education and Health departments, accentuate the similarities and differences among the nine provincial governments, and the selected sectors and departments in relation to PFM reform implementation. A comparative approach is appropriate because provincial governments operate in similar political, legal and social environments, although there can be vast differences across provinces in relation to, *inter alia*, fiscal capacity, administrative capacity, and economic profiles.

Quantitative research typically attempts to explain many instances of a phenomenon by identifying a few underlying explanatory variables in order to make statistically sound predictions (Babbie 2013). Qualitative research, by contrast, employs “a thick description” approach which takes a more nuanced view of causation as evolutionary, as emergent and as the complex and cumulative product of inter-related decisions and actions by disparate role-players in the public and private sectors, both through individual agency and through collective institutions (Luton 2010:12). While thick descriptions and analysis typically do not support statistically rigorous predictions, they do permit an analysis of “multiple conjectural causation”, which acknowledges that observed policy outcomes may be attributable to “many different combinations of conditions, making it difficult to identify a decisive causal combination” (Luton 2010:12). PFM reforms are influenced by complex interactions between administrative, political and organizational factors, and are likely to be characterized by multiple conjectural causation. These reforms therefore lend themselves to qualitative investigation of the underlying barriers to effective value-for-money reforms and the drivers of success or failure deriving from the interaction of formal and informal institutions.

Public Administration concerns itself with human behaviour in a public sector organizational context. Therefore it has to engage with both explicit knowledge (which is amenable to quantification) and tacit knowledge. Tacit knowledge is knowledge that is difficult to observe (and hence to measure directly), but that could nevertheless exert a powerful influence on policy outcomes (Luton 2010), for example, informal institutions such as organizational culture and leadership impact. Qualitative approaches provide an effective mechanism to identify, articulate and share such tacit knowledge. Research which draws on both quantitative and qualitative analysis is more likely to capture the dynamics between formal institutions (such as formal PFM legislation, regulation and policy) and the informal institutions or factors that shape the incentives of individual public servants and public sector organizations. This is critical in understanding PFM reform, since most previous South African and international research has focused on explicit technical knowledge, but has largely neglected the tacit elements. Yet both internationally and domestically, the good governance role of Accounting Officers (Heads of Department), Chief Financial Officers and other senior officials requires not only formal institution-building but also leadership in inculcating stewardship values and setting the ethical tone for public sector organizations (Fourie, 2009).

1.6.2 Data collection and data sources

Both primary and secondary data sources are used in this study. Primary data were derived from semi-structured interviews with officials in the National Treasury and the provincial treasuries. Secondary data were drawn from official data sources such as departmental strategic plans, budgets and annual reports, budget documentation and reports from the treasuries, Auditor-General's reports, as well as relevant books, journal articles, conference proceedings, and publications on websites. The National Treasury, on request, provided access to their electronic database of provincial departmental budgets and actual spending outcomes from fiscal year 2004/05 to 2013/14 in spreadsheet format.

The sample of interviewees was determined by using a purposive approach (rather than a random or probabilistic approach) in order to focus on those national and provincial treasury officials who are most knowledgeable about the PFMA and who have been involved in PFM reforms longest. The Ethics Committee of the University of Pretoria required written permission to be obtained from the relevant Heads of Department (HoDs) before officials from the National Treasury and the provincial treasuries could be interviewed. The HoDs of the National Treasury and seven of the provincial treasuries either participated in this research themselves, or nominated appropriate senior officials to be interviewed. These officials also assisted in identifying other relevant officials and ex-officials (who had been part of the initial PFMA implementation) who could be consulted. However, two of the provincial treasuries did not respond to repeated invitations to participate in this study.

About two thirds of the interviews were conducted in person in Gauteng, Mpumalanga and the Western Cape. The remaining interviews were conducted telephonically. Feedback was gathered from the interviewees in a structured dialogue, based on pre-prepared questionnaires circulated to respondents prior to the interview, and recorded. Using self-administered questionnaires could in principle be quicker and cheaper, eliminating interviewer bias and preserving privacy and anonymity (Brynard & Hanekom 1997). However, low response rates are more likely, and the simplicity that is required in self-administered questionnaires could fail to capture the complex dynamic between formal and informal elements of PFM systems. Hence, face-to-face and telephonic interviews were deemed most appropriate. The use of telephonic interviews has some of the same advantages as face-to-face interviews (for example, the ability to explain questions and to probe initial responses to questions further), but the cost is much lower. Cost was an important factor, given the geographic dispersion of the respondents across the provincial treasuries that were sampled. The decision to conduct telephonic interviews also made it possible to accommodate requests by some respondents to be interviewed outside office hours.

The questionnaire which was administered is contained in Annexure 4 on page 431. The interview was divided into two parts. The first part (the strategic PFMA overview) looked at broad PFM reform objectives and trends; the second part was a more detailed implementation review of in specific provincial governments. The questions were designed to elicit the respondents' views on progress with PFMA reforms that could enhance value-for-money, and the responses were rated using a Likert scale, as described by Babbie (2013).

As reflected in Table 1 below, 21 officials responded to the first part of the questionnaire (the strategic PFMA overview): 5 from the National Treasury, 5 who had left the employ of the National Treasury (but who had been involved in the early years of PFMA implementation), 10 officials from seven of the nine provincial treasuries, and 1 ex-provincial treasury official (who had been instrumental in helping to shape the PFM reforms).

Table 1: Composition of interview sample participating in the strategic PFMA overview

	Current officials	Ex-officials	Total	*% of total*
National Treasury	5	5	10	*43*
Provincial Treasuries	10	1	11	*48*
Independent experts			2	*9*
Total	**15**	**7**	**23**	***100***

Source: Own calculations

The sample consisted of senior officials who were able to share strategic insights about the reform process. Directors-General and Deputy Directors-General comprised 34% of the sample, and Chief Directors comprised 26% of the sample. The average time respondents had spent at the National Treasury or provincial treasury was 10.4 years, and 16.8 years in public financial management more generally. Therefore the respondents sampled had a wealth of institutional memory at their disposal. Two of the respondents (who had served 21 and 24 years at the National Treasury respectively) were in a position to reflect on both the post-1994 democratic order and the period which had preceded it.

In addition to the 21 current and former treasury officials, 2 independent PFM experts were also interviewed: a senior official from the Financial and Fiscal Commission, and an eminent public finance economist who had acted as policy advisor to the Ministry of Finance (bringing the total sample size to 23). Finally, to provide a political perspective, the former Minister of Finance, Mr Trevor Manuel, who was instrumental in championing the first decade of PFM reforms, was also interviewed. The Minister's responses have not been aggregated with the rest of the sample, but are (with his permission) attributed to him directly.

A subset of 16 of the 23 interviewees also answered the second part of the questionnaire, the detailed departmental implementation review in addition to the strategic PFMA overview, as reflected in Table 2 below. The other 7 respondents were able to comment on broad trends during the period of their tenure at the National Treasury or provincial treasury in the early years of the PFMA, but were not in a position to comment in detail on the recent status quo. These respondents did participate in the detailed departmental PFMA implementation review, but confined their feedback to the strategic PFMA overview only.

Table 2: Composition of interview sample participating in the detailed departmental PFMA implementation review

	Current officials	Ex-officials	Total	% of total
National Treasury	3	2	5	31
Provincial Treasuries	10	1	11	69
Total	**13**	**3**	**16**	100

Source: Own calculations

1.6.3 Data analysis

Analysis of progress with PFMA implementation was gauged relative to the initial objectives of the PFMA (focusing on those objectives relating to value-for-money), the initial baseline prevailing in the provincial governments at the start of PFMA implementation in 2000, and the status quo in 2014.

For empirical analysis of the PFM reforms, four categories of variables are germane:

(i) as the *independent variable*: value-for-money-related PFMA reforms;

(ii) as the *dependent variable*: value-for-money impacts in the effectiveness, efficiency and equity of public expenditure measured in terms of financial and non-financial service delivery outcomes;

(iii) *mediating or intervening variables* which explain why the independent variable has a particular effect on the dependent variable under review – "the independent variable influences the mediating variable which in turn influences the dependent variable" (Leedy & Ormrod 2013:41). In the current study, the hypothesis is that PFMA reforms (the independent variable) should influence actual PFM practice (the mediating variable) which then change value-for-money outcomes in public spending (the dependent variable). Similarly PFM capacity (the availability of financial management skills, and management processes and systems) could also be a mediating variable; and

(iv) *moderating variables* which affect the nature and strength of the relationship between the independent and dependent variables; "moderating variables provide the context or conditions that alter – that is they moderate – an independent variable's effect" (Leedy & Ormrod 2013:41). Furthermore, an independent variable may potentially influence a mediating variable but does *not*, in and of itself, influence a moderating variable. In the context of this study, there may be factors external to the PFM system within provincial governments (exogenous factors) which may have an impact on the quality of public expenditure outcomes (the dependent variable) and which are unrelated to the independent variable (PFMA implementation). These might include the impact of the HIV/AIDs epidemic on personnel in the Health and Basic Education sectors or the income status of learner's families in Basic Education.

Operationalization entails the "development of specific research procedures (operations) that will result in empirical observations representing those concepts in the real world" (Babbie 2013:177). Put simply, operationalization should render the concepts and variables of interest in the study measurable. To operationalize the independent variable, various value-for-money reform indicators were developed for each of the relevant PFMA reforms:

(i) linking strategic and operational planning and budgeting;

(ii) Medium term expenditure frameworks (MTEFs);

(iii) performance-related budgeting;

(iv) costing;

(v) supply chain management (SCM);

(vi) in-year monitoring and evaluation (M&E); and

(vii) annual reporting with a focus on performance information as well as the audited financial statements *per se*.

The same set of indicators guided both the analysis of the secondary fiscal data and the design of the questionnaire used for gathering primary data from the interviewees. These indicators captured the changes to PFM administrative systems for each of the value-for-money PFMA reforms (for example, whether regulations have changed, changes in delegated roles and responsibilities), as well as how actual PFM practice has changed over time (the behaviours and attitudes of financial managers and line managers within provincial departments).

1.7 Limitations of the study

The three main limitations of this study are outlined below.

1.7.1 Only PFMA reforms are considered in the study

Besides the PFMA, many other public sector reforms have been initiated to enhance government performance in general. These reforms complement PFMA reforms, but they fall beyond the scope of this study. Such reforms include the introduction of individual performance management systems by the Department of Public Service and Administration, the Government-wide Monitoring and Evaluation (GWM&E) system, the outcomes approach to results-based management, and audits of performance information by the Auditor-General in terms of the *Public Audit Act*, 2004 (Act 25 of 2004). The restricted focus on the value-for-money dimensions of the PFMA is a manageable area for study, but this limitation of the scope implies that it is difficult to attribute direct causality between the value-for-money-oriented reforms and changed expenditure performance outcomes, since these outcomes may have been influenced by other factors, such as other reforms that are not included in this study.

1.7.2 The focus is on PFMA reforms relating to value-for-money only

The PFMA's objective of modernising PFM encompasses a wide range of reforms which extend beyond ones aimed primarily at enhancing the efficiency of the public sector and effective public expenditure. These include reforms to revenue management, cash and investment management, strengthening the internal control environment, asset and liability management, audit committees and accounting reforms. This study focuses primarily on those reform initiatives that are aimed predominantly at value-for-money enhancement by enhancing institutional performance.

1.7.3 This study falls short of a full impact evaluation

This study does not constitute a comprehensive impact evaluation, because of the formative nature of the process under review – PFMA implementation is still in progress. The evidence on causal relationships between individual PFM reforms and the fiscal and delivery outcomes discussed may be tentative and suggestive, rather than authoritative. Nevertheless, the formative nature of the topic under discussion means that the findings of the study could make a valuable contribution to improving future PFMA implementation. It is a major challenge in this study to attribute any variations in fiscal and delivery performance directly and conclusively to PFMA reforms, given that other mediating factors may be present in the external and internal operating context of provincial governments.

1.8 Ethical considerations

Ethical clearance was obtained from the University of Pretoria's Ethics Committee prior to commencement of this research project. The research process was conducted in terms of the University's *Guidelines for Ethical Researc*h to ensure compliance with the highest ethical standards, such as respect for the dignity of the respondents to the questionnaire, justice, fairness and integrity. To elicit candid feedback, respondents were assured of the confidentiality of their responses. Permission was obtained to include any citations that are directly attributed to individual interview respondents.

1.9 Assumptions and risks

This study is predicated on a number of assumptions. If they fail to hold, this may influence the credibility of the research findings. These assumptions are discussed below.

1.9.1 PFM reform design and implementation is grounded in rationality

Undoubtedly, politics, the personalities of key political and administrative role-players, the lingering influence of historical initial conditions, and even incidents that are sheer chance, may influence the trajectory of PFM reform. Furthermore, complex reform programmes may to some degree be emergent (guided by broad principles, but without a detailed design or rigid implementation plan). They may coalesce from many decisions over time by multiple stakeholders, which are not necessarily coordinated.

Nevertheless, this study assumes that the PFM reform's design in South Africa is largely a product of conscious and rational analysis and design. This assumption is reasonable in the light of the fact that PFMA implementation was conceived of as a single, sustained programme, with phased implementation, rather than as a collection of disparate *ad hoc* initiatives. However, what is politically rational (for example, to ensure re-election) may not be economically rational. Furthermore what is rational from a legal-administrative viewpoint (for example, effective accountability, transparency and equitable treatment of all citizens) may clash with the economy, efficiency and effectiveness of service delivery. An example of this tension arises where private-public partnership or outsourcing contracts contain commercial confidentiality clauses which undermine transparency and public accountability (English, Guthrie & Parker 2005).

1.9.2 Proxies for informal institutions and other intangible factors are appropriate

The PFMA reforms aspire to change the behaviour of public financial managers and elected officials (such as national Ministers and their provincial counterparts, the Members of the Executive Council, MECs), and aim to induce a performance orientation in the public sector. The reforms attempt to do this mainly through formal institutions (such as legislation, regulation and policy).

However, the success of PFM reforms depends not only on formal "technical" dimensions, since they "are conditioned by, and in turn condition, social and organizational processes, practices and contexts" (Guthrie, Humphrey, Jones & Olson 2005:4). Informal institutions (such as administrative culture) therefore also influence the way financial management is actually done in practice, as opposed to how it is supposed to be done on paper. Informal institutions are enormously influential, but they are intangible and hence are difficult to gauge and analyse.

1.10 An analytical framework: Public Administration and PFM reform

This section of the study situates PFM reform within the broader discipline of Public Administration. From this conceptual framework, the key concepts and terms which underpin the research constructs used in the study are extracted. These research constructs are operationalized in the research methodology in the section below.

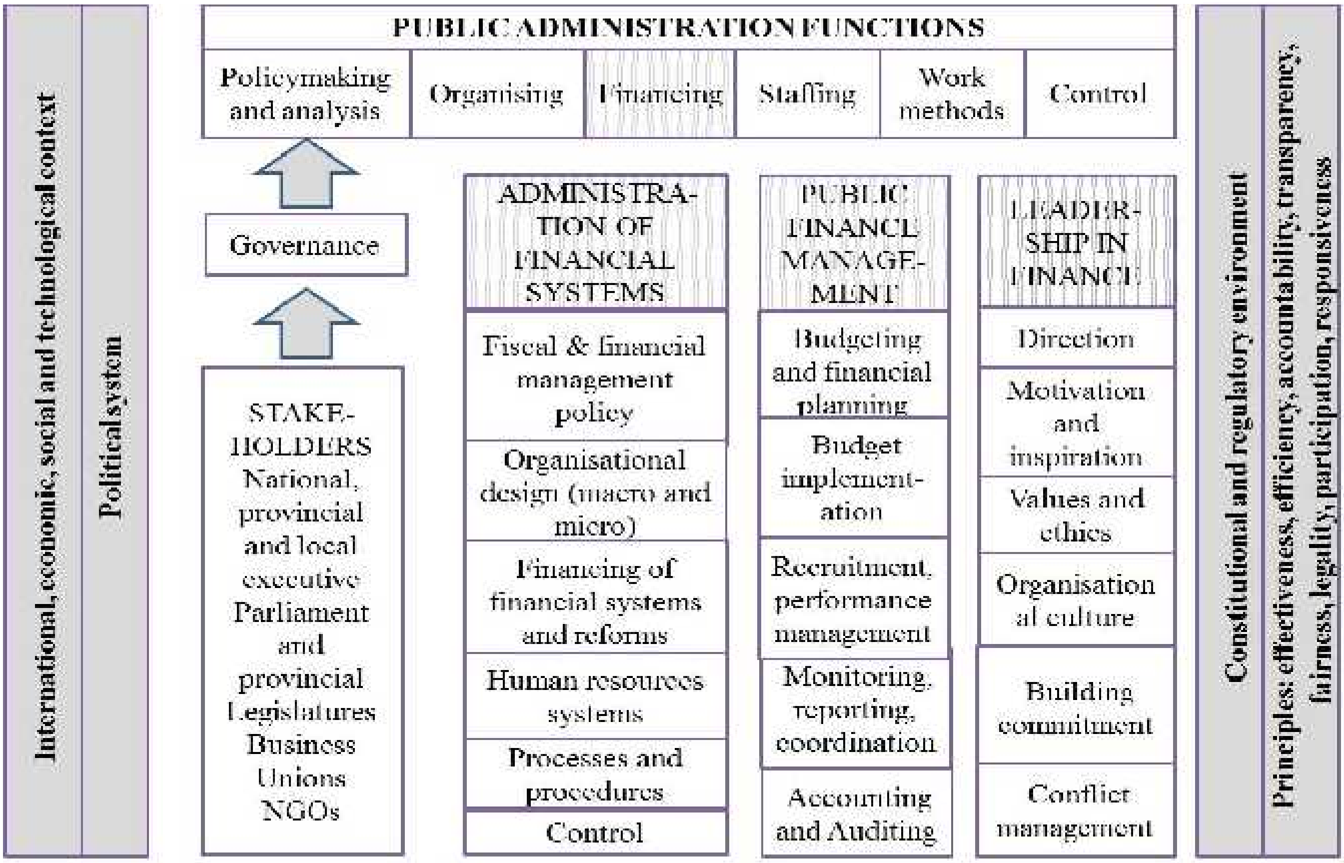
1.10.1 Analytical framework

The analytical approach employed in this research expands on a conceptual framework for analysing PFM reform implementation first developed and explicated by Kuye and Ajam (2012). The adapted framework provides a structured approach to identifying and understanding crucial drivers of PFM reform implementation paths and their associated opportunities, challenges and risks.

As elucidated in Figure 1 overleaf, the evolution of PFM systems is shaped by many contextual factors: the global and domestic economic environment, the political system, the constitutional and legislative environment, and the prevailing social and technological conditions. Public financing is one of the key generic public administration functions which support the core business (the functional or line activities) of a public institution in direct public service provision or regulation (Cloete & Thornhill 2010).

The public finance administration system endeavours to resource the policy choices, priorities and plans emerging from political and governance processes. A distinction may be drawn between (i) the system for administering PFM and (ii) the management activities and leadership which take place within the broad parameters of that system (Cloete & Thornhill 2010; Du Toit & Van der Walt 1997). Individual fiscal policy decision-makers and finance managers perform their day-to-day budgeting and financial management activities (medium-term financial planning, annual budgeting, budget implementation, recruitment and performance management of staff) within the financial administrative system. Any PFM reform programme would be concerned with both changes to the system for administering PFM as well as the resultant changes to management and leadership behaviours.

Figure 1: A conceptual framework for the analysis of public financial management reform implementation



Source: Adapted from Kuye and Ajam (2012:63)

Reforms to the system of finance administration may alter the incentives faced by various PFM role-players, leading to changes in management and leadership behaviour which may improve PFM practice in relation to value-for-money, and ultimately, also improve financial and service delivery outcomes.

As is reflected in Figure 1 above, the administrative system for public finances is constituted by its own distinct generic sub-components:

(i) fiscal and financial management policies and regulations;

(ii) the organizational design of the national and provincial treasuries as the central budget agencies, and the financial sections in national and provincial line departments;

(iii) the financing of ongoing PFM operations, as well as of PFM reform initiatives;

(iv) guidelines on human resources, skills and competences required for PFM;

(v) specific budgeting, accounting and reporting processes, format and standards; and

(vi) control measures such as budgeting monitoring, programme evaluation, financial and performance auditing, and/or legislative fiscal oversight (Premchand 1983; Schiavo-Campo & Tommasi 1999).

Each of these sub-components may apply at various levels: government-wide, within a particular sphere (such as provincial government) or within a particular public institution (such as a provincial government department). Through effective management of revenues, expenditures, assets and liabilities, the following objectives of PFM are achieved:

(i) A*ggregate fiscal discipline* relates to determining appropriate total levels of taxation, total public expenditure, deficits and debt. Fiscal discipline is present when actual fiscal outcomes coincide with planned revenue and expenditure intentions, without over- or under-spending.

(ii) *Allocative efficiency* pertains to the ability of the PFM system to distribute scarce public resources in line with the government's priorities and the preferences of its citizens. Allocative efficiency in this context ensures that, through effective prioritisation of the mix, level and quality of public services, the greatest possible social welfare is obtained from a given quantum of public funds.

(iii) *Operational efficiency* refers to the requirement that the highest possible number of service delivery outputs (of a given quality) are produced with the given budget allocation constraints. In other words, unproductive, wasteful expenditure and corruption are eliminated (Schiavo-Campo & Tommasi 1999; Schick 1998a).

For analytical purposes, a value-for-money perspective would focus more on the operational and allocative efficiency dimensions of fiscal performance, although all three dimensions are clearly related. Besides the substantive fiscal outcomes, a fiscal governance perspective would also emphasise transparency, accountability, citizen participation and organizational learning.

These crucial PFM objectives, against which the actual performance of PFM systems may be assessed, are summarised in Figure 2 overleaf.

Figure 2: Dimensions of fiscal performance

Source: Author's summary

From the above description it is clear that any attempt at PFM reform has to consider each of the technical aspects of financial management systems (embodied in the six sub-components listed above) in terms of their sequencing and mutual consistency. For example, the introduction of new accounting standards may require changes in regulations, changes in processes and formats, new information technology (IT) systems, changes to reporting cycles, the recruitment of additional specialist skills, and funding for technical support and capacity building.

In addition to the purely technical PFM elements (which are discussed in more detail in later chapters of this thesis), the conceptual framework outlined in Figure 1 on page 14 also stresses the important role played by more informal and personal elements: leadership, governance, public service values and ethics. Public managers, including financial managers, have a more complex task than their private sector counterparts, in that they have to meet service delivery and financial objectives, in addition to political, social, ethical and environmental objectives. In the face of rapid and radical shifts in political priorities and public opinion, often in volatile and constrained economic circumstances, especially in developing countries, public managers have to strike a difficult and often changing "balance between professional standards, economic imperatives, social values and technical constraints" (English et al. 2005:36).

PFM reforms tend to be driven by calls for efficient and effective service delivery, but the sustainability and impact of these reforms depend on achieving the crucial political, social, legislative, environmental and technical balance alluded to above, within the particular historical, political, institutional and developmental context of the particular public service. Moreover, they have to do so in the contested and dynamic arena of public policy with a vast array of stakeholders with competing interests, powers and authority. Often, trade-offs and tensions are inevitable, and in the public sector, that may entail political value judgements rather than exclusively economic rationales.

As the complexity of Figure 1 on page 14 illustrates, PFM reform is neither a simple nor a short-term endeavour. There are no "quick fixes" that will ensure that the desired change of behaviours and mind-sets occurs rapidly and is institutionalized. The cumulative impact of reforms to PFM systems, processes, organizational culture and skills development may only manifest gradually in the behaviours of individual public managers in the medium- to long-term. It has become a cliché that reforms such as performance budgeting and results-based monitoring and evaluation (M&E) are processes rather than events, requiring shifts in attitude, rather than just adopting a new set of regulations, budget formats, planning templates, M&E guidelines or accounting procedures. In addition, the changes have to permeate both the formal modalities of planning, financial management and monitoring ("how things ought to be done") and the informal institutions ("how things are actually done").

The individual elements in Figure 1 on page 14 comprise the institutional framework for PFM (the rules, both formal and informal, the roles and information flows) which cumulatively shapes the challenges and incentives that financial decision-makers and public managers face (Schick 1998a). These incentives in turn condition their behaviours and influence budget and financial management outcomes (such as efficiency, effectiveness, fiscal discipline, equity, and compliance).

In common parlance, the term "institution" is often used synonymously with the term "organization". In institutional economics, however, the term is used in a much broader sense to describe the "rules of the game" that shape the incentives confronting individual agents and thereby influence their behaviours. In other words, they "promise reward or punishment in response to different behavioural choices, constraining behaviour through extrinsic means" (Andrews 2013:42). Institutions may be formal (for example, laws, regulations in the public sector, or contracts), or they may be informal (for example, organizational culture or administrative values).

PFM institutions (which may be formal or informal) include

(i) Budget *rules*: these include financial legislation, regulation and policy, accountability and control systems and their enforcement (or the lack thereof);

(ii) Budget *roles*: played by budget decision-makers (Ministers, Cabinet, Parliament), budget-controllers (the Treasury) and budget-spenders (line departments) and oversight bodies (parliamentary committees and supreme audit institutions such as the Auditor-General); and

(iii) Budget and financial *information* flows: the accuracy, timeliness, coverage, periodicity, transparency and the nature of information that budget-makers and oversight institutions have at their disposal (Schick 1998a).

Formal institutions have traditionally been the focus of public administration, public economics and legal research. However, informal institutions, which have traditionally been the preserve of sociologists, anthropologists and organizational psychologists, also exercise a powerful influence over individual, organizational and societal behaviour. Informal institutions include: (i) normative mechanisms such as the shared assumptions, beliefs and values underpinning behaviour and (ii) cultural cognitive mechanisms, which constitute the lens through which people view the world, receive and analyse information, and imbue it with meaning. These informal institutions are often reflected in the symbols of group affiliation and group belief (for example, national identity, religion, linguistic orientation, or ethnicity). Institutions typically consist of all three components (formal regulatory, informal normative, and cultural cognitive), which interact cumulatively to affect behaviour (Andrews 2013). Institutions are not static but evolve or decline dynamically over time.

A key component of PFM reforms is therefore ensuring that the institutional arrangements of PFM systems and the incentives they create are conducive to achieving the particular goals that a particular PFM system is pursuing. In other words, to achieve their objectives, reforms not only have to modify the formal managerial elements of systems (such as budget and reporting formats, budgeting techniques, legislation, policy and information), but must also ensure that these alterations actually translate into changed decision-making and actions by civil servants and politicians in the way they handle public funds.

To this end, it is critical that poor organizational and individual performance and financial misconduct be heavily penalised, and conversely that exceptional performance be rewarded. Other important incentives that need to be considered to enhance performance include the questions of (i) whether managerial systems empower and encourage public servants to be conscious of the costs of services, and to manage their own decisions about resource inputs, such as cleaning services and equipment, rather than these being provided centrally at no cost to the unit involved, (ii) whether all management systems (for example, planning, budgeting, accounting, monitoring and evaluation) see performance in the same way and send consistent signals to managers, (iii) whether there are accountability frameworks and they are consistency applied, (iv) the transparency of performance information on results, and (v) whether there is an incentive to cooperate and to share rather than hoard information (Bale & Dale 1998; Schiavo-Campo & Tommasi 1999).

Treasuries often try to reform PFM systems by decree, by passing new legislation or issuing a new regulation or practice note that demands compliance. If it were that simple to introduce reform, then all reform would be virtually self-implementing – changing the policies on paper would automatically translate into altered PFM *praxis* and improved outcomes. However, in reality, any effect induced through "command and control" is likely to be superficial and transitory. An institutional approach to inducing public managers to be more value-for-money-oriented acknowledges that they have a choice as to whether they will merely go through the motions, or will endeavour to adhere to the substance and spirit of the reforms rather than merely their form. Since their buy-in is indispensable, and their effort and commitment cannot be compelled solely by fiat, it is imperative to institutionalize appropriate incentives that will encourage them to take decisions and actions which are aligned to the goals of reforms, and appropriate sanctions in the event of deliberate or serial non-compliance or serious misconduct. These incentives should ideally be supported by appropriate formal and informal administrative and professional values.

This simple conceptual model outlined above obscures the complex, dynamic, non-linear, emergent, iterative, path-dependent and messy reality of PFM systems and their reforms in practice. As an analytical and heuristic tool, however, the model does add value in emphasising not just the technical and formal elements of PFM systems and reforms, but also the informal, leadership and governance elements that are required for these reforms to achieve their desired impact.

1.10.2 Key concepts and theoretical constructs

1.10.2.1 Accounting Officer

Accounting Officers (AOs) are the most senior public managers – generally the Heads of Department known as Directors General in South Africa – who are legally accountable for collecting and spending public funds, acquiring and disposing of public assets, incurring liabilities and for keeping associated accounting records in national and provincial departments. The PFMA defines an AO as a person mentioned in section 36 of the Act. Sections 38 to 44 of the PFMA outline the responsibilities of the AO. In terms of the PFMA, AOs of national departments are politically accountable to Ministers as Executive Authorities and AOs of provincial departments are accountable to Members of the provincial Executive Council (MECs) as Executive Authorities.

1.10.2.2 Public financial management

Public financial management (PFM) is concerned with revenue mobilisation by government (through taxation, user-charges, etc.), the stewardship of public assets and liabilities, and the allocation, spending of, and accountability for, public expenditure to achieve policy objectives (adapted from Premchand 1983 and Schiavo-Campo & Tommasi 1999). Because of the significance of the public sector in the broader economy, PFM typically influences macroeconomic stability and economic growth, resource allocation in the economy, access to public services, as well as income distribution (through taxes, subsidies and social grants).

1.10.2.3 Public financial management system

By analogy, a PFM system may be defined as all the legislative and policy frameworks, the organizational structures, financial management processes, standards, planning and accountability documents, delegations and reporting lines, accountability relationships, and accounting and information systems (electronic or manual) that enable public sector entities to discharge their PFM responsibilities (adapted from Schiavo-Campo & Tommasi 1999 and CIPFA 2009). In addition to these formal management elements, informal institutions such organizational culture, administrative values, leadership and governance, capacity (system-wide, organizational and in individual officials) also exert a powerful influence on the way officials who spend or control public funds behave, and thereby influence budgetary and service delivery outcomes (Andrews 2013; Schick 1998a). The interaction between formal and informal budget systems is pertinent, especially when informal rules contradict or undermine the formal budget institutions.

1.10.2.4 Public financial management functions

PFM functions include budget prioritisation, budget formulation and appropriation, revenue management (policy, planning, collection and accounting), procurement, internal controls, in-year monitoring of revenues and expenditure, financial accounting and reporting, as well as internal and external audit arrangements (Premchand 1983; Schiavo-Campo & Tommasi 1999). Figure 1 on page 14 and the associated discussion provide more detail on the various formal and informal elements of the PFM system. As noted earlier, the scope of this study is limited to those PFM functions most closely related to enhancing value-for-money.

1.10.2.5 Public financial management institutions

Institutions are “the laws, procedures and rules that determine and regulate the behavior of public officials and organizations” (North 1990, cited in Allen 2009). Budget institutions (in the institutional economics sense) refers to the “rules of the game” in a PFM system that shape the incentives facing budget decision-makers, budget-controllers and -spenders and thereby infuence their behaviour in terms of the size, allocation and use of fiscal resources, as well as fiscal outcomes such as aggregate fiscal discipline, allocative and operational efficiency (Campos & Pradhan 1996). Here the term “incentives” does not refer only to monetary rewards or sanctions as in colloquial discourse, but also to the broader parameters on the basis of which public managers make decisions and take action in relation to PFM.

1.10.2.6 Public management reform

Pollitt and Bouckaert define public management reform as “deliberate changes to the structures and processes of public sector organizations with the objective of getting them (in some sense) to run better” (2011:2).

1.10.2.7 Public financial management reform

Along similar lines, PFM reforms are defined in this study as deliberate changes to the legislation, policies, structures and processes of public sector organizations in order to improve their fiscal and financial management outcomes (adapted from Pollitt & Bouckaert 2011:75). Fiscal outcomes such as aggregate fiscal discipline, allocative efficiency, operational efficiency and accountability have already been defined in detail above.

1.10.2.8 PFM reform trajectory

A *public financial management reform trajectory* may be defined as an intentional chain of steps or events to move a public service from a particular starting point to a desired future state of affairs (Pollitt & Bouckaert 2011:75).

1.10.2.9 New Public Management

It is difficult to define either "*New Public Management*" or its financial incarnation "*New Public Financial Management*" with any degree of precision, since they do not constitute a well-defined "off-the-shelf" package of specific techniques and methods for enhancing public sector performance. Instead, they are best seen as a reforming impulse, aimed at creating the incentive for public officials to be more financially aware in their use of public sector resources (Guthrie, Olsen & Humphrey 1999). The term "New Public Financial Management" has become associated with a loose constellation of related reforms, including

> …changes to financial reporting systems, the development of commercially based, market oriented systems and structures to deal with the pricing and provision of public services, the development of a performance measurement approach, the devolution or delegation of budgets, changes to internal and external public sector audits, notably in terms of monitoring service delivery functions and providing rules of service efficiency and effectiveness. (Humphrey, Guthrie, Jones & Olson 2005:2)

Rather than a logically coherent approach, NPM is still "work-in-progress", riddled with tensions, paradoxes, contradictions and unresolved questions, even in the developed world where it was conceived. Increasingly, NPM is seen to have failed, or at least to have failed to deliver on expectations (Humphrey et al. 2005).

1.10.2.10 Provincial governments

Section 40 of the Constitution establishes three spheres of government (national, provincial and local) which are distinct, interrelated and interdependent, and assigns to each of these spheres certain powers and functions. The term "sphere" is employed throughout this thesis, rather than the more conventional term tier or level of government to align with the Constitution, thereby emphasising the cooperative, interdependent nature of the relationship between the spheres, rather than the hierarchy usually implicit in the term tier or level in which sub-national spheres are often subordinated to national government. Chapter 6 of the Constitution establishes the nine provincial governments and delineates their legislative powers (vested in the nine provincial Legislatures) and the executive powers vested in the provincial Executive (the Premier, the provincial Executive Council and the provincial government departments).

1.10.2.11 Public sector bargain

A public sector bargain may be defined as "any explicit or implicit understanding between (senior) public servants and elected politicians in a political system about their duties and entitlements, relating to responsibility, autonomy and political identity, and expressed in convention, or formal law, or a mixture of both" (Hood 2002:318). PFM reforms often entail changes to the politico-administrative interface, thus requiring new public sector bargains.

1.10.2.12 Value-for-money

In this study, value-for-money refers to economy, efficiency and effectiveness in public spending, as well as equity. Whereas standard international definitions tend to concentrate exclusively on economy, efficiency and effectiveness, the inclusion of equity in the definition of value-for-money is a direct response to South Africa's constitutional values and the principles underpinning public administration, as articulated in section 195 of the Constitution, and reinforced by the *Bill of Rights* in Chapter 2 of the Constitution, which requires the progressive realisation of socio-economic rights within the limits of available state resources. The definition of what constitutes public value is a contested one (O'Flynn, 2007; Moore, 1994), but this study assumes that the identification of public value emanates from political policy and planning processes. This becomes the starting point for PFM, which resources the implementation of policies and programmes to achieve public value.

1.11 Outline of the study

Chapter 1 delineates the purpose and rationale for this research study on PFM reform in South Africa, outlines the problem statement, identifies specific research objectives, justifies the use of a mixed methodology with both qualitative and quantitative dimensions in order to achieve those objectives, articulates a conceptual framework for analysis, introduces key concepts and terms employed in conducting the research and clearly defines the limitations of the study.

Chapter 2 sketches the historical evolution of budgeting theory in the broader public administration literature, and the role of PFM systems in public administration. Because budgeting and PFM are truly interdisciplinary domains, Chapter 2 also draws on the relevant public economics and public accounting literature. Despite a substantial body of research across many fields of study, a unified theory of budgeting and budget systems remains elusive.

Chapter 3 extracts yardsticks from the growing literature on PFM reforms in developed and developing countries against which to assess the South African PFM reform trajectory. The South African reform programme is compared to international PFM experiences in relation to the factors driving PFM reform, reform objectives, the sequencing of reforms and other implementation success and risk factors.

Chapter 4 describes the creation of the nine provincial governments in 1994, the fundamental restructuring of the macro-organization of the state and the broader programme of public sector reform in South Africa (of which PFM reforms are just a single element). This lays the foundation for Chapter 5, which contextualises PFM reform in the broader economic reform strategy in South Africa, describes the sequencing of reform since 1994 and the implementation challenges encountered, and provides an assessment of PFM reform progress to date, based on the perspectives expressed by the senior national and provincial treasury officials interviewed.

This qualitative assessment of PFM reform is validated in Chapter 6 by a quantitative analysis of aggregate revenue and expenditure outcomes across provinces and in the Basic Education and Health sectors in particular. Against this backdrop, Chapter 7 constructs a Public Financial Management Progress Index which is employed to benchmark fiscal performance across individual provincial Education and Health departments between 2007/2008 and 2013/2014. Chapter 8 concludes with a summary of findings and recommendations for further PFM reform in South Africa. Annexures 1, 2 and 3 provide the detailed data on which the analysis is based. Annexure 4 contains the questionnaire that guided the semi-structured interviews conducted as part of the qualitative research.

1.12 Summary and concluding remarks

Muted global economic growth and depressed domestic growth rates in the aftermath of the 2008 global financial crisis, exacerbated by prolonged electricity loadshedding and threats of imminent downgrades to South Africa's soverign credit rating to junk bond status, has placed fiscal consolidation and debt reduction firmly on the South African fiscal agenda over the medium to long term. At the same time, backlogs and severe disparities in Basic Education and Health persist, triggering service delivery protests and increasing disatisfaction by the poor at the slow pace at which the socio-economic rights guaranteed by the South African Constitution are being progressively realized. While access to Basic Education and Health services has increased substantially (as explored in Chapter 6), service quality has not increased commensurately despite the substantial amount of public resources directed at these sectors annually in budget appropriations.

Under these fiscally austere conditions, promoting value-for-money in provincial public spending has become imperative. This constitutes a cogent rationale for investigating the extent to which PFM reforms to date have indeed promoted value-for-money, and how greater developmental impact from provincial public spending could be achieved within the increasingly constrained resource envelope. This initial chapter outlines the research objectives and methodology of the research study, as well as limitations to the scope of the study and an analytical framework for evaluating public administration and PFM reform. Informed by this background, the next chapter locates PFM reform within a multi-disciplinary theoretical framework, drawing not only on the Public Administration discipline, but also on public economics and public accounting perspectives.

CHAPTER 2:
PUBLIC ADMINISTRATION, BUDGET THEORY AND PUBLIC FINANCIAL MANAGEMENT REFORM

2.1 Introduction

The role of government has evolved over time, from a narrow initial focus on the maintenance of law and order, defence and regulation, to the provision of a broad array of public goods and services and, more recently, to the management of the economy. The concomitant increase in the size and complexity of government and its expanding and evolving functions is also reflected in the genesis and development of PFM systems. This chapter commences with an analysis of the treatment of budgets in the discipline of Public Administration. It then proceeds to analyse changing perspectives on budgeting, drawing on the related fields of public sector economics and public accounting. The focus then shifts to the New Institutional Economics which was hugely influential in shaping New Public Management (NPM) perspective, and fiscal federalism (also known as intergovernmental fiscal relations), which is the study of public finances in a state with more than one level or sphere of government.

It should be noted that the American academic literature tends to use the term budget reform to refer to all dimensions of PFM reform and not merely budgeting *per se*, whereas the British and European literature tends to use the term "PFM reform". In this chapter, the terms "PFM reform" and "budget reform" are used interchangeably.

Budgeting and PFM are extremely complex, interdisciplinary processes emanating from the strategic interaction of multiple stakeholders, within resource, political and institutional constraints. However, in most budget and PFM research studies, academics have tended to employ the theoretical tools of their disciplines only:

> Accountants approach budgeting from the perspective of how well budgets represent assets and liabilities; economists want to know how public resource allocations resemble or differ from market allocations, and they wonder about the equity of budget outcomes and the neutrality of taxation. Political scientists want to know who gets what and why. Public administrators want to know whether all the appropriate alternatives were considered in making the decision. None of this adds up to meaningful budgetary research agendas. Multidisciplinary work has no cumulative focus. (Rubin 1988:7)

Sadly, the structure of universities, which offer graduate training based on only a single discipline at a time, recognition systems which typically only reward research in academics' own disciplines, and the plethora of other institutional barriers by which academics jealously guard the boundaries of their academic discipline, all serve to reinforce and perpetuate this fragmentation. This chapter reaches the conclusion that, despite substantial progress in public administration, public sector economic and public accounting, there is currently no unified, interdisciplinary theory of budgeting and – by extension – of PFM/budget reform. Empirical studies such as this research project are not only of immediate interest to policy-makers but may also eventually contribute to the development of such a unified theory.

2.2 Evolution of budgeting theory in Public Administration

The practice of tax administration, and to a much lesser extent public expenditure, hail from the dawn of human civilization: from the pharaohs of Egypt (3000-2800 BCE), King Hammurabi of Mesopotamia (1792-1750 BCE), the ancient Roman empire (30BCE-1453CE), the Qin dynasty in China (221-206 BCE) and the Maurya dynasty in India (305-230BC) (Premchand 1983). According to the *Oxford English Dictionary,* the word tax originates from the Latin word *taxare* which means to compute, charge or censure. The term budget is derived from the Middle English word *budjet*, which refers to the king's bag containing money for public spending (Schiavo-Campo & Tommasi 1999). The earliest formal use of budgets in the political arena arose in the era when the European monarchies began to wane after control had been gradually wrested away from the monarchs, first over taxation and then public expenditure. For example, after the French Revolution in 1789, a single public administration and legal system was established, with powerful and permanent administrators. The tax system was completely revised. The *Assemblée Nationale*, on behalf of the French people, claimed the right to levy taxes from the king, abolished the tax privileges of the nobility and clergy and, in the *Declaration of Human Rights and the Citizen*, aimed to establish a fair, proportional tax contribution from all citizens (Langrod 1961; Premchand 1983).

Globally, parliaments have used the requirement of an annual submission of budgets, consisting of statements of planned public revenue and expenditures, as a political instrument for enforcing legislative control. Gradually, organizational mechanisms evolved for raising these funds and for monitoring compliance in budget implementation with legislative appropriations, culminating in the establishment of central agencies (or bureaus) within government to oversee financial management (Premchand 1983).

In this context, the German Cameralist School, from the mid-sixteenth century to the end of the eighteenth century, tried to systematise the processes of fiscal departments (Premchand 1983). This body of administrative knowledge was grounded in the actual practice of budget management, rather than the formulation of testable theories to explain and predict public resource allocation outcomes, which could be falsified or generalized to other administrative contexts. The first attempts to articulate a theory of budgeting, arising from political science, the mother discipline of Public Administration, tended to concentrate on budget processes. They assumed that if procedures were sound (for example, competitive budget bids or observing due process), then budget allocations engendered by these procedures would be appropriate (Schick 1998a).

The most prominent of these early theories was arguably the organizational process model of organizational behaviour, which was truly multi-disciplinary in origin, deriving from the work of a public administration scholar (Herbert Simon), an economist (Charles Lindblom) and a political scientist (Aaron Wildavsky). The principal assumptions on which this model is based fuse the concepts of bounded rationality and incrementalism into a theory of incremental budgeting (Green & Thompson 2002).

Bounded rationality is based on the idea that human beings, although they may intend to be rational, are simply not cognitively able to identify the probabilities of every outcome of each of the myriad possible alternatives they may face when making decisions. Hence, instead of optimising, they "satisfice", based on ordered searches through limited sets of options which economise on the time, effort and information required to make decisions that will satisfy their most urgent objectives. "Satisficing" may entail using "rules of thumb" or heuristics, derived from previous experience, which partially but expeditiously achieve their goals (Simon 1955).

In his article, "The science of muddling through", Lindblom (1959) argues that the complexity of the policy environment renders optimisation impossible for public administrators. This complexity emanates from a number of factors, including conflicting political values, insufficient information and inadequate predictive theories of how policy instruments influence policy objectives. Therefore setting policy objectives is a local rather than a global search, focusing on a restricted set of policy objectives at a time, rather than the universal set of all possibilities (Lindblom 1959). The limited set of policy objectives chosen is often conditioned by past experience. As a result of these local searches which are anchored in past experience, as well as policy-makers' inclination to want to limit bargaining and enforcement costs, changes in policy are likely to be small or incremental.

Wildavsky (1964), in his book *The Politics of the Budgetary Process*, portrayed the budget process as a series of strategic games involving self-interested role-players. Despite this strategic interaction, Wildavsky concludes that budget officials "satisfice" and that budgeting is largely incremental, rather than comprehensive (in the sense that last year's budget is the best predictor of the following year's budget). In incremental budgeting, the budget base in the current year tends to be the same as the previous year's budget allocations, with incremental amounts added to address new priorities or to compensate for inflation. Most of the effort and strategic bargaining behaviours of budget officials therefore revolve around the allocation of the budget increment (any additional resources which may become available in the current year). The value of the incremental approach lies in its ability to reduce conflict over budget resources, minimise search and negotiation transaction costs, reduce the time required for budgeting, create predictability by stabilising budget roles and expectations, and permit corrective action in relation to past mistakes. Backward looking incremental approaches, however, introduce an element of inertia in budget allocations and rely on increasing revenues to provide some flexibility in budget allocations at the margin. They also create a strong incentive to focus disproportionate attention on the allocation of the budget increment for funding the expansion of existing service delivery programmes or the initiation of new programmes, rather than on increasing value-for-money in current budget allocations or realising savings in ongoing programmes (which comprise the budget base and the bulk of the budgeted expenditure).

Using simple linear models of United States budget appropriations, Davis, Dempster and Wildavsky (1966) attempted to test the incremental budgeting model empirically. Their findings confirmed the importance of simple decision rules in complex, but institutionally stable budget environments, for example, allocating to an agency a fixed percentage of that agency's previous year's budget, plus a stochastic adjustment to respond to specific circumstances. In their 1974 article, "Towards a predictive theory of government expenditure", they later developed their model into a formal theory through the use of econometric models (Davis, Dempster & Wildavsky 1974, cited in LeLoup 1978).

Crecine (1969) developed computer simulations to recreate the budget decision-making environment in American municipalities. He demonstrated that each level of a municipality had its own set of simplifying heuristics which made it relatively easy for each decision-maker to anticipate the reactions of other players in the budget process, and role players tended to view the budget process from their own narrow perspectives rather than from the perspective of the cumulative well-being and satisfaction of citizens.

In his book, *Evaluating Public Programs: The Impact of General Revenue Sharing on Municipal Government,* Larkey (1979) also used computer simulations to test the organizational process theory for the evaluation of formula-driven intergovernmental transfers in the General Revenue Sharing block grant programme in the United States. At the time, public finance schools in the sub-field of intergovernmental fiscal relations were grappling with the flypaper effect, in other words, the argument that government grants tend to stick where they land, like a fly to paper (Ladd 1994; Oates 1994). The flypaper effect posits that an intergovernmental grant to a province or municipality increases the level of public spending by the beneficiary government significantly more than an increase of the same magnitude in the income of local citizens. Using simulations in line with Crecine's method to generate counterfactual spending patterns in the absence of revenue sharing, Larkey found that there was no statistical evidence for the flypaper effect, and that the greater the "fiscal pressure", the more likely it was that revenue sharing funds would be used to support current operations. Larkey coined the term “fiscal pressure” which conflates the concepts of revenue constraints and liquidity constraints.

Green and Thompson (2002:22) speculate as follows on the reasons why Larkey’s findings, based on the organizational process model drawn from Public Administration, have been largely overlooked by economists:

> Larkey’s methodologies, analytical categories and language are foreign to most public finance scholars; his use of the term fiscal pressure is just one case in point. Consequently, they have found it easy to ignore his analysis. But we are inclined to believe that the main reason for the failure of Larkey’s findings to be incorporated into the public finance canon is that he just wasn’t interested in the questions that were of greatest concerns to economists and so failed to emphasize those findings. (Green & Thompson 2002:22)

Padgett, in his article, “Bounded rationality in budgetary research”, outlines a “theory of serial adjustments” which also builds on the organization process model, employing a rigorous mathematical model (Padgett 1980). Since the 1980s, however, academic interest in organizational process research has waned, especially with the ascendance of New Institutional Economics (NIE). Except for Simon’s concept of bounded rationality, NIE economists have largely overlooked organization process theory:

> The sudden disappearance of the organizational process articles from research journals occurred at the worst possible time for the persistence of the model. Economic imperialism (of the academic variety) was marching from triumph to triumph. The application of economic logic – methodological individualism and rational, self-interested decision-making – to questions and issues that have traditionally been the concern of political scientists and public administrationalists was one of the greatest triumphs of modern social science. Moreover, economics’ triumphs in this area were not confined to positive public choice – increasingly its logic was brought to bear on normative questions about public spending and even on questions of organizational behaviour and processes. (Green & Thompson 2002:25-26)

This is perhaps a very narrow conceptualisation of economics solely as neoclassical economics. Public finance/economics, both before and during the dominance of neo-classical economics, contained other schools of thought which combine collective/moral principles with more technical dimensions, such as the structure of consumption of public goods or price mechanisms. These other schools of public economic thought are explored in greater detail in section 2.3 on page 31.

The incremental budgeting model, although it was fairly dominant in its early years, also elicited trenchant critique on both normative and positive grounds. It does not explain why the size of the budget increment changes from year to year, nor does it describe how the increment is divided among programmes, why some programmes grow faster than others or why their relative shares in the budget change (Schick 1983). From a normative perspective, any budget process which entrenches old budget claims over new ones maintains the status quo, inhibits reprioritisation of budgets and reinforces current inequalities in distributions of private power and public money (Schick 1988). The theoretical mind-set of the budget process as mechanistic and stable underplays the role of the central budget office (the treasury) as a policy formulator, especially in enforcing aggregate fiscal discipline. In addition, the "apolitical" incrementalist paradigm has deflected the attention of public administration scholars from budgetary trade-offs (Rubin 2007). In scrutinising both the budget outcome data used in studies by Wildavsky, Fenno and other incrementalists, LeLoup (1978) argues that the budget outcomes data display more variability than would be consistent with incremental allocation processes, and also highlights statistical problems in these researchers' applications of regression analysis, as they did not control adequately for secular trends (such as collinearity and serial correlation).

Furthermore, incremental budget model theories tended to work well during periods of economic growth and expansionary fiscal policy, but do not describe how the budget base is determined in times of fiscal austerity. As the United States' federal budget outcomes illustrated in the early 1980s, the base itself is not immune to being cut during times of recession, when even politically sensitive entitlement programmes may not be sacrosanct (Bozeman & Straussman 1982). In this regard, Bozeman and Straussman (1982) contend that while incrementalism may be a reasonable proxy for decentralized bottom-up budgeting resulting from strategic interactions among individual budgeting agencies, the budget process in practice is characterised by both top-down and bottom-up approaches. The top-down approach is generally driven by the executive centre of government (such as the Presidency or Office of the Prime Minister and the central budget office). It typically focuses on high level fiscal aggregates, the macroeconomic stabilisation objectives of fiscal policy and linkages with other macroeconomic policies. By contrast, detailed bottom-up sub-processes occur in each of the spending agencies (line departments) within the broad aggregate parameters set by the executive centre of government. The balance between a top-down versus bottom-up emphasis changes from budget cycle to budget cycle, influenced by a number of factors such as economic growth, fiscal policy stance, presidential leadership, foreign conflicts and legislative assertiveness (Bozeman & Straussman, 1982).

Noting that even Wildavsky had recanted the incrementalist approach in his later works such as *The New Politics of the Budgetary Process* in 1988, Rubin (1989:80) averred that this "gradual acknowledgement by Wildavsky that incrementalism is no longer useful or descriptive has opened the way for new directions in budget theory".

In counterpoint to these theoretical developments in Public Administration thought on budgeting which centred on the dominance and demise of incremental budgeting, there were a plethora of reforms to actual budget and PFM practices in the United States from the 1950s onwards. These normative "rationalist" approaches have extensively influenced modern budget and PFM reforms in both the developed and developing world. They tended to focus mainly on budget formats and classification: performance budgeting as recommended by the Hoover Commission's *Report to the Congress on Budgeting and Accounting* in 1950, programme budgeting, the Planning-Programming-Budgeting (PPB) System in 1965, Management by Objectives (MBO) and Zero Based Budgeting (ZBB) in 1977 (cited in Schick 1966, 2004; Premchand 1983). Unfortunately, none of these initial reforms were very successful in achieving their objectives (Premchand 1983; Schick 1988a), but components of these systems have been implemented in some US states and municipalities with some success (Rubin 2007). Some of the lessons learnt from these failed experiences could enhance the effectiveness of the current wave of budget reforms internationally, and particularly in South Africa.

The 1980s and 1990s saw the rise of New Public Management (NPM) which was also known as the "Reinventing Government" movement in the United States. NPM was associated with wide-ranging public management reforms in Anglo-Saxon countries such as the United Kingdom (under Margaret Thatcher), Australia, New Zealand and the United States (under Ronald Reagan). Although there were several variants, salient features of NPM included a shift from the ideal of a Weberian bureaucracy to new organizational configurations, and the adoption of private sector methods to make governments more efficient and "consumer-responsive". Some of these methods are the following:

(i) market-type mechanisms (such as public sector league tables and performance-related pay);
(ii) quasi-markets (in which the centre acts a a "purchaser" of public services and instead of planning or a formula to guide budget allocations, separate "provider" agencies competitively bid for funds);
(iii) performance measurements and targets;
(iv) competitive tendering and supply chain management;
(v) a predilection for small, lean, flat, specialised organizational forms (such as the creation of specialised, autonomous agencies); and
(vi) quality improvement techniques which focus on treating public service users as "customers" (Hood 1995; Lane 2000; Osborne & Gaebler 1992).

Managerialist in origin and driven predominantly by practitioners and consultants (Boston, Martin, Pallot & Walsh 1996; Ferlie, Ashburner, Fitzgerald & Pettigrew 1996), NPM-inspired reforms also drew on NIE as a theoretical base (Horn 1995). Some of these reforms have resulted in enhanced public services and processes, but the more ambitious reforms have often failed because of factors such as "poor design, unintended consequences, new fiscal and societal problems emerging and the re-emergence of public governance values that go wider and deeper than resource efficiency" (Bovaird & Loffler 2009:55).

With regard to budgeting and PFM, the types of reform inspired by NPM and NIE include a resurgence of performance budgeting (variations in the nomenclature include output- or outcomes-based budgeting, or results-based budgeting), accounting reforms such as a transition from cash-based accounting systems to accrual systems, cost centres, full cost accounting and performance auditing (Boston et al. 1996; Diamond 2003a and 2003b; Pollitt, Girre, Lonsdale, Mul, Summa & Waerness 2002; Schiavo-Campo 2005; Schick 1996, 1998a; UNCDF 2006).

More recently, Public Administration literature has also focused on the following:

(i) *Neo-Weberian models* which retain a primary focus on the state with its own distinctive rules, methods and public culture, but attempt to modernise administrative models so that they become more responsive, professional and efficient, including their use of information and communication technologies;

(ii) *Network models* which envisage the replacement of both bureaucratic hierarchies and/or market mechanisms by "self-organising networks" of interdependent stakeholders, resulting in governments being more flexible and informed; and

(iii) *New Public Governance models* which advocate expanding the range of social role players in the formulation and implementation of policy to improve the effectiveness and legitimacy of government. These either adopt a network approach or emphasise "horizontality" rather than vertical controls (Pollitt & Bouckaert 2011). In the public budgeting and PFM arena, the influence of New Public Governance models has manifested in an increased emphasis on citizen participation in budgeting, effective legislative oversight, fiscal transparency, and public-private partnerships both with private firms and non-profit organizations.

2.3 Public economics perspectives on budgeting theory

Public finance, or public sector economics, as the discipline is more accurately called, is a sub-discipline of economics aimed at "the study of how government policy, especially tax and expenditure policy, affects the economy and the welfare of its citizens" (Brown & Jackson 1990:1). Initially, the field focused almost exclusively on the taxation side of the budget (hence its earlier incarnation as public finance), but has more recently encompassed both taxation and expenditure dimensions, as well as debt financing and the regulatory role of government. The current preferred term for the discipline is therefore public sector economics, or simply public economics (Musgrave, 1959). Both terms are used interchangeably in this thesis.

In contrast to Public Administration, public sector economics is not primarily focused on the internal financial arrangements of the public sector. Rather, in both its normative and positive dimensions, this field scrutinises the effects of government intervention on the rest of the economy, such as resource allocation, macroeconomic balance and the wellbeing of its citizens (the welfare and distributive effects). The locus of study is therefore economy-wide, and increasingly global. The focus of study is the interaction between government taxes, expenditure and budgeting decisions and the broader economy, typically through the application of standard economic theory techniques.

At first glance, the outward focus of public economics on the economic and distributional effects of government spending and taxation would thus seem to be complementary to the more internal orientation of Public Administration in the study of the budget process. Similarly, the policy and impact evaluation emphasis of public economics would appear to be complementary to the budgeting implementation focus of Public Administration. Surprisingly, these bodies of knowledge have evolved largely in isolation of each other and other related disciplines, such as public sector accounting, despite their interrelated relevance to the study of the PFM processes.

2.3.1 Early development of public finance/economics

In Europe, early continental economists paid attention to both the taxation and public expenditure dimensions of the budget. The Physiocrat school in France, active from about 1750 to 1780, developed a theoretical framework for taxation. In the 1880s, other continental economists, such as Wicksell, Mazzola, Panteleoni, Sax, De Viti de Marco and Pareto began to analyse the public economy in an exchange framework, mainly from a normative perspective. This continental literature had attempted to apply marginal utility theory to the problems of the public sector resource allocation. A salient feature of this literature was that the revenue and expenditure side of the budget must be dealt with simultaneously, as complementary dimensions of essentially the same problem (Brown & Jackson 1990).

The Italian school held quite different views on the role of the state in public expenditure. They posited three main categories, namely (i) a monopolistic state where the mechanisms of government advance the welfare primarily of the ruling elite, (ii) an individualistic state which aims to maximise the sum of individuals' wants, and (iii) a paternalistic state which typically transcends aggregate societal wants to provide services which may often differ from individual wants. The Italian theoretical legacy was twofold, firstly, analysis of individual preferences for public services and their aggregation, and secondly, an orientation towards the maximisation of general societal welfare (Premchand 1983). In contrast to the later classical and neoclassical economists, who tended to emphasise technical and economic features such as the nature of public goods and the workings of the price system, or the public choice theorists, who emphasised the purely self-interested choices of individuals, these writers also looked to social ethics and political context in relation to collective welfare, liberties and distribution.

The picture is quite different in the Anglo-Saxon countries. Interest in government's impact on the economy in the United Kingdom dates back to Adam Smith in 1776, but British economists paid comparatively little attention to the theory of public finance. The practical, rather than theoretical, dimensions of fiscal legislation and administration dominated in their work. Although some early classical economists, such as Ricardo and Marshall, applied themselves to the theory of taxation, and less often, to the theory of public expenditure from a micro-economic perspective, British economists generally evinced relatively little interest in the theoretical underpinnings of expenditure policies (Musgrave 1959). In most of the nineteenth century, the economists of the British school concentrated on refining the "ability to pay" principle of taxation and translating it into an actual pattern of tax distribution, more or less independently of public expenditure. The problems of taxation were dealt with in isolation from the determination of public expenditure, which was typically relegated to the "political" realm, beyond the scope of economic analysis (Musgrave & Peacock 1964).

Since the 1920s, interest in applying the micro-economic theory of marginal utility to public expenditure has increased. Pigou's (1920*) Economics of Welfare* introduced the concept of externalities, the possible divergence between social and private costs and benefits, and the role of fiscal instruments in internalising these externalities. In his subsequent work, a *Study in Public Finances*, Pigou (1928) did not, however, provide an explicit linkage between externalities and public goods. Pigou advocated that public resources should be distributed among competing ends until the marginal rate of satisfaction of each of them was equalised. The concept of marginalism has pervaded the public economics literature ever since. However, this normative theoretical construct has not been successfully applied in practical budgetary processes. It has also eluded direct empirical testing, because of, *inter alia*, the difficulties in the specification, interpersonal comparison and aggregation of utility functions, the absence of appropriate measures of utility and the multiple, often conflicting public budget objectives. Furthermore, while marginal utility may provide some insight into the relative apportionment of a fixed sum from public funds, it cannot explain or predict the aggregate budget total (Premchand 1983).

A big break-through for public economics as a sub-discipline came with John Maynard Keynes's book *The General Theory of Employment, Interest and Money* in 1936 (cited in Musgrave 1959). It introduced the notions of fiscal policy and "compensatory finance" as policy instruments for macroeconomic stabilisation. This elevated the role of budget policy as an object of study and rapidly engendered a growing literature on the macro-theory of public economics (Musgrave 1959).

The disproportionately macro-economic focus of the sub-discipline was corrected somewhat by Richard. A. Musgrave in 1938, the first scholar to articulate formally the pivotal concept of a voluntary exchange theory of the public economy. Until then, there had been two main streams of thought: the Lindahl model in the Continental tradition, and the alternative British Pigouvian framework. The challenge was to reconcile these two strands of thought, and to bring together both the macroeconomic and microeconomic dimensions of public finance. Building on the work of Samuelson, Musgrave integrated both the tax and expenditure sides of public finance in the context of a unitary state in his now widely accepted framework, which forms the foundation of conventional modern public finance. Musgrave's categorisation of fiscal policy objectives as allocation, stabilisation and distribution has become standard in the field of public finance. In his framework, decision-makers allocate public resources in line with collective preferences revealed in the political process (Musgrave 1959).

Musgrave (1959) acknowledged the complementarity between the practicalities of public administration and the contribution of theoretical public finance. Referring to fiscal legislation and administration, he observed:

> These, to be sure, are important matters, the effects of a tax depend on what it is, not what it is meant to be; and an understanding of the social and historical setting is needed to interpret the determination of fiscal politics. At the same time, the problems of public finance must be dealt with by economic analysis as well. The general body of economic theory which has been applied so successfully to special fields such as international trade, must be made to apply with equal rigour to public finance. (Musgrave 1959:v)

Musgrave's framework was still incomplete as a theory, but he nonetheless made a major contribution in directing the attention of public economics scholars to the role of political processes in budgeting, and to the interaction between various communities and the state (Premchand 1983).

Musgrave's initial work in 1938 was rapidly followed by other neoclassical theoretical developments on public goods and the impact of budget policy on resource allocation and income distribution. In 1943, Bowen (cited in Brown & Jackson 1990) investigated the demand for public goods and voting, and his ideas were subsequently generalized by Black in 1948 (cited in Brown & Jackson 1990) through his analysis of the role of the median voter in group decision-making. In 1954, Samuelson (cited in Brown & Jackson 1990) expounded the theory of demand for public goods, and rigorously re-integrated social goods into the conditions for Pareto efficiency. Pareto efficiency refers to a state of allocation of resources in an economy in which it is impossible to make any one individual better off without making at least one individual worse off. The Samuelson model addressed the indivisibility and joint consumption of pure public goods. In pure public goods such as national defence or broadcasting television signals, it is not possible to divide production into smaller units, nor does one person's consumption of the pure public good diminish the utility derived by other consumers of the same public good. In this model, the efficiency condition for a public good is that the sum of differing rates of marginal substitution must be equal to the marginal rate of transformation in production. This is in contrast to private goods (which are excludable and rivalrous in consumption), where the marginal rate of substitution would be identical for all consumers, and equal to the marginal rate of transformation (Brown & Jackson 1990, Jha 1998).

Another seminal contribution to Public Economics was Arrow's work on the local problems of collective choice and defining the social welfare function in 1950 (cited in Premchand 1983). Recognition of the pivotal role that political processes (such as voting) play in revealing collective preferences is given in Buchanan and Tullock's (1962) theory of public choice (discussed in more detail below).

2.3.2 Public choice, the new institutional economics and the economics of politics

Drawing on the Continental tradition in critiquing Pigouvian normative analysis, Buchanan in his papers "A pure theory of government" (1949) and "La scienze delle finanze" (1960a) highlighted a serious gap in the British tradition: many scholars failed to make explicit their assumptions about the form of the polity in which public resource allocation decisions are taken. As the role of the public sector expanded and impacted much more widely on the private economy, this omission become more glaring:

> Fiscal theory rests on both economic theory and political theory, and the bridge between these two disciplines must be provided in any examination of collective choice. The conception of collective choice affects in important ways the appropriateness of the fiscal propositions advanced. In an individualistic society, collective choice must represent some composite of individual choices, and a fiscal theory that fails to incorporate this fact is likely to lead to unintended results (Buchanan 1960b:5-6).

The public choice school examined the institutional framework in which budgets are formulated, rather than the criteria for budget efficiency, a landscape populated by self-interested, utility-maximising elected officials, public administrators, government agencies and interest groups. Because they came comparatively late to the study of bureaucracy, economists who analysed bureaucracies tended to draw on elements of earlier managerial theories regarding private sector firms (for example, Baumol and Bowen's (1966) theory of cost disease), and on models from Public Administration (such as that of Herbert Simon, which was discussed earlier in section 2.2 on page 25). In 1944, Von Mises, who belonged to the Austrian School of Economics, in his book *Bureaucracy,* contrasted markets and price coordination with bureaucracies as alternative forms of economic management, and highlighted bureaucratic inefficiencies arising from the absence of market discipline and the tendency towards centralization in order to exert control (Von Mises 1944). Liebenstein's (1966) concept of x-inefficiency in the management of private sector monopolies due to a lack of competitive pressure was also later applied to bureaucracies.

Tullock and Niskanen's theories of bureaucracy in 1965 and 1971 respectively emphasise the incentives of individual government officials to expand budgets, the bureaucracy and ultimately the size of government as a whole in pursuit of their own interests rather than the collective interest of society (cited in Brown & Jackson 1990). This theory is incomplete in that it ignores the checks and balances put in place by most public administration systems, and underplays the heterogeneity among public officials, for example, tensions between treasuries, which have to constrain budget aggregates and ensure fiscal discipline, and line departments as spending agencies which have to deliver services (Premchand 1983).

Most of the discussion of the economic role of government in public economics revolved around the policy rationale for government intervention in the event of market failure. This was counterbalanced by the potential for government failure, especially in the design and implementation of policy (Wolf 1979). Theoretical models of "political business cycles" were developed and subsequently empirically tested, where politicians design macroeconomic policy to secure electoral advantage, subject to prevailing economic constraints (Frey & Schneider 1978; Nordhaus 1975).

As noted earlier, public economists' theories around the size and structure of a bureaucracy drew mainly on managerial organization models and the institutional transaction cost approaches originally developed to enhance understanding of private sector corporations, their behaviour, structure, and relationship to the market. Until Coase's (1937) paper, "The theory of the firm", neoclassic economics focused on the study of markets, rather than on companies as alternatives to the market price mechanism. Coase (1937) defined transaction costs as the costs of exchange. There are external transaction costs, which are incurred when production takes place by means of outsourcing in the open market outside the firm (for example, search, information, bargaining, contracting and enforcement costs). There are also internal transaction costs, which are associated with organizing production inside the firm (for example, coordination costs), over and above the cost of production inputs. Firms survive when the transaction costs within the firm are lower than the external costs of outsourcing through the market. Similarly, a company tends to grow until the internal bureaucratic transaction costs of the firm are equal to the external transaction costs (Coase 1937).

The rise of NIE in the 1970s and 1980s kindled new academic and policy interest in applying microeconomic theoretical tools that were originally developed to analyse firms to public sector organizational design and behaviour. Instead of ignoring institutions, as economists were wont to do, the work of Nobel prize winner Douglas North demonstrated that institutional design and evolution impacted on economic growth (Eggertsson 1990).

The NIE school emphasized transaction costs (based on the work of Coase in 1937 and originally applied to the organizational design of firms), the economics of property rights (derived from Coase's work in 1960 and Alchian and Demsetz in 1972), Williamson's (1964) work on the economics of discretionary behaviour by managers in private firms and principal-agent theory, as articulated by Jensen and Meckling (1976). NIE accepted many of the core tenets of standard neoclassical theory, such as stakeholders' rationality, maximising behaviour and stable preferences, but relaxed a number of other assumptions. Instead of assuming perfect information, the NIE introduced an analytical world of incomplete and asymmetrical information between contracting parties, creating room for opportunistic behaviour in contractual relationships. Drawing on the work of Herbert Simon in 1955, one of the most influential thinkers in public administration thought, NIE accepted the construct of bounded rationality, which acknowledges that human decision-makers have limited cognitive capacity to assimilate and process information. NIE analysts also concentrated on dynamic efficiency, incorporating transaction costs over time in their comparative institutional analysis, rather than static allocative efficiency (Dollery 2001). As discussed more extensively in the next section, the NIE (for example, through principal-agent theory) was very influential in laying the theoretical underpinnings of NPM reforms.

More recent research has scrutinised the relationship between public sector economics and political institutions more closely, attempting to understand actual rather than normative allocation rules (Brown & Jackson 1990:14). Recent developments in public economics theory include advances in regulatory and international dimensions to explain phenomena that emerged as the nature of government changed (Jha 1998; Black, Calitz, & Steenekamp, 2003). The latest economic research approaches apply rigorous mathematical modelling to the nexus between politics, policy formulation and economic outcomes in a growing field called political economics, or the economics of politics (Breton 1998; Dixit 2000; Persson & Tabellini 2000). The relationship between fiscal institutions and fiscal outcomes has also attracted a fair amount of academic interest, especially regarding deficit reduction and fiscal consolidation (Poterba & Von Hagen 1999). Dynamic game theory has also been applied to fiscal policy and budget related analysis (Faltings 2004; Lindbeck & Weibull 1987).

2.3.3 Empirical application of public economics: budget policy and development

It is clear from the preceding discussion that much of the intellectual focus of public economics theory has been normative in orientation. There is, however, also an empirical tradition, centring on the formulation and verification of hypotheses dating back to Wagner's Law in 1876, which contends that the share of the public sector in the economy increases with increased economic growth (Brown & Jackson 1990). Econometric studies, especially since the 1960s, tended to concentrate on relating public expenditure growth either to economic growth and demand-side factors due to modernisation, or to supply-side factors, focusing on examining expenditure growth as a result of wars or social unrest. Various components of public expenditure have also been modelled: government consumption, capital expenditure and transfer payments. In summary, Premchand, after reviewing the empirical research until the 1980s, arrived at the conclusion that, while these studies are interesting, “the establishment of a law, or even the pursuit of a law that would explain the determination of public expenditure appears to be futile” (1983:55).

There have also been attempts to operationalize theoretical public economics concepts such as efficiency (through techniques such as cost-benefit analysis) and to measure public output. In 1940, V.O. Key lamented the absence of a theory of budgeting. He asserted that marginal analysis depends, in the final analysis, on a common denominator which can be used to compare various value preferences across various budget objectives. This reliance on value judgements, according to Key, meant that the determination of the optimal utilisation of public funds could only be resolved in political philosophy and not in economics (Key 1940). In response, Lewis (1952) tried to formulate an operational model of budgeting based on marginal utility theory, the alternative budget plan. The idea was that each official who is engaged in managing public spending should formulate alternative skeleton plans for resource use. Lewis contended that such alternative budgeting scenarios would be a proxy for comparing relative value through the political process. Premchand (1983) concedes that while Lewis (1952) may have laid the theoretical foundations for cost-benefit analysis, his work fell short of a complete theory. Lewis did not successfully explain the objectives of a budget, or the aggregate budget constraint. Nor did he cover all the costs and benefits, given that a budget encompasses various categories of spending (not just social service, but also goods produced by the state and sold in private markets, as well as government transfers). Lewis could, for example, have used the concept of opportunity cost to define allocative efficiency as the point of public expenditure where greater outputs cannot be obtained from the same amount of resources in the private sector. However, selection of a rate that would reflect the opportunity costs and the precise measurement of costs and benefits would still be problematic (Premchand 1983).

In the 1950s and 1960s, in the wake of many poor countries’ gaining their independence from colonial rule, there was great interest in development policy in relation to budgeting in less developed countries and the search for credible instruments for national economic planning. This interest converged with the technical concepts and techniques expounded in the public economic literature: social versus private benefits and costs, the public discount rate, the valuing of public outputs, efficiency criteria and cost-benefit analysis (Havemann & Margolis 1983). Some public administration scholars, such as Naomi Caiden, have, however, cautioned against conflating the budget process and broader development in poor countries. She challenged the largely untested assumption that budgeting is relevant to development in poor countries:

> The implication is that government budgeting should control the development process and fix its direction. This is to ignore both the limitations of the budget process – the linking of public resources to objects of government expenditure – and the breadth of

> the development process. Thus development is narrowed to fit the compass of budgeting while the real strengths of budgeting are distorted to promote it to an unrealistic, comprehensive goal. (Caiden 1980)

Based on the work of Leontief in the 1940s, Computable General Equilibrium models were developed from the 1960s. These models use actual economic data to estimate how an economy might react to changes in policy, technology or other external factors. They have also been applied to analysing the impact of tax and expenditure policy in a wide range of countries, both developed and developing countries (Ballard, Shoven & Whalley 1985; Jenkins 1997; Sennoga & Matovu 2012).

Recent empirical analysis, bolstered by better access to data and improved econometric techniques, has moved from narrow economic factors to more broadly defined political and institutional factors to explain the evolution of public debt, revenues and expenditure. These factors include the nature of the budget process, the relationship between the executive and the legislature, budget transparency, fiscal rules (such as numeric targets), and multiyear budgeting (Persson & Tabellini 2000).

As can be seen from the discussion above, much has been achieved to date. Public economics' understanding of budgetary institutions, and how and why they influence fiscal outcomes, is still evolving, however. The next section explores the contribution of accounting to budget and PFM reform theory, which is a relatively recent development.

2.4 Influence of public sector accounting on budget theory

As described in the section above, recent international budget and PFM reforms highlight the role of public sector accounting, which has in turn had an impact on budget practices. An example would be the increased pressure on countries to conform to international public sector accounting standards, and the consequent need to align budget classifications with accounting systems (Schick 2004). The Public Sector Committee of the International Federation of Accountants was established in 1986. Since 1996, this committee has been engaged in developing International Public Sector Accounting Standards (IPSAS) for the national, state/provincial and local levels. Reconstituted in 2004, as the International Public Sector Accounting Standards Board, its brief is to converge public sector accounting standards with the private sector's International Financial Reporting Standards (IFRS) and only to produce separate public sector specific standards when there are gaps in IFRS or a particular standard is not appropriate (Caperchione 2006).

The public sector in several countries has moved towards accrual accounting (which is closer to private sector practice). This has sparked a debate on whether the budget should continue to be formulated on a cash basis or on an accrual basis, and how accrual budgeting can be reconciled with other reforms, such as performance- or output-based budgeting (Schick 2007). Furthermore, instead of being confined mainly to the financial aspects of government accounts, several key accountability instruments, such as annual reports, increasingly include additional performance information on service delivery outputs and outcomes (Pollitt 2001). The increase in performance reporting, integrated with financial reporting, has also intensified the focus on performance auditing (Pollitt et al. 2002; Shand 2007).

While public accounting has a long lineage, going back to ancient China and India and the Cameralists in Europe (Premchand 1983), the profession has been driven predominantly by accounting practice (standards, tools and techniques), rather than public accounting theories (which explain and predict), and is concerned more with the implementation of budgets than with budget policy-making (Onumah & Simpson 2008). The field of PFM, with its competing ideologies inherited from related disciplines such as public finance, public accounting and public administration, is in the process of defining its domain, often influenced by rival constituencies in recent budget and financial reform initiatives (Miller 1994). The public sector accounting literature has also been influenced by NPM thinking (Jackson & Lapsley 2003; Lapsley & Pallot 2000).

2.5 Status quo: no unified theory of the budget

As government's role in the economy increased over the last century, fiscal policy, budgeting and PFM became more complex and innately more difficult to theorise about. The objectives of PFM have proliferated, and made theory building inherently more challenging. These objectives include both the substantive policy objectives of budgeting and PFM, and the process objectives (Caiden 1985). Traditional macroeconomic stabilisation, distribution and allocative objectives have expanded to encompass development objectives and environmental objectives as well. The classical process objectives of budgeting (planning, management and control) have also been augmented by additional foci, including greater policy coordination, decentralization, greater responsiveness to the public and wider-spread participation in the budget process, for example, by civil society (Caiden 1985). In a country such as South Africa, the proliferation of budget objectives can be seen in the use of the budgeting framework to promote black economic empowerment, small and medium sized enterprises, local economic development and green procurement, as well as in requirements for public consultation and transparency on budgetary matters.

Initially, only isolated facets of budgeting were captured by various disciplines, as described above, largely in isolation from each other. More recently, with more intellectual cross-pollination, the boundaries between these disciplines are becoming increasingly blurred, as is reflected in Table 3 below.

Table 3: Traditional disciplinary boundaries expanded: how traditional approaches have influenced each other

Influence of:	**Effects on:**			
	Public Administration	Accounting	Public Economics	Political Science
Public Admini-stration	Budget classification systems	• Integrated budget systems • Cost systems • Financial auditing	Relating economic trends to budget policies	Public choice theory and decision rules
Accounting	Budget execution and financial management	Fund accounting systems	Measurement of revenues and expenditures, assets and liabilities	Issues of public sector growth
Public Economics	• Cost-benefit applications • Forecasting and modelling • Impact analysis	Fiscal health indicators	Public micro-economics and macroeconomics	Political economy
Political Science	• Politics vs administration in budgeting • Cutback management	• Broader audience for accounting information • Oversight	Policy applications of economic theory	Political processes

Source: Based on Caiden (1985:497)

Despite recent creditable attempts (Meyers 1996; LeLoup 1988; Schick 1988), a unified, interdisciplinary theory of budgeting remains elusive. Given the diverse disciplinary backgrounds outlined above, there is currently no universally accepted operational definition of budgeting, and there is little consensus on the fundamental nature of the process (political, economic or social), on the scope of budgeting (which functions should be included) or even on whether the theory has managed to keep pace with contextual and empirical reality (Neuby 1997).

Neuby argues that there may not be any incentive among academics to invest the effort required for theory development, because "(tenure producing) capital and academic legitimacy flow from normative, descriptive essays that discuss the situation in the city of Bumpsville" (1997:139). Indeed, some scholars are pessimistic about whether such a theory is even possible (LeLoup 1988; Schick 1988), while others still believe it to be imperative:

> Budgeting occurs in every society, therefore discernible elements must exist. As a social science effort, if budget scholars want to get on the scientific bandwagon, foster their own legitimacy and become useful, an empirical core concept of budgeting must be developed that describes the process, its elements and predicts change. Theorists have to stop beating about the budget bush. (Neuby 1997:137)

Usable budget theories could contribute to better budget practice, fewer misguided PFM reform attempts and more effective capacity building: "If the average budget process becomes even slightly more streamlined, less rancorous, and divisive, theoretical efforts would have been worth their weight in gold. New information might foster better training. How many governments might benefit from these new insights?" (Neuby 1997:139).

Other scholars contend that even if crafting a universal budgeting theory were possible, it may not be desirable. Slavish adherence to the incremental budgeting paradigm during its period of dominance often resulted in theorists' ignoring important empirical developments which were inconsistent with the theory. For example, the incremental budgeting approach focussed exclusively on bottom-up budgeting and failed to recognise the increasingly influence of top-down, macro-budgeting, especially during periods of fiscal austerity (LeLoup 1988). Rubin argues that the demise of the intellectual hegemony of incrementalism has emancipated budget theorists to "recapture the ability to theorize about what is in fact there" (1990:187), thereby reducing the gap between descriptive theory and practice.

2.6 Summary and concluding remarks

This chapter has traced the development of budget theory, fiscal policy design and implementation in relation to contributions from public administration, public economics and public accounting. Despite occasional cross-pollination between these three disciplines, budget theory has developed largely in isolation. The chapter has explored some of the reasons for this lack of convergence into a unified, interdisciplinary theory of budgeting. This delineation of the evolution of the theory over the centuries lays a foundation for contemplating contemporary PFM reform experiences, both internationally and in South Africa, in the next two chapters. Most pertinently, as will be explored in the next chapter, the lack of a common conceptual framework within which to analyse PFM reforms and the absence of a sound "theory of change" confounds systematic evaluation of PFM reform impact. Even in the absence of a unified interdisciplinary theoretical framework, new PFM reforms continue to be launched, both globally and in South Africa, because change is driven by the political, social, economic, environmental and technological exigencies which the modern state has to confront.

As noted earlier, the results of decades of PFM reforms have been disappointing in many countries. For example, while these reforms may have been rational from an economics perspective, the norms on which they were based may have been incompatible with broader political values. Allen Schick, who wryly refers to himself as "a pathologist of failed budget reform attempts" (Schick, pers. comm., 1/6/1997), observes that, when political values collide with efficiency, "efficiency cannot be [a] sufficient basis for budget allocation" (Schick 1988:60). Concentrating on the technical aspects of budget reforms may well have diverted attention from more intangible but equally critical elements such as political and managerial leadership, performance cultures, ethics and values. These elements are often neglected as the "soft stuff" as opposed to the "hard" technical elements of PFM reform. As discussed in the following chapters, it is now widely acknowledged that a government cannot budget for performance unless it manages for performance as well.

The driving force behind this thesis is the need to test the premise that while PFM reforms in South Africa since 1994 have achieved some success, they fall short of initial expectations in terms of the value-for-money achieved by public spending. Any attempt to assess the progress of PFM reform to date in a developing country such as South Africa, and any attempt to generate recommendations to enhance the sustainability and effectiveness of reforms, should ideally be holistic, multi-disciplinary and context-specific in its approach. If we cannot agree on what is broken, how can we ever agree on how to fix it? If the theoretical toolkit used to frame PFM reforms ignores the intangible elements that locate budgeting in the context of the broader country-specific social and political milieu, it is unlikely that the implementation of PFM reforms will pay them sufficient attention – to their detriment.

Several elements highlighted by budgeting theory arising both from Public Administration and Public Economics have pervaded policy discourse on PFM reforms in South Africa. These include the trend towards greater "outcomes orientation" and "customer focus", the emphasis on performance information and measurement, and linking budgets to results. Unfortunately, in designing PFM reforms, and in change managing their implementation, far too little thought has gone into the realms of leadership, governance, creating and maintaining an ethical performance culture and combatting corruption. The application of the existing theory and knowledge in these areas could do much to enhance the support for, and the longevity and effectiveness of, current PFM reforms in South Africa.

The debate is not merely a technical or academic exercise – it rests on the need to ensure progressive realisation of socio-economic rights and the achievement of the vision of our country embodied in the Constitution. As Allen Schick has so perceptively noted, South Africa is in the fairly unique position of being rich enough to undertake fundamental PFM reform, but poor enough for such reform to matter (Schick, pers. comm., 1/6/1997).

CHAPTER 3:
PFM REFORM IMPLEMENTATION:
INTERNATIONAL AND SOUTH AFRICAN PERSPECTIVES

3.1 Introduction

The 1980s and 1990s saw a spate of public financial management (PFM) reform initiatives in the developed world (especially in English-speaking countries such as the United Kingdom, the United States of America, Canada, Australia and New Zealand), as well as in developing countries, often inspired by approaches such as NPM (Andrews 2013). South Africa too, after its transition to democracy in 1994, embarked on the path of sustained PFM reforms. Drawing on the burgeoning public management reform implementation literature and rich international experience, this chapter develops a conceptual framework for assessing progress with South African PFM reforms aimed at pursuing value-for-money and increasing the developmental impact of public spending. The aim of this conceptual framework is to provide a platform for understanding and explaining the trajectory of South African PFM reforms since 1994.

The chapter commences with a review of the academic literature, firstly, on key PFM reform policy decisions (the perceived need for PFM reform, factors influencing the decision to embark on PFM reform, and the objectives of reforms) and secondly, on factors influencing the implementation of reforms (the choice of reform instruments, the sequencing and timing of the reform trajectory and preconditions for successful reform). The South African PFM experience is then analysed in relation to these dimensions of PFM reform design and implementation. The chapter also probes the appropriateness of attempting to replicate reform models which were originally formulated in developed countries in developing countries with markedly different political, socio-economic and institutional contexts and how such reform agendas would have to be modified. The chapter concludes by reviewing various approaches to evaluating the impact of PFM reforms to inform the assessment of South African reforms in section 5.7 on page 258, and Chapters 6 and 7.

This chapter does not aim to analyse any particular country-specific reform experience in detail. Instead, it draws on the nascent comparative PFM reform literature to identify commonalities and differences in approaches to implementing PFM reforms across a range of countries, in their specific political, economic, social and administrative contexts. The analytical orientation of this chapter is positive rather than normative; thus the chapter attempts to describe, understand and explain what governments have actually done with regard to PFM reform, rather than speculating on what they ought to have implemented.

There is substantial heterogeneity in the PFM reform experiences around the world. International models should not be uncritically transferred and slavishly replicated in South Africa and other developing countries, but there are important lessons to be learnt in crafting our own reform trajectories. As illustrated in section 3.4 on page 50, there are many diverse PFM reform variants and options, each with different objectives and employing different reform instruments. The main emphasis is on reforms aimed at pursuing value-for-money and increasing the developmental impact of public spending, as opposed to reforms primarily aimed at effecting savings and fiscal consolidation (decreasing debt and deficit levels), improving internal controls or auditing.

3.2 The perceived need for PFM reform

Conventional PFM systems, such as the one South Africa inherited in 1994 and many other developing countries continue to implement, share many characteristics which render them dysfunctional, undermine service delivery and have disappointing fiscal outcomes. This section outlines the characteristics of these traditional PFM system, drawing on the research of the OECD (1995), Premchand (1983), Schiavo-Campo & Tommasi (1999) and Schick (1998).

Traditional budgeting and PFM is largely *input driven*, focusing on controlling expenditure line items such as personnel or equipment, rather than on the effectiveness and efficiency of the public services resulting from public spending. It emphasises procedural *expenditure controls*, such as ex-ante authorisation from the Treasury before spending. All expenditures are classified as a standard line item (for example, administration, wages and salaries, stores and livestock). Traditional budgets show exactly how much has been spent on each type of expenditure; for example, how much has been spent on salaries and wages, and how much has been spent on office equipment. Short of the heading of each budget vote appropriated by the Legislature, these budgets provide virtually no information about the public goods or services on which the funds are actually spent.

PFM, in the absence of service delivery considerations, generally degenerates into a “numbers game”, and dialogue on budget performance is then confined exclusively to whether the budget has been spent or not. The unstated assumption underlying such traditional budgeting approaches is that government expenditure is both justified and efficiently allocated. The aim of the budget process is then simply to keep *control* over all money spent by government. If all expenditures and revenues can be traced and accounted for without any corrupt misappropriation, and the budget has been executed as originally appropriated, the budget process is believed to have functioned effectively. The emphasis is more on tracking how public funds are spent and on whether the prescribed authorisation and compliance procedures have been followed, rather than on the results of service delivery or policy effectiveness.

Another salient feature of conventional budgeting systems is that they tended to be *highly centralized*, and that central agencies such as the treasury have direct control over the inputs of line departments. The centralized budgeting system is also often accompanied by rigid, inflexible public sector management practices which tend to emphasise “process control”, for example, through multiple authorisation processes before spending (ex ante controls) but little accountability regarding results of public spending afterwards (ex post controls).

Conventional PFM is often driven by technocrats (such as economists, accountants and auditors) rather than policy-driven, with active budget policy engagement by elected office bearers in the Executive (such as ministers), input from line managers who actually implement government programmes and effective fiscal oversight by the Legislature. Such budgeting tends to be incremental, favouring historical patterns of expenditure, instead of ensuring an allocation of public resources that reflects current policy and planning priorities. Conventional budgeting typically does not provide a planning framework, as there is a separation between strategic and operational plans and what public money is actually spent on. Spending is, therefore, not oriented to delivery on policy and managerial objectives, and budgets often become ends in themselves, rather than supporting policy realisation.

There is often *a lack of integration between budgeting and planning.* The two administrative processes appear to be conducted separately, without recognition of each other’s constraints, objectives and time-horizons. This is a hangover from a mind-set that sees budgeting purely as a means of expenditure control. Ideally, a budget should be a central document on which sector, programme and project planning and implementation management for government services is based. Plans should ideally feed into future budgets, and the budgets should delimit the resource constraints to future plans so that plans can be realistic and implementable. Traditional PFM systems generally budget on an annual basis rather than over a medium term horizon which also inhibits the linking of plans and budgets. The desire to more closely articulate planning and budgeting and to gearing budgets towards achieving organizational goals, rather than being merely compliance ends in themselves, has prompted efforts to reform PFM systems to make such integration possible. With increased integration with management systems such as planning and M&E and longer three to five year budgeting horizons come heightened complexity and information intensity, and greater skills and capacity requirements (Ajam 2008).

In general, traditional PFM systems also lack effective monitoring mechanisms and there is the related problem that spending agencies have little incentive to spend and manage funds efficiently, effectively and equitably. This is because traditional budget programmes are not developed with clear strategic objectives and aims, or budget allocations linked to the specific service delivery outputs and outcomes needed to achieve those aims. The goals of traditional budget programmes tend to be poorly articulated, and methods of performance measurement are not integrated into the programme structures. Planning in traditional budget systems is generally not done on the basis of credible service delivery performance and cost information, with the result that there is little meaningful service delivery output monitoring or policy impact evaluation. Planning and budgeting therefore tend to be divorced from programme and project implementation, resulting in overspending or underspending and underperformance in service delivery or both.

Conventional PFM systems tend to be incremental in orientation. As described in the previous chapter in section 2.2 on page 25, incremental budgeting is simple, does not require high levels of skill and is not time-consuming. In stable environments where revenues are increasing and policy priorities are not changing, incremental budgeting may provide funding stability. However, where there are fundamental shifts in policy priorities, backward looking incremental approaches will continue to fund, and hence perpetuate, existing programmes or activities which may no longer have relevance at the expense of new programme initiatives. Public managers, when confronted with an incremental budgeting regime, have little incentive to effect savings since if they spend less than the amount allocated to them in a particular year, their budgets will be cut in future years. Conversely, if they build slack into budget proposals for the current year through over-estimating their requirements, they will not only receive additional resources in the current year but also inflate the budget base on which future years' allocations are based. Because incremental budgeting engagements focus on allocating the increment and the budget base is largely taken as given, there is consequently little incentive to reduce cost or increase efficiency in the base allocation. On the contrary, existing waste and inefficiency are systematically rolled over into future budget allocations.

Despite these manifest shortcomings of the traditional annual, incremental line-item approach, it tends to remain the default budgeting approach, because its deficiencies (such as being over simplistic) are also its strengths. Traditional line-item budgeting is computationally easier and less skill-intensive precisely because it is not comprehensive. It does not require information on unknown future revenue and expenditures, but simply extrapolates from the known past, and has an unwavering control orientation (Diamond 2003a, 2003b; Wildavsky 1978).

As discussed in the preceding chapter, budgets evolved originally as instruments of control and accountability. Only gradually, as the role of the state in the economy grew in size and scope, did macroeconomic stabilisation, redistribution, planning and management functions become important. In commenting on the emergence of the traditional line item budget as a budget institution, Wildavsky observes the following:

> The line-item budget is a product of history, not of logic. It was not so much created as evolved. Its procedures and its purposes represent accretions over time rather than

> propositions postulated at a point in time. Hence we should not find them consistent or complementary. (Wildavsky 1978:502)

Despite these defects, traditional incremental line-item budgeting tends to persist in practice, if not in policy. Wildavsky (1978) postulates that the many roles required of any budget approach are inherently contradictory. For example, the budget is required to contribute simultaneously both to predictability and continuity (for planning purposes) and to change (for policy evaluation and strategic priorities). Budgets are required to exhibit flexibility and reversibility (for macroeconomic management in response to business cycles) and also, at the same time, rigidity (in the enforcement of budget spending limits). He also suggests that while other budget techniques may perform brilliantly on one of these functions but poorly on the others, the traditional line item budget meets all these demands, even though it does not perform outstandingly on any of the diverse and often contradictory requirements. Wildavsky's arguments cast light on why shifting actual PFM practice away from the line-item default choice poses such a significant change management challenge and why ambitious reform policies to overhaul PFM often retrogress, with public managers falling back on traditional line-item budgeting, albeit packaged differently to create a purely cosmetic semblance of change (Wildavsky, 1998).

3.3 The evolving role of the Accounting Officer

Until the promulgation of the PFMA, South Africa's PFM legislation (such as the *Exchequer Act,* 1975) was heavily influenced by the legislation of the United Kingdom, since South Africa only gained independence from Britain as a republic on 31 May 1961. It is therefore useful to trace the institutional development of the AO's role in the United Kingdom and contrast this to the equivalent role as described in the PFMA.

One key exception to the traditional Westminster approach of Ministerial accountability to Parliament coupled with administrative anonymity is the role of the AO. The origins of the role in the United Kingdom were shaped by convention, tradition and precedent, rather than detailed legislation, although the AO's role in other parliamentary regimes has often been codified more comprehensively in statutes. The *Exchequer and Audit Act* of 1866 in the United Kingdom gave rise to the role, although the terminology itself was coined only in 1872, partly to avoid confusion with the term "accountant". The reforms championed by the British Treasury in the late 19th century required top civil servants (called permanent secretaries in the United Kingdom) to be personally accountable for budget execution, reporting directly to the Public Accounts Committee of the British Parliament. Accordingly, a separate legal identity and accountability for fiscal stewardship independent of the Minister is attributed to the AO, in contrast to the anonymity of other civil servants in other governance domains in the Westminster system (Glickman 2007; Harris 2013, Franks 1997).

In 1920 the general rule that permanent secretaries would be appointed as AOs of their departments was confirmed (Franks 1997). AOs in the United Kingdom are appointed by the Treasury, and are accountable to the Public Accounts Committee, not only for formal financial propriety and statutory regulatory purposes, but also for the efficiency, economy and effectiveness of expenditure. A Minister is able to override a decision by the AO formally, in writing, thus retaining Ministerial responsibility, and exonerating the AO from any consequences flowing from the Minister's decision (Glickman 2007; Harris 2013, Franks 1997).

A rare instance when the Minister overrode the AO and this became public occurred in 1991 where Sir Tim Lankester, the permanent secretary and AO of the Overseas Development Agency opposed the decision to spend £234 million on the construction of the Pergau Dam in Malaysia on value-for-money grounds, because there were substantial increases in the project price two weeks after sign-off. This project was also linked to a commitment from Malaysia to purchase British arms. He was overridden by the Secretary of State for Foreign Affairs, Sir Douglas Hurd, and was subsequently exonerated of accountability when the British High Court ruled that using aid money to build the dam as a *quid pro quo* for arms purchases was unlawful (Franks 1997).

Like Canada (as discussed below), Ireland, India and South Africa have also adopted the AO regime (Jarvis 2009). The Irish system draws on a mixture of convention and legislation to define the responsibilities of the AO, who appears before the Public Accounts Committee in her/his own right and not as a representative of the Minister. Irish ministers are also able to override their AOs in writing (Jarvis 2009; Working Group on the Accountability of Secretaries General and Accounting Officers. 2002).

In Canada, there was initially resistance to the creation of statutory accountability for AOs on the grounds that doing so would undermine the responsibility of Ministers and the trust they have in their top administrators (especially since these administrators are appointed by the Prime Minister and not by the Ministers themselves). The argument was that "responsibility shared tends to be responsibility shirked" and that both parties could attempt to evade accountability by blaming the other (Franks 1997:645; Jarvis 2009). Advocates of assigning statutory accountability to AOs contended that in actual practice, civil servants were increasingly appearing before the Canadian Parliament anyway, and that the distinction between political and bureaucratic responsibility would be improved accountability:

> Canada, of all the major parliamentary democracies, professes the most rigid doctrine of anonymity of the public service. Canada is also the most patronage-ridden, the slowest to adopt modern management reforms, and has the weakest system of accountability to Parliament. Rigid espousal of the doctrine of anonymity and these painful phenomena are not unconnected. Reconsideration of the doctrine of anonymity, especially along the lines of the responsibility and accountability of British Accounting

> Officers, would open up new and fruitful lines for reform to the machinery of government and government accountability in Canada. (Franks 1997:649)

Canada formally adopted the AO regime in 2006 with the passage of *Federal Accountability Act* and amendments to the *Financial Administration Act* (Jarvis 2009; Smith 2008). In contrast to the British and Irish systems, where AOs have broad responsibilities, including the contentious and potentially subjective standard of value-for-money, Canadian AOs (rather confusingly called "Deputy Ministers") have a narrower scope of exclusively assigned statutory responsibilities (for example, access to information). A mechanism was also created to mediate disputes between Ministers and Deputy Ministers regarding differences in interpretation of Treasury Board policies, and to document such resolutions (Jarvis 2009).

The Canadian Public Accounts Committee may choose to reprimand AOs publicly for egregious failure to meet their statutory obligations, which has severe reputational consequences for them, given the associated bad press, although any disciplinary action or discharge would remain the prerogative of the Minister (Jarvis 2009). In event that an AO does not comply with the person's statutory duties, the Public Accounts Committee could still question the Minister about whether the Minister was aware of the non-compliance and the nature of any corrective action. Opposition parties, in particular, would have an incentive to follow this line of scrutiny (Jarvis 2009, Smith 2008).

As is explored in more detail in Chapter 8 on page 353, the relationship between AOs and their political principals (national Ministers and provincial Members of the Executive Council for Finance) is a vexed issue in South African PFM reform.

3.4 Factors driving public sector reform adoption, objectives and design: an international perspective

As observed earlier, PFM reforms are seldom initiated in isolation, but usually support a broader reform programme to improve the performance of government in particular levels or spheres (national, local or provincial) or sectors (Health, Basic Education etc.). This section identifies factors which promote, or inhibit, the implementation of public management reforms in general. This sets the scene for the next section, which hones in on the implementation of PFM reforms in particular.

Based on an inductive synthesis of the findings of their comprehensive study of the reform experiences in 12 developed countries (including Australia, Canada, France, Germany, New Zealand, the United Kingdom and the United States), Pollitt and Bouckaert (2011:32) have derived a model of public management reform as "a conceptual map, a diagram of forces and a heuristic device". As illustrated in Figure 3, overleaf, at the heart of Pollitt and Bouckaert's (2011) model lies the process of decision-making by elites (such as the political Executive and top civil servants) on framing reform objectives, timing and phasing of reforms, choice of specific reform instruments and techniques and sequencing of reform. These decisions to initiate a process of public management change are conditioned by interplay among the following:

(i) *socio-economic forces*, such as globalisation impacts (increased capital mobility, exchange rate volatility, financial contagion, international standardisation of information and communication technologies, etc.), socio-economic policies (entitlements to health care and social pensions, etc.), socio-demographic changes (ageing populations in welfare states and the HIV/Aids pandemic, etc.) and domestic economic shocks (banking crises, labour strikes);

(ii) *political factors,* such as party-political manifestos and political ideology, increased pressure from citizens for better services and/or lower taxes, new or amended constitutional configurations, and new management philosophies (such as NPM, the neo-Weberian State or New Public Governance) from management consultants, academics, other governments and purveyors of international best practice;

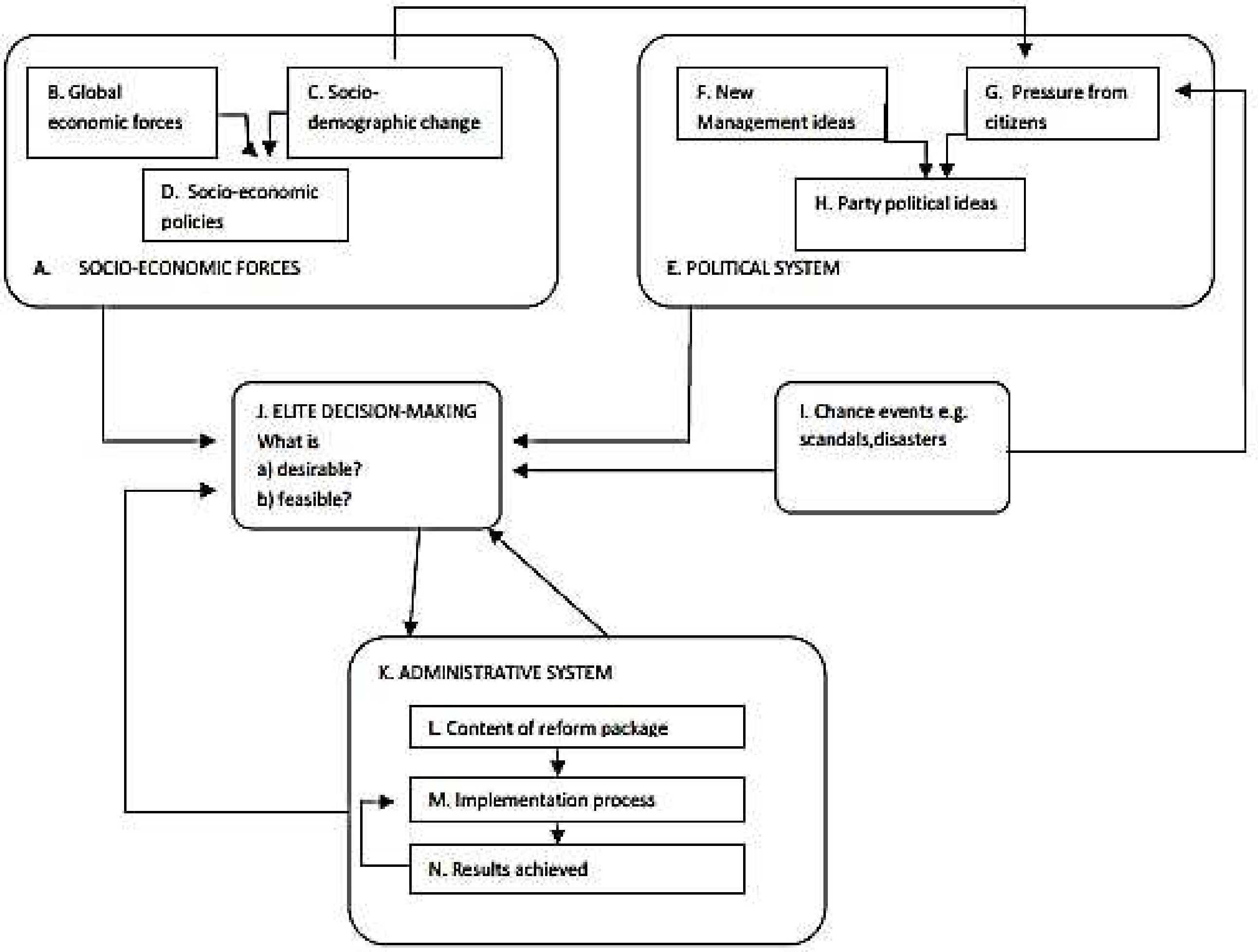
(iii) *chance events*, such as random shocks from the international economy, political scandals or natural disasters; and

(iv) *administrative arrangements*, which shape the content of the reform package, the reform process and ultimately the reform outcomes, such as the structure and macro-organization of the state and the degree of decentralization, the political-administrative interface between ministers and senior managers, the skills and professionalism of civil servants.

Decisions by the upper echelons of the public service generally reflect a compromise between what is perceived to be *desirable* (politically, technically and culturally), and what is deemed *feasible* (financially, in terms of the available implementation resources, economically, legislatively and politically, relative to the norms and expectations of various stakeholder groups who may support or resist change).

While Pollitt and Bouckaert's (2011) model emphasises purposive, rational and intentional institutional re-design, these authors acknowledge that public sector reforms are often conceptualised in a piecemeal manner rather than comprehensively. Reforms may be the product of the interaction of several (often inadequately coordinated) localised attempts at improvement driven by different centres of power within government (such as the Office of the President or Prime Minister or the central budget office). Reform trajectories may be characterised by unintended consequences, outright mistakes and course corrections, rather than one single, coherent, long-term "grand design".

Figure 3: Pollitt and Bouckaert's model of public management reform



Source: Pollitt and Bouckaert (2011:33)

One of the reasons for the emergent, iterative nature of public management reforms is that the types of policy problems which public management reforms attempt to address are generally "wicked" (rather than "tame") in the sense that they

> …have no definitive formulation, hence no agreed on criteria to tell when a solution has been found; the choice of a definition of a problem, in fact, typically determines its 'solution'… [moreover] …the solution itself potentially becomes a part of the problem. (Harmon & Mayer 1986:9)

In fact, unlike most problems confronting the private sector, problems of public policy are typically bundles of entangled social, political and economic challenges which elicit conflicting public values among a multiplicity of stakeholders (Dye 1979; Hogwood & Gunn 1984).

The propensity to undertake reform and the broad thrust of reform tend to be influenced by broad ideological stances on the role of the state. For example, when the state is seen as minimalist rather than interventionalist, deregulation and privatisation may be pursued as part of modernisation reforms aimed at reducing internal red tape. If the state is politically committed to enhancing participatory governance, then it may choose to pursue the co-production of public services with communities and non-profit associations (Boyle & Harris 2009). In South Africa, for example, the discourse of the democratic developmental state has been highly influential in policy rhetoric, if not in actual administrative practice (Edigheji 2010; Evans 2010).

Some of the typically stated objectives of public management reforms include
(i) effecting savings and economies;
(ii) improving efficiency;
(iii) enhancing policy effectiveness; and
(iv) improving citizen satisfaction and trust (Pollit & Bouckaert 2011).

Sometimes the stated objectives of reform may only be political public relations exercises, for example, to attract votes, unlock donor funds or attract foreign loans (as discussed in section 3.12 on page 104), devoid of authentic implementation commitment and any real determination to take hard fiscal decisions. Often objectives are left deliberately ambiguous with limited detail, in order to garner support from a broad spectrum of interest groups. It has also been argued – suggesting a more sinister motive – that public management reform objectives may not be fully articulated because of potential political resistance from stakeholders such as public sector unions, and that euphemisms such as "public-private partnerships" may be used to deflect political sensitivities around privatisation. Newberry and Pallot (2005) contend that the much-vaunted New Zealand reform programme had crucial tacit objectives which were never explicitly articulated, but which have led to privatisation and commercialisation in that country's public sector.

As observed above, an announcement of PFM reforms and their objectives may be a symbolic political overture, rather than a committed statement of the intent to actually implement the reform. In some countries being seen to "be reforming" may be crucial, politically speaking. Announcing reforms can be seen as mere rhetoric to secure political relevance, irrespective of how probable it is that the reforms will indeed be implemented (Guthrie et al. 1999). Often reforms are announced with great public fanfare, but their implementation gradually falters, dying a slow, quiet and unobtrusive death, until a new political party is elected, or an international financial institution or international donor enamoured of the latest managerial "flavour of the month" bursts on the scene. Accordingly, there tend to be large gaps between public management reform rhetoric and the realities of their implementation:

> Reform announcements are therefore as much text to be interpreted as they are blueprints for administrative action. Some of the reform announcements come to rather little, so it is always advisable to check how far the initial promises have been realized in the medium term. It is also important to realize that *announcing* reforms and *making recommendations* may become activities with a value of their own, without any

> necessary follow-through. Politicians, consultants and academics can make decent livings out of producing statements and reports, even if little else happens in the long run. (Pollitt & Bouckaert 2011:44)

The specific objectives of the PFM reform initiative should ideally determine the choice of reform instruments/techniques. Shah (2007:15) presents a compelling argument that “systems focused on achieving fiscal discipline require different process elements than systems intended to foster efficient resource allocation – with the different process elements reflecting different levels of development and stimulating different kinds of accountability”.

PFM reforms have historically had two broad thrusts: firstly, generating savings and/or, secondly, enhancing performance. Reforms aimed at generating savings and fiscal consolidation include strengthening the ability of central finance ministries to cut budgets from the top down, and “decremental budgeting” in times of financial austerity when resource envelopes are constricted. Some of the PFM reform instruments and techniques aimed at generating savings include:

(i) effecting budget savings through stricter central controls or encouraging efficiency by devolving to public managers and departments greater discretion in reallocating funds within budget line items (virement) to respond to changing operating conditions and priorities;

(ii) reforming PFM systems to make them comprehensive (covering all government revenues, expenditures, assets and liabilities, eliminating off-budget accounts), imposing hard budget constraints and adopting programme budgeting by linking allocations to the strategic goals of the department;

(iii) instituting business-like management approaches and market-oriented structures for the delivery and pricing of public services, such as contracting out, and internal and external pricing/charging mechanisms (these have often been influenced by NPM philosophies, discussed in more detail below);

(iv) shifting from cash-based cost accounting (where cash payments are recorded when spent) to accrual accounting, which recognizes transactions when commitments are made, accounts for the depreciation of capital assets, and relies on generally accepted accounting standards;

(v) migrating from manual systems and spreadsheets to integrated computerised accounting, financial management and reporting systems (Wescott 2008); and

(vi) implementing budget execution reforms such as supply chain management reforms, accounting and auditing reforms (most of which fall outside the purvey of this thesis).

Section 3.6 on page 69 points out that South African PFM reforms have largely been performance-driven. However, the lingering after-effects of the 2008 global financial crisis in many countries have induced a much stronger focus on cost savings, and this is also the case in South Africa.

Accounting reform trajectories typically begin with traditional cash-based accounting, then move to double entry bookkeeping (a modified accrual basis), possibly with better cost analysis, and finally full accrual accounting, integrated with performance information. These accounting reform directions take the public sector closer to private sector accounting standards, forging links between expenditure and the full cost of service delivery outputs, as well as between cost and performance. This then lays the basis for integrated financial and performance management systems and confronts public managers with the true cost of their use of capital assets, which are often treated as "free" goods under cash accounting systems (Pollitt & Bouckaert 2011:84).

PFM reform instruments aimed at performance enhancement and the pursuit of value-for-money (which is the main focus of this study) include the following:

(i) supplementing existing cash-based line item budget documentation with *performance information* on service delivery outputs and outcomes;

(ii) redesigning the *format* of the budget from input-based line-item budgets to more performance-sensitive classifications, such as programme budgets which can generate the costs of programme delivery rather than just the amount of the budget spent;

(iii) *linking budgets more closed with strategic plans* through MTEFs (three- to five-year rolling budgets);

(iv) *re-engineering the budget process* itself in order to change the structure or timing of the budget engagement (for example, by introducing fiscal rules which impose a balanced budget, concluding the whole-of-government debate on budget aggregates before individual departmental appropriations are allocated), altering the role of the Legislature in the budget process, or the incentives faced by key budget stakeholders;

(v) *performance budgeting*, defined either loosely, where budgets are supplemented with performance information, or strictly, where budget resources are allocated on the basis of performance and there is a direct relationship between additional increments in budget allocation and increments in service delivery outputs(Diamond 2003a, 2003b); and

(vi) *performance auditing* in addition to traditional external financial and compliance audits and internal audits (Diamond 2003a, 2003b; Pollitt & Bouckaert 2011:84).

PFM reform is a dynamic, non-linear process, driven by often unpredictable interactions between stakeholders in the spheres of government, and between the public sector, business and broader civil society. These interactions engender experiential learning during the implementation process. The objectives of reform may also shift markedly over time. For example, the first stage of NPM-inspired reforms from the mid-1980s in New Zealand was successful, but led to concerns about the fragmentation of government. As a result, the New Zealand public sector changed course; New Zealand put more emphasis on "whole-of-government" accruals financial statements, reasserted the role of the centre of government, and placed a greater emphasis on outcomes (the impact of public services) rather than just focusing on public service outputs *per se* (Guthrie et al. 1999; Schick 1996).

There are also often tensions and sometimes outright contradictions between the aims of the various reform initiatives that typically constitute a public sector reform programme. As noted earlier, such tensions and contradictions often arise because these localised reforms are initiated by different centres of power, such as the central budget office, the Presidency or Prime Minister's Office and planning agencies. For example, attempts to motivate civil servants and re-orient organizational culture towards performance may be undermined by simultaneous downsizing and weakened employment tenure. There may be tensions between promoting open government, protecting privacy and national security. A proliferation of partnerships both within government, and with the private sector, non-governmental organizations (NGOs) and civil society groups may further complicate the coordination of reform implementation.

Some of the contradictions and tensions most pertinent to PFM reforms, as delineated by Pollitt and Bouckaert (2011), are the following:

(i) On the one hand, public managers are accorded greater freedom to manage finances, but on the other, *political control* of the Executive (e.g. Ministers) over budgets is tightened. Simultaneously, managers are also required to be more *responsive to consumers* of public services.

(ii) *Savings* and fiscal discipline are prioritised, but at the same time managers are expected to improve *public service quality*. In principle, these objectives are reconcilable when there is budget slack or waste, but tensions between these two goals may arise in systems which are already efficient, and cutbacks start to erode the redundancy in organizations essential for ensuring service continuity (for example, "backup" staff with sufficiently broad skills sets), flexibility in volatile operating environments, innovation and investment in longer-term organizational capability.

(iii) *Policy effectiveness* must be increased while *managerial accountability* is enhanced. A focus on effectiveness generally requires attention to policy outcomes. But outcomes (such as job creation, life expectancy, the employability of school leavers) are typically outside public managers' direct control. It is therefore difficult to hold managers accountable for outcomes which are influenced by exogenous factors and manifest with long and unpredictable lags. Managerial accountability is enhanced by focusing on service delivery outputs over which managers typically have greater control, but they then tend to focus more on efficiency than on effectiveness.

(iv) "*Red tape",* internal paperwork and internal scrutiny should be reduced, but *managerial accountability* is expected to increase at the same time. Many reforms try to lessen the administrative burden on public managers, but in order to hold these managers accountable for results, given the greater discretion devolved to them, they are often saddled with increased performance reporting on service delivery outputs and policy outcomes, and with audits of performance information. As a result, more and more time and precious resources are spent on "checking" rather than "doing" (Gray & Jenkins 2004).

The balance between these tensions or trade-offs reflected in a PFM reform trajectory, depends on the specific objectives of PFM reform, their relative political priority, the interplay between desirability and feasibility, and the other context-specific factors described above. The implementation strategy (whether purposive, explicit and planned in detail, or principles-based, emergent, adaptive and shaped by the contingencies which arise in the complex reform environment) also affects this delicate balance. However, if too much is left to a reactive "play-things-by-ear" approach, reforms run the risk of becoming *ad hoc* and inconsistent. Such incoherent reforms may magnifying fiscal risk (for example, when one ministry pushes ahead with decentralization of functions to provincial or local governments, but this is not coordinated with the Ministry of Finance's PFM reform programme). Overly rigid design and inflexible implementation strategies, on the other hand, may also be undermined by the changing environment or an inability to make appropriate adjustments in the light of prior reform experience.

Choices around implementation strategy are discussed in sections 3.7 on page 73 and section 3.8 on page 82. The choice of specific reform instruments and techniques tends to be influenced by prevailing public management philosophies, often supported by economic theories such as principal-agent models, transaction cost analysis and institutional economics (Bale & Dale 1998; Horn 1995), discussed in Chapter 2. A summary of recent public management approaches which have influenced public management reform are delineated in Table 4 overleaf.

These management models provide the ideas, visions and plans to improve the organization of the public sector in order to respond to the cumulative pressures of the socio-economic, political or chance factors explored above. They profoundly influence the type of public management reform undertaken and the selection of instruments or techniques employed (Pollitt & Bouckaert 2011). Ultimately, reforms are about changing the way public administrators think and act, and the institutions through which public policy is made and implemented. The broad approaches to management reform outlined in the table above provide the "mental models", in other words, "the causal and descriptive beliefs that interpret experience and guide action" (Dull 2006:191). These mental models, when shared among a critical mass of politicians and/or senior civil servants (both within and across public sector organizations and professions such as economists or accountants), constitute management ideologies which can precipitate concerted reform action and institutional change.

Table 4: Recent influential public management philosophies

MANAGEMENT MODEL	CORE CLAIM	MOST COMMON COORDINATION MECHANISM
New Public Management (NPM)	To make government more efficient and "consumer-responsive" by injecting business-like methods	Market type mechanisms, performance indicators, targets competitive contracts, quasi markets
Neo-Weberian State	To modernise the traditional state apparatus so that it becomes more professional, more efficient and more responsive to citizens. Business-like methods may have a subsidiary role in this, but the state remains a distinct actor with its own rules, methods and culture.	Authority exercised through a disciplined hierarchy of impartial officials
Networks	To make government better informed, more flexible and less exclusive through "self-organizing" networks rather than hierarchies and/or market mechanisms	Networks of interdependent stakeholders
Governance (of which the New Public Governance is a variant)	To make government more effective and legitimate by including a wide range of social actors in both policy-making and implementation. Some varieties of governance explicitly rest on a "network approach" and most of them emphasise "horizontality" over vertical controls.	Networks of, and partnerships between, stakeholders

Source: Pollitt & Bouckaert (2011:22)

Management ideologies facilitate this by creating a common frame of reference for defining problems with the status quo (this is especially critical, given that these tend to be unknown, uncertain and ambiguous "wicked" problems) and shared normative frameworks for identifying a vision for the future, feasible reform alternatives:

> Mental models promote and structure reform by guiding problem identification, framing the problem representations that actors form, and generating solutions. As they are articulated and transferred across organizations and professional communities, they are arranged into shared normative frameworks – scientific management, management by objectives, cost-benefit analysis, incrementalism, balanced scorecards – which promote stability and change in organizational life. (Dull 2006:209)

While the concept of "mental models" may seem abstract to PFM practitioners, it is increasingly acknowledged that fundamental performance-oriented reform requires that elected officials and public servants act differently. This requires that they think differently, but mind-sets are notoriously difficult to shift, and there may be a wide range of psychological and institutional barriers which need to be surmounted. This underscores the importance of performance leadership and change management in dealing with the so-called "soft" people-oriented dimensions of PFM reform and budget institution-building (Behn 2002). In practice, these "soft" dimensions of PFM are often the most arduous.

PFM reforms potentially have an impact on the mobilisation and distribution of public resources, but they also affect distributions of power and authority both within government (for example, the relationship between Ministers and HoDs, between the centre of government (the Presidency/Prime Minister, Treasury) and line departments, and between government and broader society (for example, government's relationship with business, organized labour, non-government organisations and the broader citizenry).

A *public sector bargain* may be defined as "any explicit or implicit understanding between (senior) public servants and elected politicians in a political system about their duties and entitlements, relating to responsibility, autonomy and political identity, and expressed in convention, or formal law, or a mixture of both" (Hood 2002:318). These public service bargains are institutions (formal and/or informal) which differ across state traditions and administrative cultures. For example, in some countries, senior civil servants have to belong to the governing political party. At the other end of the spectrum, in some countries they may be prohibited from being members of political parties at all (Hood 2002). An example of an informal public sector bargain could be where senior public servants are permitted to violate formal rules (such as legislation or regulation) with impunity without censure or sanction.

Fundamental public management reforms may radically alter the "public service bargain" by redefining the reciprocal relationship between top management elites in the public sector and the other role-players in the political system. Contingent on changes to the public service bargain, coalitions that are supportive or resistant to change emerge in the political dynamic of administrative reform. Under Westminster-type systems of government, the public service bargain which strikes a balance between political control and delegated bureaucratic discretion, evolved over time. Senior civil servants gave up political rights in pursuit of political neutrality in exchange for permanent tenure, serving the government of the day. They were also accorded anonymity before Parliament, since the Minister alone is accountable to Parliament, and officials typically only act on behalf of the Minister, rather than in their own right. Conversely, Ministers refrain from hiring and firing civil servants as they see fit, forgoing a convenient political control instrument, and shield them from direct accountability and blame, in exchange for neutral merit-based competence and professional loyalty (Hood 2002).

NPM-inspired reforms, which involve making Ministers accountable for outcomes and Accounting Officers (generally HoDs) accountable for outputs, coupled with placing HoDs on fixed-term contracts, attempt to re-invent the public service bargain. Accounting Officers (AOs) are the senior public managers – generally the HoDs – who are legally accountable for collecting and spending public funds, acquiring and disposing of public assets, incurring liabilities and for keeping associated accounting records. In accepting statutory responsibility for outputs, an AO becomes accountable in his or her own right to Parliament for outputs, rather than acting only on behalf of the Minister. The AO forgoes anonymity and accepts career risk and personal blame in exchange for greater managerial discretion and remuneration and perks (more on a par with the private sector). The Minister, on the other hand, in order to hold the AO accountable for results (outcomes), has to refrain from interfering in the input side of the budget (for example, appointing or dismissing staff or being involved in tender processes). The Minister also gains the advantage of evading blame for implementation dysfunction, since this becomes the preserve of the AO.

The dictum "let managers manage" exemplifies the argument that public sector managers should be given greater control over inputs (budgets, human resources, infrastructure, etc.), in order for them to be held accountable for service delivery outputs. However, the NPM reforms have not been entirely successful in clarifying this interface operationally. Predictably, Ministers have attempted to evade accountability by claiming that they are responsible for policy formulation, but not for implementation operations (Barberis 2002; Connaughton 2006). As Ministers have become less responsible for implementation, the incentive for them to be informed about the impact of policies may arguably have weakened (Roy 1998:554). They may consequently perceive themselves as less obliged to ensure prompt corrective action where there are problems. Analysing the tragedy of the collapse of a viewing platform over Cave Creek in New Zealand which resulted in 14 deaths, Gregory concludes that the attempted revival of the political managerial dichotomy by NPM inspired reforms have not resulted in clarified lines of accountability in, for example, the Department of Conservation (DOC):

> On the one hand, under the terms of the State Sector Act and the Public Finance Act, the job of ensuring safety standards in DOC constructions had been handed over to the chief executive, who should have ensured that no such death-trap would have been built (regardless of low or inadequate departmental funding). On the other hand, under a literal interpretation of the Public Finance Act the minister was irresponsible in the sense that he could not be trusted not to 'purchase' a highly unsafe viewing platform as a departmental 'output'. (Gregory 2002:531)

Managerial models also motivated changes to the public sector bargain and thereby nature of the politico-administrative interface as a result of reform. Some of the tensions created by the reform recommendations of various managerial models are elucidated in the Table 5 overleaf. One of the crucial areas where recent international PFM reforms have caused a fundamental renegotiation of the public sector bargain is the role of the AO. The role of the AO was discussed in greater detail in section 3.3 on page 48. Section 5.5.1 on page 193 explores the impact of the political-administrative interface on PFM reforms in South African provincial governments.

Table 5: Role of politicians and civil servants in three ideal type models and weaknesses in practice

MODEL	ROLE FOR POLITICIANS	ROLE FOR CIVIL SERVANTS
New public management (NPM)	Strategic goal setting *but politicians often do not want to be confined to this role, They want to get involved with the detail.*	Autonomous managers, sometimes entrepreneurs, held to account through performance frameworks and incentives, mainly working in "arms-length" agencies, *loss of sense of unified public service and increased distance from Minsters reduces responsiveness*
Neo-Weberian State (NWS)	Traditional - takers of authoritative decisions both big and small: *less of a problem than NPM or NPG, but there are an increasing number of situations in which it is very hard for politicians to take decisions and make them stick.*	Professional implementers of a) laws and b) politician's decisions. Technically expert, high quality service to clients. Public service ethical code. *Civil servants may experience a tension between their role serving politicians and their role as being responsive to citizens and clients.*
New Public Governance (NPG)	Forgers and guarantors of compromise deals between multiple stakeholders. *Some politicians may be good at this, but there are other pressures on them, and in any case the lowest common denominator which can be agreed between stakeholders is not necessarily the best solution in the public interest.*	Network managers, partnership leaders, negotiators, searchers for leverage, synergies. *Hard to maintain clarity of accountability for civil servants. May even be hard to maintain a dividing line between what civil servants do and what politicians do.*

Note: Weaknesses are indicated in italics.

Source: Pollitt & Broukaert (2011: 170)

Every proposed public management change invariably elicits resistance from interest groups with vested interests in perpetuating the status quo. The costs of reforms tend to be more certain and more amenable to estimation than the potential benefits. Typically borne at inception of the reform process, costs are often considerable in relation to the benefits, which may be uncertain, diffuse and manifest at a long and unpredictable lag. Overcoming institutional inertia, particularly in administrative systems, is particularly challenging:

> Many of the costs of change can be thought of as being associated with the dismantling of existing political and administrative systems in order to 'make room' for the new. In every country, much history and many political bargains – and therefore some wisdom – is built into existing systems. Such systems are archaeological maps of past struggles and settlements … Economists and political scientists increasingly employ notions of 'path dependency' to show how certain laws, rules and institutions can create heavy disincentives for change, because so much is already invested in the existing way of doing things. (Pollitt & Bouckaert 2011:41-43)

New reforms seldom completely displace old ways of doing things, rather they tend to accrete and accumulate like layers of sediment over older practices and trends (Pollitt & Bouckaert 2011). In fact, new reforms may be distorted by interest groups within the PFM system in ways which give the superficial appearance of transformation (through tinkering with formal institutions such as legislation and regulation) while actually perpetuating the old systems (through informal institutions). An example would be creating a complicated, expensive bid committee system and elaborate supply chain procedures, while tendering decisions still continue to be made on the basis of political patronage. Yet the auditors can ostensibly tick all the compliance boxes.

The same can be said of a Medium Term Expenditure Framework (MTEF) that is not supported by a credibly costed baseline, fails to reconcile medium term planning priorities with resources available in the medium term and is therefore unaffordable. Such an MTEF degenerates into little more than three-year incrementalism. In this case, the new terminology of the MTEF just reinforces the prevailing budgeting logic, instead of embodying a radically new approach, as was initially intended. Path dependency is created when past budgeting institutions (such as incremental, annual budget systems) shape and distort future institutions such as the MTEF (Andrews 2013). Under these circumstances "the cognitive and normative foundations of dominant mechanisms" (such as incremental budgeting) become "entrenched in new symbols and scripts over time" (such as the MTEF) through the "repeated behavioural patterns of an expanding set of agents" (Andrews 2013:50). These dynamics induce institutional inertia which "locks in" the existing institutional logic, and makes change management of fundamental reform extremely difficult.

The potential change in the distribution of power and authority occasioned by PFM reforms resonates at organizational level too. The Ministry of Finance, for example, may rely on control over inputs and the "power of the purse" to compel compliance from line ministries. Under these circumstances, the Ministry of Finance may. for example, resist devolving budget authority to line departments, unless there is profound and persistent political will at the highest level (Diamond 2003a, 2003b).

There is a common but erroneous perception that PFM reforms on their own can stimulate significant improvement in government performance outcomes. In other words, the budget "tail" can wag the government performance "dog". This is why PFM reforms are often one of the first types of reform that governments attempt, deferring potentially more contentious and intractable reforms, such as civil service reforms to the conditions of employment of public servants. A key lesson learnt from international reform experiences is that public resource allocation and financial management cannot be reformed in isolation from the overall management system in which they are embedded. Past budget reforms have failed because budgeting was not aligned with broader management incentives and practices. If managers do not manage for performance, it is highly unlikely that they will budget for performance (Schick 2007).

Internationally, there has been a fierce debate as to whether NPM-inspired managerialist reforms have eroded the service-oriented ethos of the public service, democratic values and accountability, as well as public service ethics. The debate is typically framed as a contrast between the traditional public service values in mainly Western democracies, democratic control and accountability of a Weberian-type bureaucracy on the one hand, and efficiency-oriented, often market-imitating, managerialist NPM-inspired reforms and institutional arrangements on the other (see, for example, Kolthoff, Huberts & Van den Heuwel 2007). This section first examines this debate as it plays out in a developed country context, and then speculates on the possible dynamics in a developing country context, such as South Africa, where the literature is much sparser.

Critics of NPM-inspired PFM reforms contend that these reforms entail not only the explicit introduction of business-like methods and techniques, but also the implicit introduction of private sector, entrepreneurial values into public sector settings, with unintended consequences. Entrepreneurial values may be associated with positive organizational effects in the public sector, such as increased productivity and innovation, but may also have negative side-effects, which may undermine the political values traditionally synonymous with the public service. For example, encouraging financial performance incentives for productivity increases for individual managers unconstrained by public service, professional or social values and norms may encourage individual self-interest at the expense of collective action in the public interest, and a monetary motivation for service, rather than professional values or intrinsic vocation (for example, among teachers, nurses or social workers). Similarly, the emphasis on managerial discretion, autonomous action and competition may trump due process, consultation, accountability and equal treatment of all citizens (Christensen & Laegreid 2004; DeLeon & Denhardt 2000; Denhart & Denhart 2000, 2001; Mingus 2007).

As discussed later in Chapter 5 in relation to supply chain management reforms regarding preferential procurement in the South African public sector, there is a pronounced tension between economic values (around value-for-money and efficiency) and political values (relating to redress, fairness, and the promotion of businesses belonging empowerment of historically disadvantaged persons) – both of which are embodied in section 217 of the Constitution. The current preferential procurement framework permits government tenders to be awarded to businesses owned by historically disadvantaged persons, even though their bids may be higher than the market prices, thus trading off value-for-money for redress. The choice of how this fine balance is struck is inevitably political and invariably contentious.

Detractors also argue that the NPM-inspired techniques, approaches and vocabulary are not value-neutral, but embody a tacit, unarticulated value system which can erode and displace traditional democratic public service values. Calling beneficiaries of public services "clients", for example, relegates them to passive recipients of public services rather than active citizens who collaboratively shape their own developmental destinies, and who have an obligation to support the broad public interest and not just narrow individual self-interest (DeLeon & Denhardt 2000). However, proponents of NPM reforms maintain that the language of “clients” actually empowers beneficiaries of public services by emphasising their right to good quality services (Pliscoff 2008). Some scholars have warned that it cannot be assumed *a priori* that public sector managers are automatically more ethical than their private sector counterparts (Kolthoff et al. 2007:2): values-in-use as demonstrated by actual administrative behaviours may deviate markedly from the noble formal stated values to which civil servants are expected to aspire.

Kolthoff et al. (2007:3) point out that NPM reforms are predicated on “indirect control” rather than “direct authority”, through configuring managerial processes which align the incentives of individual civil servants with those of the public sector organization they serve, underpinned by appropriate “value commitments”. NPM reforms generally re-emphasise the distinction between politics and administration/management, often reviewing and redefining the “public sector bargain” between the Minister/MEC and the AO. NPM reforms further reinforce this distinction between politics and administration by introducing quasi-markets ranging from purchaser-provider contracting, internal pricing, and outsourcing to outright privatization to introduce elements of market co-ordination, competition and potential efficiencies, as opposed to hierarchical bureaucratic coordination (see section 3.7 on page73).

Kolthoff et al. (2007) argue that the impact of NPM reforms on public integrity may have been given too little emphasis in the academic literature, and that the challenge is not merely the effective introduction of business-like reforms, but their ethical application. They define public integrity as “acting in agreement with the relevant moral values, standards, norms and rules” (Kolthoff et al. 2007:8) and measure this research variable through the incidence of integrity violations defined broadly as waste and inefficiency, conflict of interest among civil servants, fraud and outright corruption (Kolthoff et al. 2007:2).

Behn (1998) observes that NPM’s insistence that public managers be held accountable for performance rather than merely processes necessitates a fundamental rethinking of what is meant by democratic accountability, both conceptually and operationally. In particular, this re-conception focuses on who decides what results are to be produced. Who exactly is held accountable for achieving these results, especially when policy responses to complex social and economic problems require networked collaboration across agencies, sectors, levels of government and even civil society? How will this be done? And by whom will the accountability process be driven? In contrast to scholars who have argue that NPM is an attempt to buttress the political-administrative dichotomy, Behn (2002) argues that NPM in fact dissolves this distinction by allowing non-elected public managers to use decentralized decision-making powers to innovate at their own discretion:

> They accept that civil servants do make policy decisions. Indeed, they advocate that civil servants should make policy decisions. And thus they have no escape. They need a new political theory that explains why and how this is (or can be) consistent with democratic accountability. (Behn 1998:11)

Beyond a simple juxtaposition of traditional public service values in a Weberian bureaucracy and commercially oriented NPM reforms, some more nuanced, eclectic and pragmatic views have emerged. These new views focus on "public value", embodying elements of the NPM, democratic public service values, and network approaches to collaborative delivery of public goods and services (co-production). Table 6 below contrasts this view to the NPM orientation.

Table 6: Contrasting the public value management and NPM approaches

	NEW PUBLIC MANAGEMENT	**PUBLIC VALUE MANAGEMENT**
Characterisation	Post-bureaucratic, competitive government	Post-competitive
Dominant focus	Results	Relationships
Managerial goals	Achieve agreed performance targets	Multiple goals including responding to citizen/user preferences, renewing mandate and trust through quality services, steering network
Definition of the public interest	Individual preference are aggregated	Collective preferences are expressed
Performance objective	Management of inputs and outputs to ensure economy and responsiveness to consumers	Multiple objectives are pursued, including service outputs, satisfaction, outcomes, trust and legitimacy
Dominant model of accountability	Upward accountability via performance contracts; outwards to customers via market mechanisms	Multiple accountability systems including citizens as overseers of government, customers as users and taxpayers as funders
Preferred system of delivery	Private sector or tightly defined arms-length public agency	Menu of alternatives selected pragmatically

Source: O'Flynn (2007:361)

Kuhlmann and Fedele (2010) examine local government modernisation in Germany, France and Italy in the 1990s. This modernisation was not explicitly based on, but was nevertheless inspired by, the NPM notions of reforming local governments. They conclude that these reform experiments entailed selective implementations of NPM reforms, due to political resistance, resulting in an "a somewhat ambiguous mixture of new managerial instruments and traditional legalist practices which has been labelled as a 'Neo Weberian' model" (Kuhlmann & Fedele 2010). In their view, NPM-inspired reforms have only been partially successful at best in increasing client and performance orientation. They assert that "there was no shift to a managerial administration and the NPM has lost most of its initial attraction" (Kuhlmann & Fedele 2010:470). Similarly, Otenyo

(2006) maintains that, while NPM-inspired reforms in Kenya and Tanzania have led to a reduction in public service numbers, they have not dramatically improved service delivery performance, reduced inefficiencies or corruption.

At this stage, systematic and comprehensive empirical evidence on the linkage (or lack thereof) between NPM-inspired reforms and public sector ethics and values remain sparse. The debate thus rages on, fuelled largely by ideology rather than grounded in objective evidence. Some empirical studies have shown that the introduction of performance-related incentives at an individual or agency level appear to have eroded non-materialistic intrinsic motivations, such as professional or personal dedication to service. Others have shown that under certain circumstances, public sector values and ethics and NPM reforms can be complementary. For instance, non-material intrinsic motivations may in fact mitigate some of the negative behaviour distortions associated with performance incentives (Paul & Robinson 2007). As far as conclusive empirical evidence is concerned, the jury remains out on the impact of financial incentives on public service values and ethics.

In developing countries, this is true *a fortiori*. What complicates the analysis still further is that developing country government contexts may retain pre-bureaucratic and patrimonial elements. Actual praxis may diverge widely from the NPM ideal, as the praxis is guided by informal institutions rather than formal policies, and regulations may not be enforced. This is often overlaid by formal elements of a Weberian bureaucracy, typically shaped by a hierarchical authoritarian rather than democratic governance ethos (Otenyo 2006). The incentive regime for civil servants in developing countries is often shaped by a lack of systematically applied sanctions for professionally unacceptable behaviour, and a consequent “culture of impunity or non-punishment” which may be due to factors such as “the absence of a functional and independent judicial system, the low work norms in place, the close-knit nature of society which precludes harming members of one’s social network, together with the risk that the worker you punish today becomes your boss the day after” (Paul & Robinson 2007:360-361).

Borins (1998) in his study of both developing and developed Commonwealth countries observes that new democracies where the rule of law may not be fully institutionalized may be far more concerned about corruption in access to public services, discrimination and variability in access to services than about efficiency, timeousness or client orientation.

In Chile, reforms were undertaken between 1990 and 2008, aimed at transforming patrimonial, bloated and highly interventionist government structures. These reforms reflected a strong element of NPM thinking. In Chile, research by Pliscoff (2009) did not find evidence of systematic erosion of public services values after NPM-inspired reforms were implemented. He finds this puzzling, given the clash between NPM and democratic public service values. He offers two explanations, based on the ability of organizational norms and cultures to instil and reproduce public service values, and on the self-selection of individuals into the public service who already subscribe to these values:

> A potential explanation for this high regard for public values can be explained by the fact that public agencies seem to be spaces of indoctrination of public values for public employees. Therefore, even if someone accepts the theoretical backgrounds of the NPM doctrine, the organizational culture dominating the agency, or the public sector as a whole, will pressure employees to adapt their values to those of the majority. Another explanation might be that people that have been contracted or attracted to public service already come with a high regard for public values, which could explain their decision to work in this sector. Therefore the potential impact in terms of erosion of values, could be marginal. (Pliscoff 2009:186)

To summarise, it would appear that many developing country administrations are characterised by ambiguous values: patrimonial clientelism and vestiges of the colonial past may operate side-by-side with the democratic public service values typical of Western liberal democracies, and private sector values which may be embedded in NPM reforms. Each of these brings its own tensions and contradictions, and collectively the interplay between these and other organizational and societal factors shape the informal institutions that influence organizational culture, and ultimately the behaviours and attitudes of public managers. For developing countries which may lack deeply institutionalized professional norms and ethical values, embedded public service motivations and effective sanctions for illegal or unethical behaviour, it is not clear that introducing formal rules such as individual and agency financial performance incentives will necessarily result in improved financial or service delivery outcomes.

Fukuyama (2013) argues that the transaction costs of controlling public servants' behaviours through informal institutions and professional norms are much lower than the costs associated with formal rules and incentives. He contends that professionals such as doctors, lawyers and educators are essentially

> …self-regulated, due to the fact that (a) it is hard for people outside their profession to judge the quality of their work, and (b) because part of their education, as noted above, consists of socialization to certain professional norms that seek to preclude certain types of self-seeking behaviour. (Fukuyama 2013:14)

He therefore concludes that the more professional and capable a bureaucracy, the more autonomy and discretion should be accorded to it. Thus transcending a rules-bound administrative culture may be appropriate for developed countries, where a high proportion of public servants are professionals, informal organizational cultures are performance-oriented, and there is an established work ethic and culture of accountability. Conversely, where the degree of civil servant professionalism and capacity is low and accountability mechanisms are non-existent or dysfunctional, discretion and autonomy should be limited by a rules-based approach to reduce the potential for corruption (Fukuyama 2013). In assessing anti-corruption initiatives in South Africa, many respondents have voiced opinions similar to Fukuyama's (see discussion in section 5.6.6 on page 253 for more detail).

3.5 Factors triggering PFM reforms in South Africa

In the interviews conducted with 15 officials and ex-officials of the National Treasury and 7 officials from the provincial treasuries, the respondents were asked whether they considered certain factors as prompting PFM reforms. Table 7 below shows the percentage of respondents who strongly disagreed, disagreed, agreed or strongly agreed with the relevance of each of the factors drawn from the literature survey (see section 3.2 on page 48) and listed in the questionnaire (see Annexure 4 on page 431). The second column from the right shows the cumulative percentage of those respondents who either "disagree" or "strongly disagree". The final column shows the cumulate percentage of those who either "agree" or "strongly agree". The factors are arranged in descending order of importance, as rated by the respondents.

From Table 7, it is evident that the overwhelming majority of the respondents (91%) acknowledged the influence of NPM thinking in the crafting of South Africa's PFM reforms. The respondents generally thought that domestic policy challenges had precipitated the PFMA reforms, rather than global economic pressures (for example, IMF structural adjustment conditionality). These domestic triggers included the internal political pressures of a new democracy, especially the requirements of the Constitution adopted in 1996 and the need for Reconstruction and Development (87% of respondents agreed or strongly agreed that this was a causal factor), social and demographic changes (77% of the respondents agreed or strongly agreed), and the pursuit of macroeconomic stability by curtailing public debt inherited from the apartheid regime (74%).

Table 7: Respondents' rating of PFM reform triggers (percentage)

2. Please rate the following as factors triggering PFM reforms in South Africa	1 Strongly disagree	2 Disagree	3 Agree	4 Strongly Agree	5 Don't know	Disagree or strongly disagree	Agree or strongly agree
2.5 NPM thinking	0	4	26	65	4	**4**	**91**
2.2 Internal political pressures of a new democracy	0	9	52	35	4	**9**	**87**
2.4 Social and demographic changes	0	18	55	23	5	**18**	**77**
2.3 Restoring macroeconomic stability	0	9	35	39	17	**9**	**74**
2.1 Global economic pressures	9	52	30	9	0	**61**	**39**
2.6 Pressure from citizens	9	48	35	4	4	**57**	**39**

Note: Sample size = 23
Source: Own calculations

Of the respondents, 61% disagreed or strongly disagreed that global economic pressures had influenced the initiation of the South African PFM reform programme. Where global economic pressures were regarded as trigger factors, this was not seen as being in relation to direct pressure from multi-lateral lending institutions or international donors (as in the case of many other developing countries). The respondents were of the view that global economic pressures was more related to South Africa's reintegration into the world economy, its need to become globally competitive and its exposure to recent public management innovation, especially in other Commonwealth countries (such as Australia, Canada and the United Kingdom) and European countries such as Germany and Sweden. Also important was the urgent imperative for the new, untested Black democratically elected government to establish its governance credibility, inter alia, by aligning the South African public sector with global standards and internationally recognised good practice.

The high degree of consensus among respondents that the South African PFM programme originated as an internal response to domestic political and administrative objectives, rather than an external imposition, may help to explain the PFM programme's sustainability and its significant impact in the last two decades.

While the overwhelming majority of the respondents rated restoring macroeconomic stability, for example, by reducing public debt, as an important motivation for the reforms (74% agreed or strongly agreed), it should be noted that 17% of respondents stated that they did not know the answer. Most of the respondents who did not answer the question worked in the provincial sphere. This suggests that provincial treasury officials may be less aware of the aggregate fiscal impact of the PFM reforms than their national counterparts, given their focus on a single province and on individual provincial departments.

Most of the respondents did not think that South African reforms were initiated due to pressure by citizens (57% disagreed or strongly disagreed), unlike PFM reforms in many other countries. South African PFM reforms were initiated in the "honeymoon" period of the new democratic dispensation, and service delivery protests were then unheard of. The respondents did not suggest additional triggers not listed in the menu of triggers in the questionnaire.

3.6 Objectives of PFM reform in South Africa

Mr Trevor Manuel, the former Minister of Finance (1996 to 2009), who was the main political champion of early PFM reforms in South Africa, noted in an interview that the old *Exchequer Act, 1975* (Act 66 of 1975), hereafter referred to as the *Exchequer Act,* was outdated and overly centralized. This *Act* was inconsistent with the 1996 Constitution and did not accommodate the newly created provincial and local governments (Manuel, pers. comm., 14/09/2014). He articulated his perspective on the objectives of the South African PFM reforms as follows:[1]

> *The Constitution was adopted in May 1996 and the PFMA was Act 1 of 1999. So the intense work [on the PFMA] was actually in 1997/98 when the Constitution was young and we wanted to be compliant [with it]… The other side of it was modernisation and, to some extent, we need to have a system which was also consonant with new trends, because there was a new Public Service Act. One of the trends in public admin globally was trying to answer the question: how do you allow managers to manage? And, in our minds, in crafting the PFMA we tried to deal with that*. (Manuel, pers. comm., 14/09/2014).

The role of the fiscal constitution is discussed further in Chapter 5.3.3 on page 167, in relation to the constitutional requirements for uniform treasury norms and standards, transparency and accountability. As explored below, there was a high degree of consensus between the views of the then Minister of Finance, Mr Trevor Manuel, as the political principal, and those of the treasury officials who were interviewed, suggesting that there was a strong common vision of the PFM reform objectives.

Respondents from the treasuries were asked to rate the possible objectives of PFM reforms extracted from the reform literature, and to suggest any other objectives that were not already been mentioned in the questionnaire. Table 8 overleaf shows the percentage of respondents who strongly disagreed, disagreed, agreed or strongly agreed with each of the suggested objectives in section 3.2 on page 45. The second column from the right shows the cumulative percentage of those respondents who either disagreed or strongly disagreed. The final column shows the cumulate percentage of those who either agreed or strongly agreed. The factors are arranged in descending order of importance, as rated by the respondents. The effective management of revenues, expenditures, assets and liabilities, improved service delivery and increased accountability were unequivocally and unanimously identified as the objectives of PFMA reforms in South Africa (100% of respondents agreed or strongly agreed).

The overwhelming majority (96% of respondents) also identified improved value-for-money, uniform treasury norms and standards across all provincial governments and the national sphere, and regulatory compliance and control as important PFMA objectives. With regard to compliance and control, many respondents pointed out that the aim of the PFMA was to replace the detailed ex ante input-oriented old *Exchequer Act, 1975* with a national framework within which AOs and their senior managers could have considerable discretion.

---

[1] All the respondents' views that are quoted directly are italicised throughout this thesis.

Table 8: Respondents' rating of PFM reform objectives (percentage)

1. In your opinion, what were the objectives of PFM reform in South Africa?	1 Strongly disagree	2 Disagree	3 Agree	4 Strongly Agree	5 Don't know	Disagree or strongly disagree	Agree or strongly agree
Effective management of revenues, expenditures, assets and liabilities	0	0	22	78	0	**0**	**100**
Improved service delivery	0	0	43	57	0	**0**	**100**
Enhanced accountability	0	0	9	91	0	**0**	**100**
Regulatory compliance and control	0	4	61	35	0	**4**	**96**
Improved value-for-money	0	4	30	65	0	**4**	**96**
Uniform treasury norms & standards	0	5	41	55	0	**5**	**95**
Anti-corruption and fraud	0	30	57	13	0	**30**	**70**
Cost saving and expenditure reduction	0	39	57	4	0	**39**	**61**

Note: Sample size = 23

Source: Own calculations

A phrase consistently mentioned by respondents was "letting managers manage" – the assumption being that once public managers are freed from bureaucratic red tape, they will automatically seize the opportunity for greater flexibility offered to them, in order to tailor PFM systems to their individual departmental and provincial contexts. As discussed in Chapters 6 and 7, this assumption is not tenable in South Africa. This raises the question of whether the reform credo should perhaps rather be "making managers manage".

The fact that the sample interviewed overwhelmingly agreed on eight objectives of PFMA reform (a fairly large number of objectives) is indicative of the fact that the PFMA was intended to ensure a fundamental overhaul of the PFM system in South Africa. One respondent who has been with the National Treasury since 1993 remarked:

> *"I think all of these [objectives listed in the questionnaire] were objectives of reform. It was not a process initiated to achieve specific public finance objectives. It was a general review and modernisation of the legislation. And if there was a single theme in it, it was about reducing regulatory burdens and strengthening accountability and management responsibilities."*

Only 70% of respondents saw acting against corruption as one of the initial objectives of the PFMA in 2000. This finding may perhaps be partly ascribed to the naiveté of the new democratic administration, to whom corruption may have been inconceivable at that stage, and partly to the strong focus on improving efficiency, accountability and transparency, which was assumed would strengthen the control environment and thereby automatically combat corruption. One respondent recalls:

> *"I must be honest with you, nobody spoke that language those days because the thought that the new political leaders would be corrupt and fraudulent was just like questioning Christ's morality, or any of the prophet's morality so to speak. And it was at that level of faith that the new political leadership is so committed, so revolutionary and squeaky clean so you mustn't even talk about these things. So I don't recall at any point in the process writing or thinking about, or anybody else raising the issue that new methods of fiscal management should prevent fraud and corruption."*

Another respondent from National Treasury confirmed that while there was a sense that there were "*weak controls and cosy relationships that needed to be upset and watched*", anti-corruption measures were not at the top of the agenda of the new political and administrative leadership, as the democratic transition had disrupted the existing apartheid patronage networks:

> *"Everybody from the old administration were aware that they were on their way out and they were going to get new colleagues who didn't go to the same golf clubs and drinking holes that they did, and so they needed to be more careful. There was a sense that transition, bringing in new people who were in some respects suspicious of each other, meant that the environment was one in which patronage would face more difficulties in taking root. Maybe that's something that changes when you move into the last decade. Management structures and new leadership become more comfortable and less subject to that sort of oversight and constraint."*

Only 61% of respondents rated cost-saving as an initial objective of the PFMA in 1999, although most of them acknowledged that since the global crisis in 2008, this expenditure reduction objective has become much more important. This raises a crucial issue about whether the additional focus areas of expenditure reduction and anti-corruption are creating tensions with the original performance-enhancing spirit of the PFMA, especially since the PFMA has not been reviewed since its enactment in 1999. This issue is explored further in Chapter 8 on page 353. The greater emphasis in the PFMA on value-for-money rather than cost containment should be seen in the light of the transformative political mandate of the democratically elected government to extend services to those communities previously excluded under apartheid, rather than merely reducing the costs through which existing services would be delivered.

When asked to suggest any additional objectives that had not been listed, many respondents proposed that transparency be reflected as a separate objective in itself, given the need to end the fiscal secrecy that characterised apartheid, and the prominence of fiscal transparency in the Constitution. Mr Trevor Manuel, who was the Minister of Finance at the inception of PFMA reforms, affirmed the political commitment made to fiscal transparency in the Reconstruction and Development Programme (RDP) instituted by the African National Congress (ANC):

> *"You can go back before the PFMA. If you go to the RDP you will see that there is a commitment made in the RDP that we'll remove the secrecy from the budgeting process. The first opening is to set the framework in the Medium Term Budget Statement. That's the first issue, and the second issue is the need to shift to multi-year*

thinking. I think that created the transparency, so that you can see what the commitments are, but you can build in – not rigidity – but the ability to re-appraise situations and keep informing the parliamentary process of what was being done." (Manuel, pers. comm., 14/09/2014)

3.7 Factors influencing PFM reform implementation trajectories: An international perspective

The previous section explored models to explain the adoption of public management reforms in general and then shifted to the specifics of PFM reform design: the relationship between reform objectives, the chosen instruments and modalities of reform, and design trade-offs and tensions. This section focuses on PFM reform implementation paths and their associated opportunities, challenges and risks. It does so by employing the conceptual framework for analysing reform implementation which was introduced earlier in section 1.10 on page 13, and captured diagrammatically in Figure 1 on page 14.

At their inception, reform trajectories may exhibit varying degrees of specificity and rational design in their conception and planning stages, ranging from sets of vague orientations and broad principles, to more well defined plans with specific sequences of logically inter-related activities, objectives and milestones. Given the complex, politically charged and volatile public sector environments in which reform initiatives unfold, trajectories are often emergent, evolutionary, shaped by trial-and-error and chance events. For example, while she was the UK's Prime Minister, Mrs Margaret Thatcher provided clear direction on her vision for reforms in the United Kingdom after 1979 without a detailed implementation plan, and specific initiatives emerged over time as opportunities (for example, for "quick wins") and threats presented themselves (Olowo-Okere & Tomkins 1998). Frequently reform trajectories are neither linear nor predictable (Allen 2006). The pace of reform often fluctuates between periods of good momentum, much more gradual change, partial reversal, and reinvigoration (Pollitt & Bouckaert 2011).

As depicted in Figure 1 on page 14, the implementation of PFM reform has implications not only for the capability and skills of individual public servants, but also for organizational capacity, system-wide whole-of-government capacity and the type, frequency and accuracy of the information required. The elements of systemic capacity include

(i) *new or amended financial legislation* or regulation to give operational effect to the reform;

(ii) *organizational design,* both at a macro government-wide level (for example, the relationship between the Ministry of Finance, the Presidency and other line Ministries and spending agencies at national and provincial level, and in municipalities);

(iii) *funding of reform initiatives* through appropriations, conditional grants for financial management improvement from national government to subnational governments, or through international loans or donor funds; and

(iv) *realignment of government-wide HR management* frameworks, for instance, ensuring that the individual performance of public managers is aligned with organizational performance (through ensuring congruence between job descriptions and financial delegations).

Building departmental organizational capacity to support PFM reforms could include

(i) *changes in organizational design,* for example the relationship between the CFO and the HoD, as well as the structure of the finance divisions of line departments;

(ii) *changes in PFM processes and standard operating procedures* within departments in order to support the reforms (including possible IT platforms), as well as changes to related management processes such as planning and monitoring and evaluation; and

(iii) *changes to control and accountability frameworks*, for example, the system of financial delegations, or in-year and annual reporting.

Typically, PFM reforms are not implemented in isolation but as part as a broader public management reform programme to improve the performance of government, which may include

(i) *human resource management*/civil service reforms to ensure security of employment (the introduction of performance-related fixed-term contracts, rather than permanent employment), merit-based recruitment and performance-related remuneration;

(ii) *organizational reforms*, such as a move towards specialised agencies, greater decentralization (political, administrative, fiscal, etc.);

(iii) *performance measurement* and management in the form of organizational and individual performance management, results-based monitoring and evaluation, not only as internal management tools but as external accountability instruments; and

(iv) *transparency* and open government reforms such as access to information legislation, and the publication of strategic plans and budgets (Guthrie et al. 1999; Pollitt & Bouckaert 2011).

Figure 1 on page 14 also illustrates potential implications for the level and mix of skills required from public finance managers and line managers in budget planning and in executing the budget. The importance of occupationally directed practical training as part of the change management process, preferably on-the-job training in the workplace context and in functional teams rather than individually, cannot be estimated:

> With reference to human capital formation, generic training in budgeting is useful, but training should normally focus on the specific skills required for better employee performance in a current or prospective job. Thus, training program[me]s should be designed as a corollary of the institutional, organizational, and information changes and

> should be initiated only after these changes have been put in place – or at least concurrently with them. (Shah 2007:17)

Figure 1 encompasses the technical elements of PFM reform, and qualitative elements such as leadership (both political and managerial), ethics and administrative values. There is increasing recognition of the role of leadership in economic reform (Budiarso & Mir 2012; Wallis 1999), but as yet, there has been little systematic empirical study of the impact of leadership on public sector management reform. Visible political championship at the highest political level is critical in articulating the potential political gains from a particular reform trajectory, especially when these are diffuse and manifest themselves over a long time horizon, but the costs are significant, immediate and quantifiable. Administrative leadership is equally pivotal in highlighting the political advantages of reform and in proposing specific reform instruments and their sequencing and timing (Overseas Development Institute 2007), capitalizing on opportunities which emerge, identifying and adroitly managing attendant risk and balancing short-term "quick wins" with longer-term objectives.

The leadership qualities required of policy advisors are also critical to senior public administrators who act as change agents:

> The advisor also requires the interpersonal skills of a diplomat: cajoling and encouraging his/her counterparts where appropriate; pushing forward and backing off when needed; seizing opportunities and building coalitions; identifying leaders and reform champions; digging under the skin of systems and procedures, both formal and informal (in Douglass North's sense); and avoiding the familiar graveyard of the poor advisor – the "one size fits all" solution – an approach that is too often based on what works well in the advisor's own country, but may be unrealistic and inappropriate for the client, while avoiding the contrary danger of "becoming a native" and turning a blind eye to local systems and procedures that are out of line with international practice. (Allen 2008:4-5)

Andrews (2005, 2008) suggests that political authorising mechanisms, acceptance and ability circumscribe the "reform space" (the degrees of freedom governments have in implementing reforms). Instead of concentrating virtually exclusively on the technicalities of reform (such as instruments and phasing) reform designs should focus on building "reform space" to enhance the sustainability and credibility of reform. Shah (2005) describes a similar correspondence between, firstly, the values, mission and policy goals of the public service aligned with citizens' preferences, secondly, the authorising environment (which includes the formal budget institutions and informal institutions of participation, enforcement and accountability), and, thirdly, operational capacity as precondition for attaining desired reform outcomes.

Salient choices in relation to a reform implementation strategy include

(i) whether the reform initiative is driven primarily top-down by the senior political or administrative echelons, or bottom-up by public managers at the coalface of implementation themselves, or some combination of the two;

(ii) whether the reforms are actioned through existing organizational structures or whether new structures are created to entrench the reform;

(iii) whether an early pilot small scale initiative approach is envisaged which is later scaled up, or whether a "big bang" government-wide approach is advocated; and

(iv) how intense the reform is – in other words, whether the reformers attempt to get buy-in through consultation and compromise with stakeholder groups which may offer resistance (such as public sector unions, subnational governments, professional associations or the private sector) or whether they have forcefully pushed ahead with reform despite opposition (Pollitt & Bouckaert 2011:112).

If a pilot project (as mentioned in iii above) is launched, it can create "efficient nuclei" which demonstrate tangibly the benefits of reform and can act as powerful change agents. Pilot projects can also accumulate lessons though learning-by-doing, which enhances subsequent scale-up, but there is the risk that such a project may never be mainstreamed. Advocates of "big bang" approaches argue that simultaneous reforms in complementary areas are necessary to shift incentives and behaviours. Big bang approaches may, however, outstrip available capacity, and introduce too much change, which, if ineffectively managed, could induce reform fatigue, paralysis, lower morale and compromise public service delivery (Schiavo-Campo & Tommasi 1999).

The importance of senior civil servants' roles in exhibiting leadership and change management of reforms (preferably through the medium of a dedicated task-team) should not be underestimated. Any fundamental organizational change invariably creates uncertainty, fear and resistance. Government departments often endure unrelenting management system change (many of which may be unsuccessful or prematurely aborted). This may breed disillusionment and cynicism among government employees (especially middle management) in relation to new reforms which are briefly "the flavour of the month", but soon fall into disuse, only to be superseded by yet another new system. It is therefore vital that a capacity building programme not only facilitates technical skills transfer, but also acts as a vehicle for change management, sharing with managers the benefits of reform to them as individuals and for the public sector organization and government as a whole, and allaying their fears. Because Ministries of Finance seldom have adequate internal capacity for change management (Diamond 2003a, 2003b), technical assistance may be required.

The implementation of new financial management systems requires supporting changes in PFM business processes. It also requires redesigning and streamlining standard operating procedures, which call for further behavioural changes both at a political and at a managerial level. It is no use having the software, systems and skills to generate performance reports if political Executives, top management and other public servants do not actually use this information for internal management purposes, and to make better decisions in deploying the financial resources over which they have control. If the information is not used, performance budgeting, results-based monitoring and evaluation and other reforms degenerate into an expensive, mechanical compliance exercise for the benefit of provincial and national treasuries, rather than serving as a diagnostic tool for officials in line departments to think about service delivery models and the attainment of strategic objectives. At the end of the day, this is a grossly sub-optimal use of taxpayers' money, which is ironic in view of the noble intentions of PFM reforms.

It is widely accepted that administrative culture and values (informal institutions) are critical to the success of reforms, but there are few studies mapping shifts in attitudes, perceptions and beliefs indicative of reform-induced cultural change. Professional values cannot be de-linked from the values of broader society. Administrative values (such as attitudes to the "customer") can be modified, and can evolve through conscious interventions, such as training, but it is unlikely that public administration reforms on their own can change civil servants' societal values or their broader conception of the relationship between public administration and politics, for example, distrust of politicians (Rouban 1995). To public servants trained in the tradition of "command and control", which is especially prevalent among the financial management fraternity, the need to develop a client-oriented code of conduct and/or participative budgeting may seem frivolous (Shah 2005).

In the purchaser-provider reforms the Minister acts a "purchaser" of public services (such as health or social welfare services) and, instead of deriving budgets though planning or using formulae to generate budget allocations, separate "provider" agencies instead competitively bid for public funds, creating greater incentive for efficiency. Based on principal-agent theory of the NIE (discussed in Chapter 2), the purchaser-provider split attempts to separate policy from implementation in a quasi-market arrangement which attempts to mimic the competition of private sector markets in a public sector setting (Propper, Burgess & Abraham, 2002; Siverbo 2003).

In Queensland, Australia, for instance, the health authority was divided into the Planning and Systems Division (which acts as the purchaser and funder of services) and the 39 District Health Services which supply hospital, community and public health services (the providers). As the purchaser, the Planning and Systems Division has a budget which it spends on behalf of the Minister. The Planning and Services Division contracts service agreements with the District Health Services, private sector provider (such as general practitioners) and non-profit organisations to "purchase" specific service outputs (such as patients treated for particular illnesses), in exchange for a budget allocation (Ryan, Parker & Brown 2000).

Although there are theoretically cogent arguments for splitting purchaser and provider roles, in practice purchaser-provider splits have yielded mixed results at best. Evaluating the public health reforms in the United Kingdom in the 1990s, Propper et al. (2002) concluded that, while the introduction of competitive purchaser provider arrangements lowered the cost of service provision and prices, it also reduced the quality of public health services. Because purchaser-provider reforms were introduced simultaneously with other organizational reforms (such as new management practices, better communication and technology), Ryan et al. (2000) were unable to attribute improved efficiencies in the public health sector conclusively to the introduction of purchaser-provider internal market arrangements. In Sweden, challenges with the purchaser-provider split in health care provision include inadequate capacity for contract management by purchasers, ambiguous and legally unenforceable contracts with providers, and unresponsiveness of the purchasers of public health services to preferences of patients as the ultimate consumers of public health services. These factors have contributed to a considerable divergence of practice in Swedish public health care provision from the theoretical precepts of the ideal purchaser-provider model (Siverbo 2003). After examining the experience of purchaser–provider split in the implementation of the Family Physician Programme and the rural health insurance in Iran, Takian, Rashidian and Doshmangir (2015:10) conclude that the purchaser-provider split "did not succeed in changing the status quo, became a reason for fighting, misunderstanding, lack of co-operation and failure of the fragile partnership between the purchaser and provider".

Purchaser-provider reforms have been less than successful, not only because of the technical issues relating to the formal elements of institutional re-design (such as contract management or enforceability), but also because of conflicts with underlying informal institutions such as professional culture and values in the caring professions such as social work and health care. Attempts to delegate financial responsibility to social workers has sometimes run into problems due to clashes with the social work professional culture and values, which are based on professional personal relationships with clients and the over-riding ethical imperative to meet their needs. These professional values may conflict with the responsibility to make difficult financial decisions on whether to refuse or accept costly care packages for clients, which would require the social workers to ration potentially unlimited client need, given tight budget constraints. Typically, in social work, decisions on care packages tend to be collective processes: a frontline social worker recommends and costs the package; the team manager then reviews the costs in relation to the assessed needs, and attempts to negotiate them downwards where appropriate; and the client services manager gives the formal authorisation. As a result, "despite attempts to use budgets as mechanisms to attribute individualized financial autonomies there remains a strong sense of collective responsibility – albeit that these collective responsibilities are not currently underpinned by any consensual normative principles" (Llewellyn 1998:305).

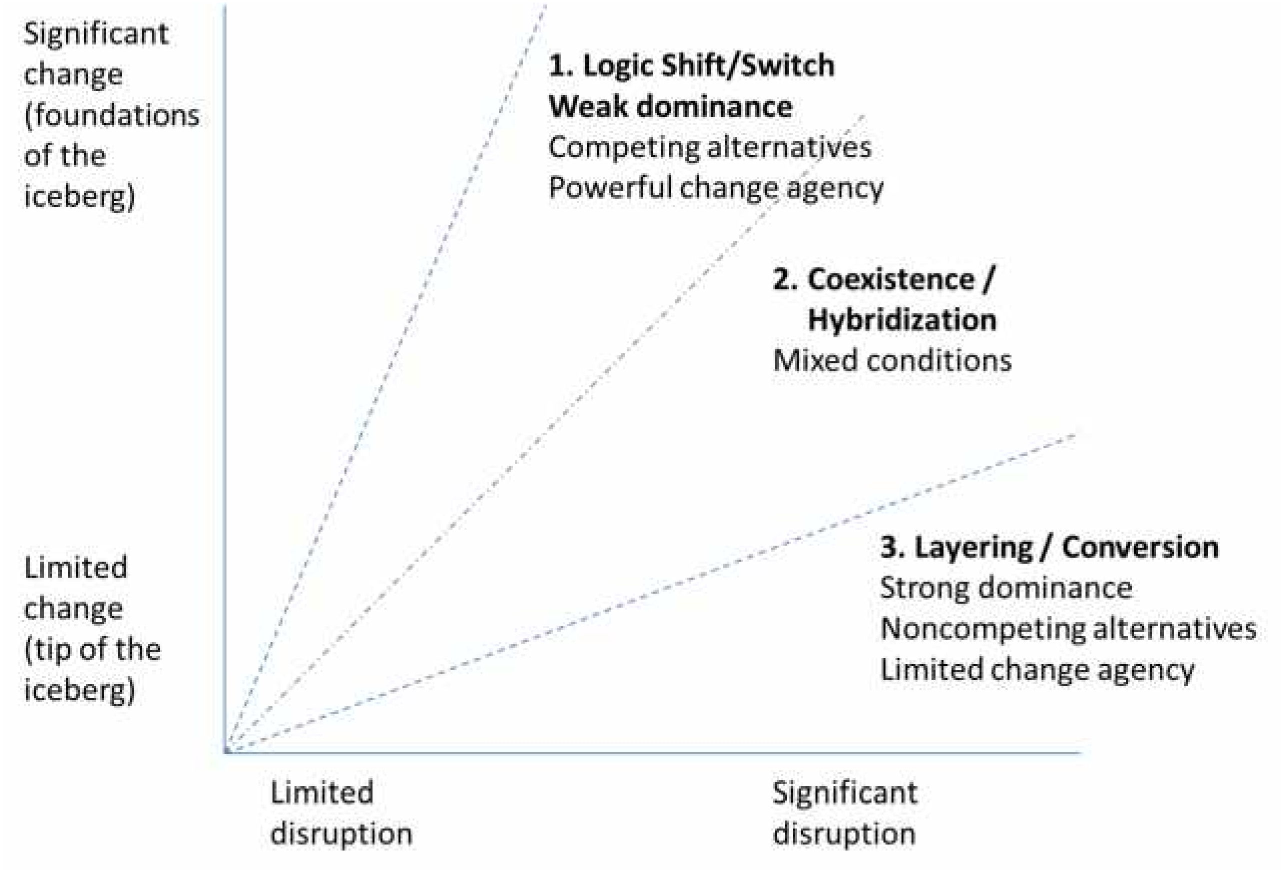
Another area where historical administrative values may conflict with NPM-inspired reform intentions arises where the bureaucracy has developed a culture of non-transparency, defensively covering up mistakes, or a paternalistic culture where "government knows best and the official secrets act determine[s] official attitudes" (Stevens 2004:7). Reforms resulting in greater openness may be passive-aggressively undermined by public officials, since they may prompt more scrutiny and pressure, more work and fewer opportunities for rent-seeking and corruption. The same applies to public participation: while formal public policy documents spout platitudes, the actual practice in front-line service delivery seldom lives up to these promises where there is an embedded administrative culture that does not embrace an active role for citizens and communities in shaping their own developmental destinies. If the administrative culture regards communities as passive recipients of government delivery, there is likely to be an administrative culture more adept at directing and controlling citizens than at listening and responding to them.

Andrews (2013) provides a model to explain how existing informal institutions (such as organizational culture and administrative values) may persist, despite fundamental changes to the formal regulatory institutions, and may in fact undermine them (institutional path dependence). Opportunities for effective reform may follow in the wake of disruptions to existing formal and informal institutions which these institutions cannot resolve, for example, international economic crises or endogenous demographic shifts. Scope for genuine change depends on "the severity of the disruption, how much it tests the legitimacy of extant dominant logics, whether viable alternatives exist and whether agents are in place to struggle for, and facilitate, transition" (Andrews 2013:50).

The interplay between these factors determines whether new formal and informal institutions will displace old dominant formal and informal institutions, or co-exist with, and be distorted by, them. This is illustrated in Figure 4: overleaf, which shows how the degree of disruption is mediated by the nature of current institutions to determine whether the change engendered by reforms is limited or more profound.

Reform in the wake of a disruption may engender a switch to new institutional logics if, firstly, the legitimacy of existing institutional forms is weak or not deeply embedded, secondly, feasible alternative logics are present, and, thirdly, agents and interest groups influential enough to challenge the existing order in fact endorse the change. If any of these conditions is not met, then change may be limited to coexistence/hybridization, where alternative institutional arrangements (often formal) co-exist with elements of the erstwhile dominant institutional logic (often informal). This could create uncertainty as to the "rules of the game". In such a case, the informal institutional logic (for example, patronage and corruption) may undermine and distort formal PFM institutional arrangements.

Figure 4: Contextual factors and the scope for institutional change



Source: Andrews (2013:51)

If all three conditions are absent, then the potential for change is extremely limited if the "visible elements of alternative logics" (such as formal regulatory frameworks) coexist with "less visible norms and cognitive scripts" of the pre-existing dominant institutional structures (Andrews 2013:51). In other words, there may be superficial reforms in visible dimensions, which serve as "window-dressing" to achieve political and financial support, but the more unseen core functions of public sector organizations remain unchanged. Such a process of reform of outward form, but not of function or underlying logic, is referred to as "decoupling". Decoupling of changes to core functions is often based on the following fear:

> If organizations attempt to integrate institutional prescriptions and their backstage processes, they may provoke conflicts both within and outside themselves and threaten their survival. Organizations – and developing country governments – thus accept changes at the visible margin, but decouple these changes from the more opaque core.

> This allows for the protection of incumbent institutions important to insiders while still getting legitimacy for change demanded by outsiders. (Andrews 2013:116)

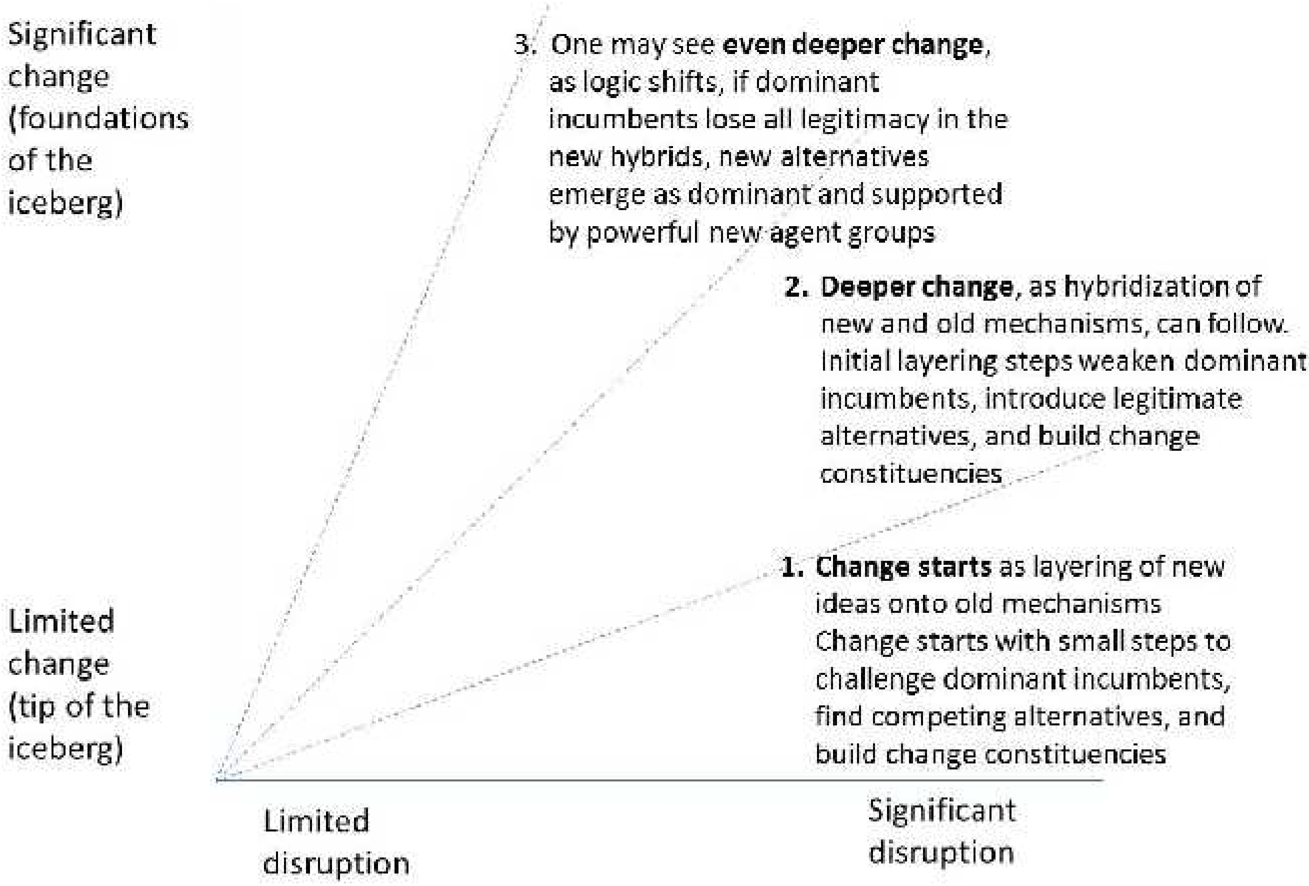
Acknowledging the importance of informal institutions in shaping PFM practice and performance is not an admission that effective reform is impossible. It is a call for PFM reform to embrace both the informal and formal dimensions of change management, recognising that the process needs to be broad-based and inclusive to respond to the actual problems which developing countries are experiencing, rather than inflicting uniform ("isomorphic") best practices. Reform is likely to be a long journey, where change is iterative and gradual, and creates opportunities for further change (as illustrated in Figure 5, overleaf).

Opportunities for further effective reform arise as "issues turn into problems in many episodes that accumulate over long periods, provoking reflection on deficiencies in incumbent structures, deinstitutionalizing of these, and a search for new alternatives" (Andrews, 2013:160). Reformers therefore need to moderate their reform ambitions and expectations about the time frames of public sector reform.

In relation to the three factors in Andrews's (2013) model which influence the likelihood of the new (formal and informal) institutions which underpin reforms disrupting and superseding existing dominant institutional logics, it is clear that the governance environment soon after South Africa's transition to democracy was conducive to change. The institutional logic of PFM systems under the apartheid government was virtually universally regarded as illegitimate. The international PFM reform experiences and models to which the country was exposed as it emerged from isolation described feasible, alternative institutional logics. Finally the newly elected political leaders and treasury officials were ideally located to challenge the status quo and drive PFM change, as discussed further in section 3.11 on page 97.

Figure 5 above depicts an idealised reform trajectory over time in which new institutions are initially overlain on existing institutional mechanisms, leading to deeper change as hybrids of the new and old mechanisms emerge. Finally, as new reforms become institutionalized, they become the new dominant logic. Chapters 5, 6 and 7 contend that, in many South African provincial governments, there is still a considerable amount of path dependency and institutional inertia (especially for those provinces incorporated poor, black "homelands" and independent states created during the apartheid era).

Figure 5: Problem-solving learning as a driver of institutional change



Source: Andrews (2013:158)

The new institutional logic of the PFMA co-exists with pre-existing logics in certain aspects and has not completely superseded them in all provincial government departments. It remains to be seen whether PFMA's institutional logic will become further institutionalized and gain ascendency in all provincial governments in future. The recommendations in Chapter 8 support this objective of driving deeper change in further PFM reform efforts.

3.8 Sequencing PFM reforms: an international perspective

The preceding sections of this chapter have examined the possible objectives of PFM reform, an array of reform instruments and approaches, the implementation capacity required to change public financial administrative systems, management processes and structures, as well as the leadership and governance implications of reform. This section reviews the literature on how these reform efforts should be sequenced.

Section 3.4 on page 50 describes how PFM reforms have varied across countries in terms of the extent of their purposive design (from broad principles being identified at inception and implementation details emerging during roll-out, to very well-specified action plans with milestones and timeframes). Even when the *design* of the proposed PFM reform and its link to other management systems is coherently conceptualised in advance, the *implementation* of a reform can, and indeed should, follow a phased approach (co-ordinated with capacity-building, supporting changes in accountability relationships, etc.). In rolling out such a phased approach, it is important to strike a balance between the following:

1. *The pacing of reforms and their time horizons*: Slow, thorough implementation which improves long-term financial accountability and capability in the long run tends to be more sustainable than "quick and dirty" intervention aimed at generating short-term improvement in PFM performance (Schiavo-Campo & Tommasi 1999). Embedding management frameworks in the organizational DNA as a rule requires time, resources and genuine commitment, and there are seldom effective shortcuts. On the other hand, protracted implementation horizons run the risk of running out of steam, or of being prematurely aborted by a change of guard after elections. To mitigate this risk, short-term "quick wins" should be planned for and produced. Demonstrating the value-add of the reform as early as possible may create a "critical mass" of public managers and other stakeholders who see the value in the new system, can use it competently, and are willing to share their insights with their peers.
2. *Momentum versus consolidation:* It is clear that the speed of reform is unlikely to proceed in a linear manner. There are likely to be periods of accelerated change, where the reform space and capacity permit, in order to gather momentum and demonstrate results. At other times, it may be more appropriate to defer further reform temporarily without veering off course, so that organizations and individuals in the system can internalise and institutionalize the changes, to consolidate, recover their equilibrium and make adjustments where necessary.
3. *The scope of reform implementation:* One approach is to run pilot projects of a particular reform in a sample of locations to troubleshoot problems with the approach, and then scale up the reforms until the implementation is government-wide. So, for example, high capacity organizations could be designated as early adopters of reform, while low capacity organizations are initially exempted.
4. *The extent to which complementary reforms are introduced simultaneously*: A "big bang" approach, on the one extreme, contends that partial reform measures may not have the desired effects and may be unable to disrupt and displace existing institutional logics. A combination of complementary, mutually reinforcing measures may need to be undertaken simultaneously. For instance, if budgets are going to be allocated on the basis of performance, there needs to be complementary systems for independently verifying actual performance, otherwise it may lead to perverse incentives and unintended consequences. "Big bang" approaches can be too ambitious, spread available capacity and resources too thinly and thereby compromise the quality of implementation. On the other hand, a

> “gradualist” approach contends that there may be a limit to the amount of change any organization or system can undergo before it becomes counter-productive. In the worst case scenario, a gradualist approach could lead to total paralysis and the entrenchment of the status quo and prevailing dominance institutional logics. A balance between continuity and change has to be struck on a case-by-case basis, depending on the available reform space, political commitment and capacity, as well as stakeholder attitudes.

In addition to the above considerations, there are also a few technical sequencing constraints. For example, the development of an effective internal and external audit function presupposes a functional system for reliable and timeous reporting; the development of MTEFs and performance budgeting depends on a sound budget classification system and chart of accounts which complies with international standards such as Government Finance Statistics (Allen, 2009:16).

Similarly, there are technical rationales for sequencing the progression of accounting reforms from cash-based public sector accounting to double-entry accounting (modified accrual) and finally a full accrual basis, as evident in OECD countries. A cash-based system records transactions when money is spent or revenues are received, but does not record assets or liabilities. While such a system is simple, report preparation is easy and the skills requirement is relatively low, it tends to enforce short planning horizons, and attenuates incentives for efficiency and economy (for example, by underestimating the full cost of resource usage). In double-entry book keeping or modified accrual systems, each transaction is entered twice: first as a credit to the cash account, and second as a debit to the asset/liability account. These systems begin to emphasise dimensions of financial performance such as effective use of capital assets. The full accrual accounting convention covers commitments rather than cash (revenues are recorded when they are earned, and expenses when they are incurred, even though no cash transaction may have taken place), the valuation of assets and liabilities, and the depreciation of assets. This gives a much better reflection of the true costs associated with government service delivery, and forges links between government spending, the cost of producing public goods and services, and reported financial performance (Wescott 2008).

Not only does the complexity of accrual accounting demand a much higher human resource skill requirement, but also – due to the sheer volume of government transactions – a computerised system, preferably linked to electronic payments and streamlined automated procurement processes. The adoption of computerised financial systems has enabled 70% of OECD finance ministries to employ a treasury single account for all public revenues, and 91% to have real-time information on payments and receipts to facilitate effective monitoring and control (Wescott 2008:6).

For these accounting reforms to have an effect on shaping the incentives of public managers to be conscious of the costs of public resource use, the reforms have to be accompanied by complementary reforms such as delegating financial authority to the appropriate spending unit, or capital charging:

> Two conditions must prevail for accrual accounting to be more than a bookkeeping exercise: managers must have genuine choice in deciding whether to bear the costs; and the costs they are charged must have an impact on the financial resources available to them…. The second condition is that costs affect the resources available to the agency. If an agency were charged for depreciation, this cost should reduce the resources otherwise available for operations. (OECD 1997:25)

In New Zealand, the Treasury levies a capital charge on departments, calculated as a percentage of departmental net worth (i.e. assets less its liabilities), as reflected in their financial statements. The capital charge is a proxy for the internal rate of return on a government's investment in its own departments, and reflects the opportunity cost of money (the return a government may earn from alternative investments with similar risk profiles). Capital charging enables a department to include the cost of government capital when calculating the full cost of producing a particular public good or service. This permits more appropriate comparisons with the cost of the private sector to produce the same good or service. The capital charge also signals that the use of public sector capital is not costless (as often assumed under cash accounting systems) and thereby creates an incentive for departments to decrease the amount of capital tied up in assets, thus promoting efficiency (Schick 1996).

Experience with reforms, even in developed countries, seems to indicate that implementation timeframes are invariably underestimated, and that most countries can only deal with one major reform at a time. Denmark, for example, when introducing accrual budgeting, put all other reforms on hold. The introduction of performance-oriented management in Sweden in the early 1990s crowded out all other public sector reforms (Allen 2009; OECD 2009).

The timeframe set for reforms needs to be realistic, and take into account unexpected developments. For example, in the United Kingdom, the implementation of accrual (or "resource") accounting and budgeting took more than eight years to complete (1994 to 2002). The cost of new IT systems and the need to retrain accountants and financial managers was severely underestimated. Recognizing these problems in implementing accrual budgeting in its pure form, the British authorities have reverted in practice to a form of cash (or "near-cash") budgeting (Allen 2009:7). Accounting reforms in the South African context are discussed further in section 5.5.5 on page 226.

In the 1990s, some commentators predicted that there would be some "convergence" between the PFM systems of various countries over time and a set of international best practices would emerge, impelled by “institutional isomorphism”, which refers to “the pressure to imitate organizational characteristics from one setting to another” (Andrews 2008:381). For example, Blondal (2003) lists six “best practice” features of medium-term budget frameworks:

(i) prudent economic assumptions;
(ii) top-down budgeting techniques;
(iii) the relaxing of central input controls;
(iv) a focus on results;
(v) budget transparency; and
(vi) modern financial management practices.

After analysing PFM reform trends in OECD countries in the 1990s, he claims that all the OECD member countries “are moving in this direction: different countries are starting from different positions and are moving at different speeds – but the direction is clear. The journey will take longer in countries with very entrenched traditions in the public sector” (Blondal 2003:25). The notion of convergence to a more or less uniform set of institutional arrangements over time has been questioned by more recent empirical analysis (Guthrie et al. 1999; Humphey et al. 2005; Pollitt & Bouckaert 2011). PFM reform trajectories are not inexorable, varying only in speed of convergence by different countries. Instead, they are rather shaped by human agency responding to specific country contexts within the available reform space, historical legacies as well as accidents of pure chance.

Olowo-Okere and Tomkins (1998) question Dean’s model of the evolution of government financial control systems in developing countries which contends that there are three broad stages in the PFM maturity process that developing countries have to undergo sequentially, and that PFM reforms (such as performance budgeting or accrual accounting) are doomed to failure unless the reforms are congruent with a country’s level of development. The three broad phases which Dean (1988, cited in Olowo-Okere & Tomkins 1997) identifies are the following:

(i) *Regularity and control phase*:
In this phase the primary focus is on procedural regularity, legality and accuracy. The PFM system tends to be line-item based, highly centralized with multiple detailed (ex ante) checks and a dominant emphasis on accounting rather than on effective financial management of resources.

(ii) *Financial management phase*:
In this phase internal management of financial resources becomes the primary focus, with improved accounting, financial auditing, improved revenue and expenditure forecasting and budget presentation, better asset and liability management and external reporting, as well as possibly tentative moves towards limited performance measurement.

(iii) *Strategic choice phase*:

In this phase financial management processes are integrated with other management processes (such as linking plans, budgets and performance measurement) and characterised by the delegation of financial powers facilitating responsibility budgeting, and interfaces between the accounting system, investment appraisal, supply chain management, debt management and integrated Management Information Systems.

Olowo-Okere and Tomkins (1998:322) maintain that three phases outlined by Dean are not inevitable. Nor do all countries have to follow these phases in a smooth, linear progression to a "predetermined, common end". Furthermore, they suggest it may be possible, with enough political will and a sufficiently long implementation period, for developing countries to "leap-frog" some of these stages. This view is supported by other scholars, who argue that entrenching a control orientation inherent in the traditional incremental line item approach may actually impede the introduction of more performance-oriented approaches later (Allen 2006, 2009).

Based on a study of seven instances of performance-oriented reform, Allen (2006) contends that it may be possible to implement performance-based budgeting while simultaneously strengthening the basics. He cites Tanzania's experience as a case in point. Similarly, he argues that putting the line item basics in place where these are overwhelmingly focused on controlling inputs and ex ante controls, or over-centralized, could be an impediment to performance-based reforms. He speculates that this may be the case in South Africa, where, despite adding additional performance tables to budgets as appendices and other performance initiatives, such as strategic and annual performance plans, "the financial regulation and control paradigm responsible for discipline hindered reform progress" (Allen 2006:155). In fact, where the "basics" are as control oriented or as tightly regulated as they are in many developing countries, this may also undermine budget formality, as managers use informal strategies to circumvent excessively cumbersome controls and "red tape".

Like Dean's model of financial management evolution, Brooke's "platform approach" (cited in Allen 2009) also identifies four broad stages of financial management maturity, each phase laying the foundational platform for the next, in an intuitively appealing "basics first" approach. The key concepts underpinning the "platform approach" are illustrated in Figure 6 on page 89.

This graphic exposition of the "platform approach" illustrates that each platform (or implementation phase) builds on the foundations set in place by its predecessor, from PFM basics in the short term (such as the improved quality of financial management) to more sophisticated, medium- to long-term interventions centred on enhancing value-for-money. Similarly, in the "platform approach", implementation commences with a few central Ministries, and is extended to the rest of the central government, the regional or provincial level, and ultimately to local government.

In the past, conventional public sector reform approaches advocated by international finance institutions and donor agencies, and adopted by governments, tended to focus on individual, often disjointed, reform initiatives. By contrast, the "platform approach" takes a structured and systematic approach to reform, which would facilitate planning and co-ordination among governments, international financial institutions (such as the World Bank and International Monetary Fund) and international donors, by clarifying their respective roles and responsibilities. It conceives of a long-term reform strategy consisting of logically sequenced, successive sets of related reform packages (called platforms). Each platform lasts two to three years, and lays the technical foundations for progression to the next stage.

Brooke's "platform approach" therefore draws attention to the interrelation between various PFM reform measures, and highlights where they can reinforce one another. Finally, the "platform approach" lengthens the time horizons of reform planning and facilitates change management by identifying "quick wins" and "low hanging fruit" in the present that can gather the momentum and galvanise support for technically desirable long-term improvements that are not feasible in the short term, thereby enlarging the available "reform space" (Allen 2009:17-18).

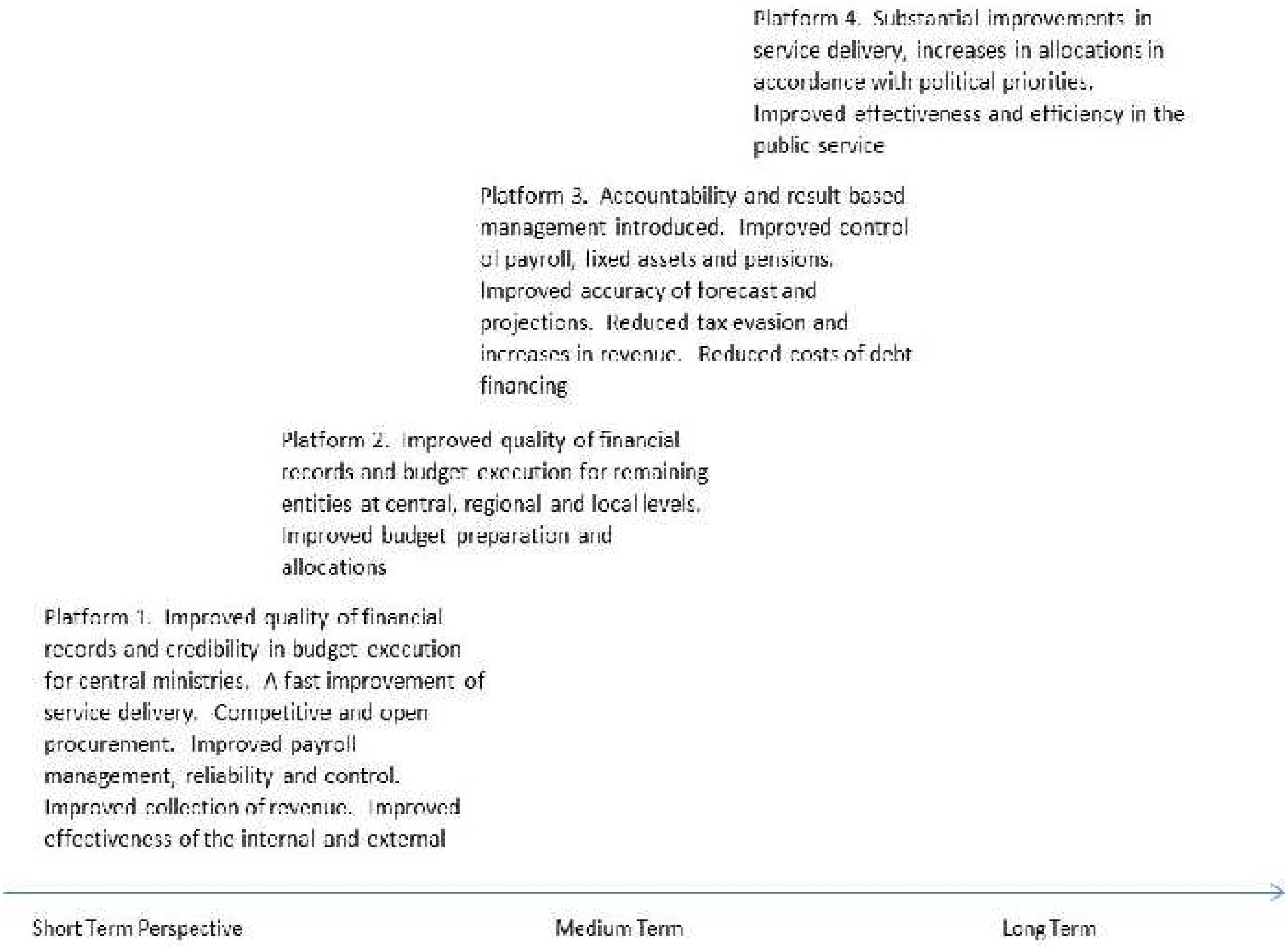
Allen (2009) suggests that the "platform approach" still focuses predominantly on the functional, technical elements of reform, to the detriment of complementary (formal) budget institution building. As a result, the practical applications of the approach in countries such as Cambodia have been problematic, encountering institutional constraints, unrealistic time horizons and overloading of activities:

> While attractive in principle, the "platform approach" has drawbacks as a model for developing countries to follow. In practice, it is weighed down by complexity and an overly technocratic approach, and takes insufficient account of the fundamental institutional barriers to reform in developing countries. (Allen 2009:20)

Accordingly, Allen proposes that each of the platforms be further disaggregated into sub-platforms. Each sub-platform should comprise both formal functional elements (such as changes to budget laws and regulations, the introduction of new technology and financial management systems) and the more budget institutional building elements, such as corresponding changes to financial management business processes and organizational structures, training and capacity building measures, information flows etc.

He suggests that a work plan could be formulated for each sub-platform (for example, the introduction of a computerised financial management system with associated re-engineering of business processes). This work plan would be able to pinpoint specific implementation risks or bottlenecks (such as shortages of skilled economists or public sector accountants, or potential conflicts with existing legislation) and manage those risks (Allen 2009:18-19).

Figure 6: Illustration of the "platform approach"



Source: Allen (2009:17)

A point of critique is that in the "platform approach', the distinction between which reforms constitute "basic reforms" and which are "advanced reforms" is subjective, and hence quite arbitrary. The thresholds of capability which governments contemplating further reform should reach are therefore not clearly specified or measurable. Moreover, it is not clear whether all the basics are equally important, or whether governments can indeed "leap-frog" to more advanced reforms, even when some of these basics are not in place.

Starting from the premise that PFM reform is an art and not an exact science, Allen (2009) delineates a logical framework which would help governments and other stakeholders identify *a few specific areas* of reform what would be both desirable and feasible politically, institutionally and in relation to capacity. His logical framework is guided by three key premises:

1. There is a *natural technical sequencing of reforms*, because some dimensions of the PFM system depend on other dimensions (for example, financial reporting depends on budget and

accounting classifications, and internal auditing depends on financial reporting). This dependence lends itself to a technical hierarchy, where advanced systems are defined as those which depend on other, more basic elements in the hierarchy being already in place. This is illustrated in Figure 7 on page 91. Accordingly, the general rule is that the basic systems would be put in place first, before advanced systems. Sometimes it may be politically expedient to deviate from the technical hierarchy (for instance, strengthening external auditing, even though departmental internal controls and reporting are weak) in order to respond to pressure from Parliament or signal a strong anti-corruption stance; the Auditor-General's scrutiny could induce departments to strengthen their internal control systems.

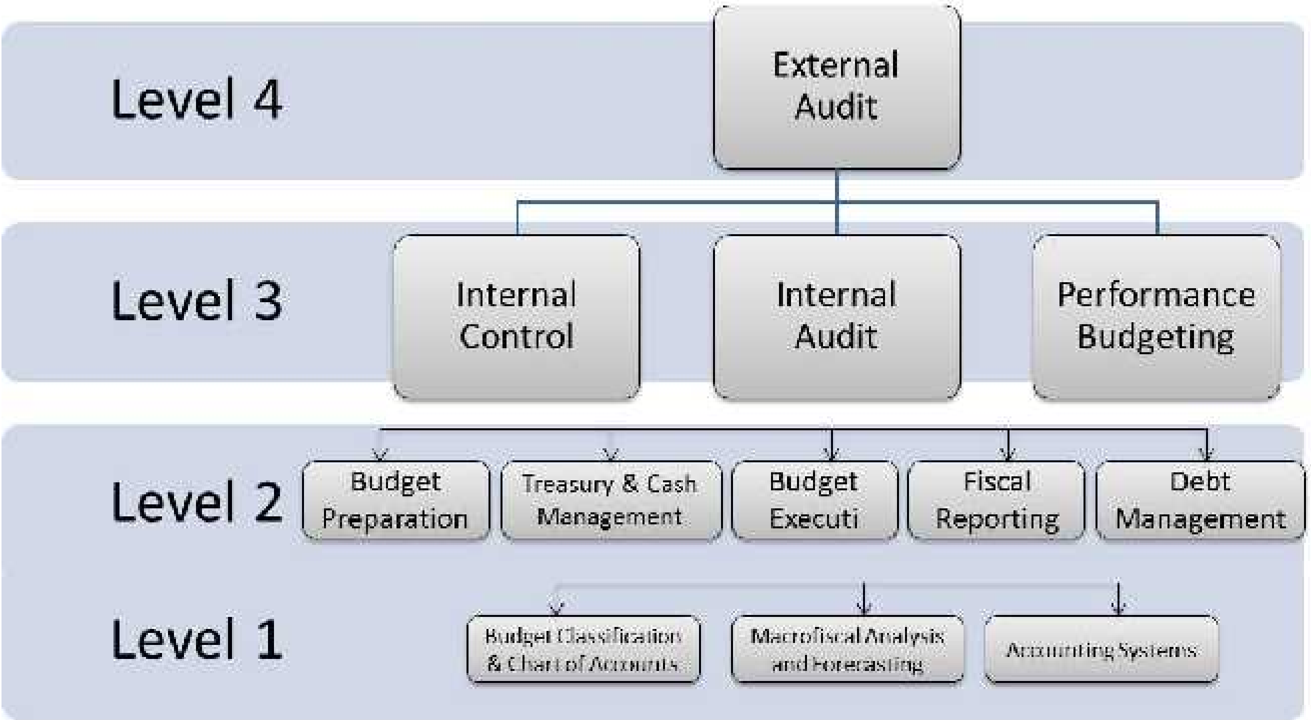
2. *Reform should be informed by a situational analysis of the* status quo *including both technical and institutional dimensions and be prioritised*. Each of the potential reforms in Figure 7 should be broken down into a series of reform design steps pertaining to legislative frameworks, organizational frameworks, business processes, IT and HR systems. Reforms should be selected and prioritised based on the hierarchy depicted in Figure 7 and the situational analysis, taking into account other relevant factors such as the degree of external funding required for implementation.
3. *The core fiscal objectives of the government* should shape the selection of reforms. The prioritisation of these reforms (ranging from basics such as protecting public funds from corruption and misappropriation, to more sophisticated reforms relating to to accountability for performance) should take into account that government's administrative maturity and capability.

Unlike the "platform approach" and other existing approaches, Allen's framework

1. gives priority to institutional capability-building and not just technical financial management dimensions;
2. provides a logical framework for sequencing reforms according to a technical hierarchy;
3. breaks each technical component into functional categories, emphasising the inter-relation between legal frameworks, organizational design, financial management processes, IT, etc.; and
4. encourages a focus on a limited group of realistic reform objectives.

While Allen's framework certainly seems more nuanced than its predecessors, it too is vulnerable to the critique that it concentrates only on formal budget institutions. In developing countries especially, informal budget institutions, and their underlying institutional logics, may be decisive. This argument is developed further in section 3.12 on page 104.

Figure 7: Illustrative hierarchical structure of a PFM System



Note: Level 1 represents the most basic PFM systems; Level 2 more developed requirements that depend for their effective implementation on the existence of sound Level 1 systems; and so on up to higher levels.

Source: Allen (2009: 24)

From the earlier discussion in this section, it is clear that despite claims that the NPM reforms were going to create convergence to a single, isomorphic, best practice ideal, this has not happened. There are few similarities either in countries' propensity to adopt such reforms (especially beyond the Anglo-Saxon sphere), or across various countries' reform trajectories (Guthrie et al. 1999). On the contrary, PFM reforms have been initiated in vastly different socio-economic contexts by parties from opposite ends of the political spectrum with diverse political motivations, in different spheres of government, and mediated in their implementation by varying degrees of administrative capacity, culture and values.

While some progress has been made in designing PFM reform trajectories, there are clearly still many imponderables, and no set success formula or blueprint. Although no clear-cut generalisations are possible on the appropriateness of reform instruments, or the pacing and sequencing of reforms, there however are valuable lessons that South Africa and other developing countries can learn.

3.9 Sequencing PFM reforms in South Africa

The implementation of the PFMA was phased, in the sense that more sophisticated and onerous requirements only took effect later, but it was also a "big bang" approach in the sense that it affected all national and provincial departments, instead of there being attempts to pilot the reform in the more capacitated provinces first.

A detailed project plan was initially developed. One respondent from the National Treasury described it as "*the most sophisticated thing I saw in my life. It was a project chart. If you put it on the wall, it would cover the whole thing*". The respondent goes on to describe how, in the end, a pragmatic approach was adopted, which combined strategic principles and a long-term vision with a common-sense approach in relation to the immediate next steps:

> *"Everybody outside Treasury thought we'd planned this thing to perfection. Instead of following a project management approach we've worked more on logic and common sense. If you ask me which one is the better one, I would say common-sense worked for me. People receiving the reforms thought that Treasury had planned it to perfection but that was never the case. It was more: what is the next common-sense logical thing to do?"*

It could be argued that a detailed project plan would have been difficult to compile, given the dearth of information at the PFMA project team's disposal. Any detailed plan would have in any event – become outdated very soon, given the emergent complexities in the public sector environment. But the absence of a comprehensive project plan makes it very difficult to evaluate PFMA implementation relative to its initial goals. Another respondent who was also part of the PFMA team observed:

> *"In the case of South Africa [reform implementation] was less structured and more visionary, but because of the political ownership and the championship of the National Treasury, it was well executed. In other countries where there is less capacity you probably would need something more structured in terms of a project plan, to say this is what you wanted to achieve over the next 10 years and therefore we'll attend to the following. It need not be a detailed project plan, more of a road map…For certain things in that road map you'd need detailed project plans. In our case I think we could have done better with project plans for things like the IFMS [Integrated Financial Management System] which eventually failed.'*

The IFMS is discussed in greater detail in section 5.5.5 on page 226, which deals with accounting reforms in South Africa.

3.10 Critical reform success and risk factors: an international perspective

The previous sections demonstrate that introducing PFM reform requires far-reaching complementary changes, not only to the budgeting system, but also to related management systems. The bottom line is that PFM reform cannot be uncoupled from broader, mutually reinforcing public sector reform initiatives. It is simply futile introducing PFM reforms such as performance budgeting if, for example, public managers are still appointed on the basis of patronage and political connections, rather than of competence, if procurement is still patronage-based, with collusion in corruption by big international and domestic firms and politically connected "tenderpreneurs".

Furthermore, influencing PFM outcomes may require systemic change, not *ad hoc* tinkering with the current budgeting system which has little appreciable impact on incentives or behaviours. In particular, successful reform depends on congruency between (i) reform policy consistent with public sector missions and democratic values, (ii) the authorising environment, which includes both formal and informal systems of accountability and participation (though budget systems and institutions as well as legal, voter, market-based and moral sanctions for non-compliance), and (iii) operational capacity (Shah 2005).

While the reform endpoint must ideally be conceptualised as a coherent systemic whole; its implementation has to proceed in a phased, incremental manner as the necessary institutional capability is generated. As described in previous section, PFM reforms' ability to change the behaviours of public sector organizaions and individual public servants, leading to improved PFM outcomes, depends on political and managerial will and capacity. Elements of institutional capability and capacity may operate at a systemic level (for example, a conducive legislative environment), at the level of the public sector organization (a compatible organizational design, monitoring and evaluation systems, individual performance management systems, change management capability and a dedicated implementation team), and at the level of individual public servants and teams.

Because successful reform almost always entails the redistribution of power and influence, unless there is sufficient political will, reform initiatives may falter (Allen, 2006). A key success factor of the New Zealand reform was the level of political and bureaucratic support for the reform, under the leadership of the Prime Minister, Minister of Finance and central agencies. However, even in New Zealand, the degree of political support for reform influenced its extent and timing:

> New Zealand's bureaucrats were rebuffed when they threatened Labour's core constituencies too much. Treasury efforts to deregulate the labour market in 1986 failed when unions mounted concerted opposition inside and outside the Labour party…. Treasury had to wait for the National administration to implement wholesale change in the labour market and other social issue areas. (Schwartz 1997:418)

Political commitment is also essential to ensure that critical governance institutions, such as supreme audit institutions (for example, the Auditor-General) and parliamentary committees have the appropriate legal, funding and operational frameworks, as well as independent authority, to fulfil their designated mandates. Effective fiscal oversight can be a powerful incentive for performance, especially given the public nature of parliamentary committee proceedings.

The quintessential political-economy nature of PFM reforms is increasingly recognised at an implementation level by international finance institutions, donors, international consultants and governments that are contemplating reform themselves. In crafting PFM reform trajectories, planners cannot ignore political realities (some of which may be intractable in the short term). Plans for reform must be technically sound but should also demonstrate political benefits soon, and minimise political risk in order to be sustainable.

However, it is difficult to make PFM reform design and implementation more politically astute and resilient when little is understood about how politics interacts with PFM in terms of the choice of reforms, timing, sequencing and pace of reform. Various critical success or risk factors have been identified in the literature presented in the previous sections of this thesis: strategic and change management, technical expertise and leadership; organization and human resources capacity; pressure for accountability by oversight institutions; and pressure or inducements from international (or regional) organizations and donors, etc. Research to date has not succeeded in weighting the relative importance of each factor, or in explaining how they relate to each other. Nor has prior research been able to pinpoint key reform design and implementation path choices outside of a specific country governance context and specific reform objectives (Overseas Development Institute 2007:4).

Increasingly, international donors and international finance institutions are endeavouring to supplement their technically-driven reform perspectives by including politics in the form of “ownership” and “buy in” from recipient country governments. The danger of this approach is that the design of reforms may remain dominated by the technical dimensions, and political support would only be solicited after the fact. Because any change is likely to be resisted (either overtly or covertly) by the interest groups who are invested in the status quo, it is critical to build supportive coalitions both within and outside government, especially in the early stages of reform (Overseas Development Institute 2007). For instance, where PFM reforms are seen to support effective service delivery, they may bolster political credibility. An example would be budget decentralization in Karnataka in India, which initially targeted a few urban services to demonstrate the political advantages of budget credibility and meritocracy in a few agencies in order to garner support (Overseas Development Institute 2007:9). In other cases, economic and fiscal crises have spurred reform, by altering the power dynamics among various interest groups and creating opportunities for pro-reform coalitions to coalesce.

The need for political and top management champions for reform at the centre of government is widely recognized (Schiavo-Campo & Tommasi 1999; Schick 1998a, Shah 2005, 2007), but there is less recognition of the need for broad-based change management of the distributed agents involved in actual reform implementation – as designers rather than as late stage adopters or passive compliers. Reform implementation is often based on an assumption that those at the coal-face of delivery will automatically accede to the authority of their superiors in the bureaucratic hierarchy, or underestimate their potential to contribute to improving the design of reforms, as well as their implementation.

Internationally, countries that were able to realise the potential of PFM reform to improve service delivery were able to integrate macro-level reforms to achieve allocative efficiency with micro-level reforms for improving service delivery efficiency. The macro reforms of public sector-wide sub-systems (such as strategic planning and civil service reforms) shape the incentives which frame organizational and individual performance. Managerial reforms at the micro-level emphasise a value-for-money and customer-oriented approach. The incentive structure can either preserve the status quo or drive change. As noted previously, it is vital that these incentives be congruent and mutually reinforcing rather than contradictory. The new “rules of the budget game” must be applied consistently. As will be demonstrated in the following chapters of this thesis, the South African reform trajectory has been successful in implementing macro reforms, but has fallen short in relation to microeconomic reforms to enhance value-for-money.

The sheer magnitude of the transformation required means that it must be initiated and *sustained* by the highest political authority. Systemic change would affect the behaviours of all parties concerned, not only of civil servants, but of the politicians themselves, private companies doing business with the state, non-profit organisations and broader civil society. A change in the political culture and the entire ethos of the public service towards performance orientation is essential but difficult to engender. Undoubtedly there will be resistance to change by sectional interests that would be adversely affected by any shift away from the *status quo*, which highlights the importance of effective change management at all levels. This is especially relevant at the level of middle managers, who actually have to implement PFM reforms. Therefore, overcoming their resistance and fears (for example, of retrenchment due to computerised systems or loss of over-time pay due to the automation of reporting) and ensuring their participation is critical to reform success (Ridder, Bruns & Spier 2006).

The need to sequence reforms and generate the requisite capacity to operationalise a new system implies that it may be best to follow a phased approach (as already discussed in section 3.4 on page 50 and section 3.7 on page 73). The transition has to be carefully managed, and so does the medium-term risk. International experience suggests that a dedicated unit/team may be needed to act as a focal point, to drive and monitor reforms. The objectives of reform need to be articulated, along with broad strategies to achieve these objectives, based on an understanding of the feedback effects between the various aspects of reform. These have to be communicated throughout the entire public sector, and “bottom-up” feedback should be solicited to avoid forcing all organizations into an inappropriate standard framework, or compromising reforms which have already been achieved (Schiavo-Campo & Tommasi 1999).

Generating appropriate capacity is the pivot around which successful implementation of a budget reform strategy revolves. Reform must be feasible, rather than wishful thinking; therefore any lack of capacity cannot simply be ignored. On the other hand, the temptation to craft a new system around *current* capacity deficiencies is seductive but self-defeating. Succumbing to this path of least resistance may compromise the integrity of the new system, and may result in a piecemeal attempt to suppress symptoms rather than address the underlying and cumulative causes of problems. The solution lies in anticipating skills requirements (through skills audits and training needs analysis) and synchronising capacity-building with implementation phases. In addition to training, recruitment and retention policies would be important in securing the requisite skills.

It is not only the capacity of subnational (provincial and local) governments to perform the devolved functions which should be of concern. Equally important is the capacity of central agencies such as a national treasury to play their altered roles in the new system. Outcomes based PFM reforms often require central budget offices to decentralize the control they used to exercise over detailed budget line items to spending departments (with the proviso that they remain within their allocated budget). Central budget offices are increasingly relinquishing their direct power to micro-manage the detail in spending agencies' budgets in order to assert greater control over departmental budgets in aggregate. Given this significant shift in in the role of the central budget office, its capability for effective monitoring and evaluation of the value-for-money and impact of line department spending becomes critical. The role of the central budget office in change management, dissemination of good PFM practice and capacity building becomes equally crucial (Schick 2001).

PFM reforms potentially have far-reaching implications across the entire polity, economy and broader society in a particular country, through their impact on the access, quality and equity of public services. Reforms may also affect the way the public sector interacts with the private sector and with broader civil society. The governance dimensions of PFM reforms in a manner consonant with democratic aspirations and public service values are often neglected, especially at inception. If that happens tensions may manifest later:

> NPM inspired reforms have also been resisted on the grounds that they erode democratic values and the pursuit of the broader public interest by elevating the role of unelected public managers, accountants and management consultants with narrow financial objectives, and their impact on the range of voices, interests and values who are able to influence the reform process. They can become so technical that they remain the preserve of elites. Accordingly, the principal policy issue…is not the specification of the next, new financial system, but the broadening of the language and the debating processes associated with such reform movements. (Guthrie et al. 1999)

The move to PFM reforms such as performance budgeting should not be seen as a technical accounting exercise that merely produces better financial information. Performance budgeting requires giving real content to Cabinet and Ministerial accountability (prioritising outcomes), changing the relationship between Ministers and their departments (political versus managerial responsibility) and changing management focus (emphasising output delivery). Performance budgeting therefore necessitates a fundamental re-negotiation of the public sector bargain. As noted earlier, it is therefore imperative that any proposed changes are fully endorsed at the highest political level. Changes in departmental organizational structures are also likely to be needed for PFM reforms such as performance budgeting to succeed. Everyone, particularly the highest level of management, must be aware of these potential changes and be seen to support them.

If general support for the reforms is not obtained, the introduction of a technically sound budgeting system may run into political obstacles. These political obstacles can scupper the implementation of the proposed changes. Opposition must be overcome in the early stages of the reform process if vast resources are not to be wasted, which developing countries especially can ill afford.

Reforms, even in developed countries, struggle to generate sufficient capacity (Gilmour 2007). The type, level and mix of capacity required is a function of the complexity of the PFM system, and of the tasks which the system requires teams and individual public servants to perform. Where over-ambitious PFM reforms require kinds and levels of capacity which are not available in developing countries, this can create dependency on foreign technical assistance or private sector consultants:

> Too often, technical assistance and international consultants have pushed complex budgeting practices onto a reasonably well-functioning system and thus created capacity constraints where none may have existed. In turn, these capacity limitations are then used to justify the need for continuing external assistance. The perverse outcome is that the creation of local African capacity is pre-empted by the expatriate assistance rather than facilitated by it. (Shah 2007:16-17)

3.11 Critical success and risk factors in South African PFM reform

This section draws on input from officials from the National Treasury and seven of the nine provincial treasuries to analyse the critical success and risk factors in the South African reform experience.

3.11.1 Key success factors supporting PFMA implementation

In the interviews, the respondents were asked to identify the factors which had been conducive to successful PFM reform in South Africa. Their responses are listed below in descending order of the frequency with which the respondents mentioned them:

(i) political commitment and leadership within the national sphere;

(ii) a strong National Treasury with a clear vision;
(iii) a sound constitutional and legislative framework;
(iv) capacity-building programmes, training, good practice guides;
(v) effective intergovernmental fiscal relations (IGFR) institutions;
(vi) commitment to transparency in an open democracy with an active civil society and a free media; and
(vii) legacy electronic accounting systems .

The first decade of reform after 1994, in particular, was characterised by a fortuitous confluence of the political will to change, technical and administrative capability within the National Treasury and a sustained drive towards PFM institution-building. The seven factors listed above are discussed in more detail below.

3.11.1.1 Political commitment and leadership

A critical factor promoting successful reform, especially in its first decade, was national Executive support at the highest level and the championship of the then Minister of Finance, Mr Trevor Manuel, who was – as one former National Treasury official expressed it – "*an influential Minister who was passionate about reform*". Another National Treasury official commented:

> *"If we look at the first two terms after democracy our performance levels increased. It's partly related to individuals: Trevor [Manuel] and the President [Mbeki] were in sync. There was serious political will at that point to reform the whole system."*

While there was consistent political commitment to reform at the national level, political support for reform in the provincial sphere was much more evident in some provincial governments than others. The Gauteng Provincial Government, in particular, embraced PFM reform enthusiastically, pioneering a successful MTEF a year before the MTEF was extended to all national and provincial departments in 1998/99. One senior official at the Gauteng Treasury under MEC for Finance, Mr Jabu Moloketi, observed: "*In Gauteng in the first decade we had absolute political support. The politicians understood the reforms and championed it*."

The African National Congress (ANC) was the majority party in the national general election in 1994, but the National Party (which had governed during the apartheid era) retained dominance in the Western Cape until 2004, when it was displaced by a coalition government consisting of the ANC and the New National Party. In 2009, the province was taken by the Democratic Alliance (DA), which has been in power in the province since then. In many of the South African provincial governments, the political leadership has been hotly contested and subject to frequent change within the ruling party, destabilising the political-administrative interface. By contrast, the political-administrative interface in the Western Cape has been stable, with a single head of the provincial treasury from 1995 to 2015. A senior official remarked:

"Here whether it's ANC or DA or particular factions within them, people have left us [at Treasury] to our own devices. What we've built up over time is a common understanding of what's basically right and what's basically wrong…. That political ethos is the determining factor because they appoint the HoDs and the heads of Treasury."

3.11.1.2 A strong National Treasury with a clear vision

A respondent who used to be a senior official at the National Treasury in 1994/95, when it was still split into separate Departments of Finance and State Expenditure, cited two reasons why the South African National Treasury had so much capability at the time. The first was the unprecedented influx of highly skilled and talented individuals who were committed to reconstruction and the development of the nascent democracy. He explained:

"One was an incident of history. You had a lot of us coming in who had fought for a democracy and were saying 'we are going to make that democracy work'. A lot of people who were attracted to the Treasury had this drive to make this new democracy work."

The second factor to which he attributed the strength of the National Treasury was a conscious drive to attract talent, both by using international technical advisors seconded from treasuries overseas, and by means of a recruitment strategy which balanced redress and racial diversity with attracting international expertise and experience:

"Two was a deliberate drive by the Minister of Finance and Maria Ramos, the founding Director-General of the National Treasury in 2000, to identify the kind of public servant we were wishing to bring into the Treasury. During that period you would have found in the Treasury people offering assistance from everywhere: Australians, Americans, Brits, Germans…. And in the people we recruited: Malawians, Swazis, Basotho that we brought in to get this Treasury to work."

A third reason for the Treasury's strength was the balance between the infusion of skills, "fresh blood", the racial diversity of the "new guard", and the pragmatic retention of a critical mass of institutional memory and capacity of White officials retained from the old Departments of State Expenditure and Finance, with the mutual recognition that they needed to work together. A different senior National Treasury official offered his perspective:

"Outgoing officials and people who had been there a long time knew things that were useful. I think also that the leadership in the Finance Department and in State Expenditure were on the side of an orderly transition. They were certainly not playing a disruptive role. They wanted to ensure sound public finances and contribute to that. In some ways by retreating into becoming technical and managerial rather than policy-oriented – that especially was the tendency in State Expenditure to say 'we continue to play a role in management and good public finance; the policy choices are not our responsibility'."

This gradual, structured transition in administrative leadership is in stark contrast to what happened in some of the other departments, and particularly in the provinces, where there may have been more mistrust and less competence and professionalism among the outgoing officials, or totally new provincial governments had to be established.

3.11.1.3 Constitutional and legislative framework

Respondents regarded the fiscal provisions in Chapter 13 of the Constitution, which deals with fiscal and financial matters (the "fiscal constitution"), as an important driver and enabler of PFM reform. The fiscal constitution places a strong emphasis on good fiscal governance, providing a detailed exposition of these principles. The vision sketched in the fiscal constitution was a unifying point of departure for the evolution of PFM reforms in South Africa. The PFMA and its regulations was intended to lend operational substance to this constitutional intent. This argument is expounded in much greater detail in section 5.3 on page 160.

3.11.1.4 Capacity-building programmes by the National Treasury

In the early years of PFMA implementation, the National Treasury poured significant effort and resources into intensive capacity-building in provincial governments through which provided training and hands-on technical support by senior officials on-site in the provinces. A senior National Treasury official recalls:

> *"Initially when we engaged with provinces we had three-day sessions three times a year in each of the provinces. The people who formed part of that team were high calibre…. The only agenda item was budgets. We would physically recalculate everyone's numbers on their spreadsheets and we used to do site visits. Later as the system matured, the dialogue changed from not only a numbers discussion to a performance discussion. That's when we introduced the benchmarking exercises and the mid-year visits."*

Furthermore, National Treasury also initiated a number of awareness-raising road shows, conferences, several regular structured training programmes, including online courses in various PFM skill sets. National Treasury set up the now defunct Institute of Public Finance and Auditing (IPFA) to provide professional development for accountants, financial managers, internal auditors, external auditors, logistics and provisioning administration officers, financial administration officers and tax officers in the South African government. The National Treasury also commissioned several good practice guides and training manuals, mainly in the early years of reform. These are easily accessible on the Treasury's website (http://www.treasury.gov.za).

3.11.1.5 Effective IGFR institutions

Another positive factor frequently mentioned by respondents was the creation of intergovernmental forums such as the Budget Council and the joint MinMECs. The Budget Council consists of the national Minister of Finance and his nine provincial MEC for Finance counterparts, supported by the Technical Committee on Finance, consisting of the heads of the National Treasury and the provincial treasuries. In the joint MinMECs the national Minister of Finance and the Ministers of Basic Education, Health or other concurrent functions would meet with their MEC counterparts from the nine provinces. These IGFR forums help strike a balance between provincial fiscal discretion and the constitutional imperative for uniform treasury norms and standards. As one senior official from the Financial and Fiscal Commission (an independent institution created by the Constitution to advise Parliament on IGFR) recollects:

> *"Very quickly the co-ordination of what happens in the province came to the fore. Trevor Manuel created that forum called the Budget Council. It became the first IGR institution to be written into law [in 1999] but it had already been functional much earlier. In the early years the Financial and Fiscal Commission was also a critical element of that co-ordination process. Each province thought 'I have my own independence' when in reality they don't."*

The official went on to suggest that the rapid creation of these intergovernmental forums, albeit informal at that stage, constituted a workable co-ordination mechanism, and prevented the emergence and entrenchment "*of bad practices within the provincial sphere*" while formally legislated uniform norms and standards (as embodied in the PFMA) were being developed: .

> *"That made a lot of sense, because in the absence of formal norms and standards you have to negotiate those things and these forums provided a key mechanism for dealing with this, and influencing how things evolved."*

An official from the National Treasury also affirmed the importance of IGFR forums, especially in concurrent functions such as Health and Basic Education, where provincial government departments are key policy implementers:

> *"In the concurrent functions, national departments set policies but how do we ensure that provinces are aware of the policy, that they view it as useful in addressing the outcome it's supposed to address, that the provinces have the requisite capacity to implement and that the funding and the costing is aligned? The intergovernmental structures which were introduced were aimed at ensuring that coordination and alignment, empowering the provinces, consulting within the intergovernmental fiscal framework on budget matters and building teamwork."*

The role of IGFR institutions in South Africa's PFM reform process is explored further in section 5.3.1 on page 161.

3.11.1.6 Commitment to transparency in an open democracy

A National Treasury official noted that the broader political and social democratic transition had facilitated PFM and vice versa:

> *"An important positive factor is that we have an open society with an active press and active citizenry, many organizations watching and engaged with the public service and*

public policy issues. The broader democratic environment has certainly facilitated the kinds of things the PFMA was wanting to achieve: accountability and transparency versus secrecy, cosy relationships and patronage. I think that's perhaps the most important factor when we compare ourselves with other countries. Because we have an active and energetic citizenry in a democracy, many of the things we're trying to achieve in the PFMA are supported by the external environment."

In addition to foreign expertise, South Africa – in contrast to many other developing countries – could also draw on domestic academic research capability, since several institutions of higher learning had retained their academic independence, even during the apartheid years. Academics from these institutions of higher learning were trusted by the incoming government as sources of policy advice. One respondent who, as an academic, had acted as a policy advisor during the early PFM reforms observed:

"The fact that you had a change of government, you had an indigenous reservoir of well-researched expertise and – very importantly – you had trust between the sources of expertise and the new sources of political power, there wasn't a question of friction, doubt or questioning the bona fides *of suggestions that we made. It would take 15 minutes to get Ministerial approval; today it might take you 15 years and you still might not get it. In very few other countries you'd get the opportunity to stand in front of the Minister and three or four key people who have to make a decision and say "here's my logic, this is what I've done for the past 5 or 10 years, leave it to me" and they say "go for it!". Countries may have the reservoir of indigenous knowledge and capability but they may not have the level of trust that enables that knowledge to jump over into policy-making."*

Moreover, there were also non-governmental organisations that also played an active role in advocating for PFM reforms. These included the Budget Information Service at the Institute for Democracy in South Africa (IDASA) and the Applied Fiscal Research Centre (AFReC) at the University of Cape Town, which jointly published a quarterly newsletter, *Budget Watch,* focussing on PFM reform issues.

3.11.1.7 Legacy electronic accounting systems

A key (but often overlooked) successful factor which was raised by a single respondent, but which merits further discussion, is the fact that the accounting system, the Basic Accounting System and the payroll system, PERSAL, which are currently still in use, were inherited from the previous regime:

"I also think that the systems which were inherited were broadly capable systems so the PFM systems [Basic Accounting Systems] and the integrated PERSAL public service remuneration and employment system remain. They've been improved and modified over the years. We've had a project for the last decade to replace them with new systems but we've not achieved it. The fact that we still have reliable integrated accounts and the ability to manage public finances is a consequence of having

systems that work. Thankfully that is the case and we didn't get rid of them. What would the world look like if we didn't have those systems – we'd be in a lot of trouble!"

3.11.2 Critical risk factors and implementation challenges

According to the respondents, the most serious challenges faced by PFM reforms in South Africa were the following:

(i) *Unevenness of capacity across provincial governments:* The PFMA had high expectations of AOs, CFOs and their supporting officials in the various PFM disciplines, as well as in the provincial treasuries. Despite capacity-building programmes by the National Treasury and the provincial treasuries, a skills deficit has bedevilled effective PFMA implementation at departmental level, especially in provincial governments such as Limpopo and the Eastern Cape. While provincial treasuries in provinces such as Gauteng and the Western Cape were well capacitated, in other provinces, the provincial treasuries were severely skills constrained. This is discussed in more detail in section 5.6.2 on page 241. Skills deficits in some provinces were further exacerbated by non-existent or dysfunctional PFM managerial systems and processes.

(ii) *Weak accountability:* A recurrent theme among the respondents was that there were often very few consequences when PFMA requirements were materially and/or serially breached. This is discussed further in section 5.6 on page 235.

(iii) *Poor fiscal oversight by Parliament and the provincial legislatures:* Many interviewees expressed the opinion that Parliament and the provincial legislatures broke the "accountability chain" by failing to hold the Executive to account effectively. Section 5.5.6 on page 230 explores this issue in greater detail.

(iv) *Poor supply chain management:* This occurred especially in relation to capital infrastructure. Most of the respondents regarded procurement as the Achilles' heel of the PFMA, leading to inefficiency, poor value-for-money, and even fraud, corruption and other forms of misconduct. Challenges with supply chain management are analysed in section 5.5.4 on page 212.

(v) *An unstable political-administrative interface in some provincial departments and provincial treasuries*: The terms in office of provincial Members of the Executive Council tend to be much shorter than their national Minister counterpart. Because HoDs are political employees, newly appointed MECs often replace AO and senior management, creating severe discontinuity. This problem is discussed further in Chapters 6 and 7.

(vi) *Lack of political commitment to PFM in some provinces:* In contrast to the national sphere, not all MECs and provincial Executive Councils supported the PFMA, which undermined reform implementation.

A senior provincial treasury official in the Western Cape stressed the importance of political backing, especially for unpopular initiatives involving cost containment:

> *"If you don't get political support, what has happened in some of the other provinces when you try to impose fiscal discipline, as soon as you start drawing the lines you're out. I think of Limpopo as an example. There's no ways that you'll achieve the PFMA."*

Sometimes provincial MECs regard PFMA processes as overly bureaucratic red tape which constrains their ability to deliver quickly on demands for infrastructure, for example. A respondent from the Free State Provincial Treasury describes this frustration:

> *"Politicians want to say and do whatever they want to do, when they want to do it. That is the nature of a politician. Now you have this piece of legislation that says 'You can't do that. You must first request this and get approval there.' Politicians feel it limits service delivery. They go to a community, see an infrastructure need and want to deliver now. But the PFMA process will say first you apply to Treasury, then this must happen if it's funded by a conditional grant … So it's seen as a bottleneck that makes service delivery take longer, slower. Some Accounting Officers and MECs feel that the PFMA is limiting their scope as administrative and political heads. Mainly that's the reason why the PFMA is not well received."*

Another official from the Eastern Cape Provincial Treasury pointed out that while the PFMA may have delineated consequences for financial misconduct, these have not been consistently enforced in many provinces.

> *"Accountability has not materialised, but it's not because of the PFMA. It's because there's no political will to enforce it…. We know it's wrong but we condone it. I call it abuse of the law."*

Uneven enforcement of the PFMA is explored further in section 5.6.1 on page 239.

3.12 Implementing reforms in developing countries

Even in developed countries, few PFM reforms have been successful. For instance, the failed early Planning-Programme-Budgeting experiment in the United States in the 1960s was described by Wildavsky as a "vast amount of inchoate information characterized by premature quantification of irrelevant items" (Wildavsky 1969, quoted in Diamond 2003a:7). More recent reforms in developed countries have only been partially successful at best, or are still "under construction", but have already been exported to the developing world. Recent Canadian reforms have been partially ineffective (Cooper & Ogata 2005); the potency of the New Zealand model may have been oversold (Newberry & Pallot 2005) and Dutch PFM reforms do not appear to have significantly changed incentives, behaviours or fiscal outcomes (Ter Bogt & Van Heerden, 2005). In 2011, an evaluation of 80 countries receiving World Bank assistance for PFM reform between 2007 to 2009 revealed that fewer than 40% had in fact improved their World Bank Country Policy and Institutional Assessment scores; one third of the countries' scores stayed the same, and one quarter of the countries actually had declining scores. In only 13% of the countries under scrutiny did the quality of public administration practice and government performance actually improve (Andrews 2013:13). These results suggest that PFM reforms generally do not translate into enhanced government functionality and performance, and that the probability of success is low.

In trying to explain why countries' tendency to initiate PFM reform remains high despite such manifest and often serial failure, and low probability of success, Andrews (2013) contends that PFM reforms in developing countries continue to appeal because they typically function as politically symbolic signalling devices to underscore the legitimacy of governments and attract foreign support (geopolitical and donor funding). These reforms usually introduce new formal institutions (such as laws), but seldom manage to implement concomitant improved functionality or capability. Thus they create an illusion of better governance which does not translate into day-to-day administrative practice or improved PFM outcomes.

On one hand, PFM techniques have improved over time and yielded insightful implementation know-how for developing countries; on other hand, the wisdom of inappropriately and prematurely exporting these reforms has been questioned.

Over the past two decades, international financial institutions (such the World Bank and IMF) and international donors have increasingly seen "good governance" as a precondition for poor countries' development. The "good governance" agenda comprises a vast number of far-reaching reforms which resource-poor and capacity-constrained developing countries are expected to effect. These include the following:

(i) *political system and governance reforms* in terms of checks and balances in government, decentralization, a credible and independent judiciary, freedom of the press, effective regulation, etc.;
(ii) *institutions for market and government efficiency* for central banking, financial markets and prudential regulation, civil service, managing decentralization, public participation, transparent budgeting, etc.;
(iii) *legal frameworks* for the protection of intellectual property, on foreign investment, contract law, labour law, environmental protection, etc.;
(iv) *policies* on capital market and trade policy liberalisation, rural development and reform, civil service reform, social safety nets, community development, etc.; and
(v) *basic and infrastructural services provision* for health, education, water, roads and public transport, etc.

This plethora of un-prioritised good governance reforms without clear guidelines on appropriate sequencing typically includes the imperative to transform the PFM system, and budgeting in particular, to be pro-poor, transparent, accountable and participatory (Grindle 2004). The Paris

Declaration of 2005 reflects an agreement between international donors and recipient countries to collaborate in strengthening PFM systems. Governments receiving foreign aid agreed to strengthen the credibility and effectiveness of their PFM systems, and donors undertook to use these systems to channel general budget support, rather than each donor requiring recipient governments to report according to its own requirements (Grindle 2004).

Donor countries try to manage accountability risks and ensure that aid transfers are used for their intended purpose and are not misappropriated by requiring special financial arrangements for donor funds. Such requirements can fragment and thereby further undermine the budget comprehensiveness of recipient countries (for example, special approval procedures involving donors, ring-fencing of donor funds, separate reporting or auditing requirements). Conversely, if recipient countries can convince donors of the credibility of their PFM system and the integrity of their controls, this can reduce the administrative burden on recipient governments, and can promote harmonization and alignment (for example, between capital projects funded through donor funds and their ongoing operational and maintenance costs, which may be reflected on recipient governments' budgets (European Union & World Bank 2008). Donors have used the Public Expenditure and Financial Accountability (PEFA) indicator set (discussed in greater detail in section 3.13 on page 117) to monitor progress in reforms.

Poor countries are frequently encouraged to adopt international "best practice" in PFM. As Schiavo-Campo and Tommasi (1999) observe, this nomenclature implies that a certain practice is optimal in all circumstances, irrespective of the administrative context. The corollary is that it is therefore possible (and indeed desirable) for best practices to be transferred to other settings, and that there should be a gradual "convergence" by all countries towards the "best practice", since it is by definition universally optimal. Brumby (1999) claims that the general transition to accrual accounting is inevitable, especially if financial markets reward those countries that do reform, and sanction those that do not (through lower credit ratings and/or greater risk premiums). Furthermore, the trajectory may become virtually pre-destined, as reforms breed a demand for further reform:

> But it is important to remember that the shift to accruals does confront institutions and individual interests with change. It can dispossess information monopolists and unleash dynamic processes. For instance, once countries commit to agency or departmental accrual reporting, they set themselves on a journey, which logically can only stop at accrual budgeting and whole-of-government accrual reporting. This is irrespective of whether this was the goal when they set out. (Brumby 1999:19)

It is, however, more feasible to transplant practices with a high content of formal rules (such as technical accounting standards) than practices which need to be supported by informal rules and the attitudes and values of managers (such as individual performance management, ethics and integrity management). Under these circumstances, institutions either need to be "home grown", or need to be substantially adapted to local contexts. Therefore the importance of the change management process of dissemination, ownership and buy-in, conflict management and consensus-building is crucial (Schiavo-Campo & Tommasi 1999).

As already noted, in the 1980s and 1990s, NPM-inspired reforms have often been exported to the developing world indiscriminately, with the promise that developing countries could eliminate the long lead times associated with institutional development by skipping certain stages of reform:

> Enamoured of the semantics, oblivious to the pitfalls of transplanting institutional models, and encouraged by the international consulting industry, a growing number of national and international officials attempted to push several developing countries to leapfrog all the way to the end point of institutional change in public expenditure and financial management. Inevitably, reality eventually won out. The innovations did not take root in the entirely different institutional and administrative climate. (Andrews 2007:288)

Unlike in developed countries where internal dynamics generally precipitated reform, PFM reforms have often been foisted on developed countries as a condition for securing international loans during structural adjustment processes, or by some international donors' predisposition to ambitious, large reforms, such as integrated financial management systems, which poor countries may not be able to sustain once the management consultants who implement the system leave (Allen 2009; Shah 2007). As a result, there may be insufficient local "ownership" of ambitious and unrealistic reforms, which may divert limited PFM capacity from the basics and often produce little discernible improvement in budget discipline or developmental impact of public spending. Misguided and poorly implemented reform attempts may in fact reduce stability and predictability, or increase fiscal stress through running greater deficits. As noted earlier, overly complex and skills-intensive reforms run the risk of entrenching dependence on external advisors for technical assistance and disempower local capacity (Schiavo-Campo & Tommasi 1999).

Reforms in developing countries have often been largely supply-side driven, without adequate genuine demand for, and consequently limited use of, improved information on costs and performance by local public sector organizations. The implementation of performance budgeting and related PFM reforms in some developing countries has resulted in the collection of huge amounts of performance data which are not used for their intended purpose (to inform budget decision-making and oversight), but sit in huge, unanalysed databases (Allen 2009). Not only is this wasteful, but the quality of the data can only improve if it is actually used.

Furthermore, the timeframes for reform plans are often unrealistically set to three to five years, which past experience, even in developed countries, has shown to be manifestly improbable. However, many international finance institutions and donors have short-term loan and programme horizons, and finance ministries which are under pressure to deal with short-term crises often lose interest if they are told that reform implementation may take 10 to 15 years (Allen 2009).

Poor countries, unsurprisingly, tend to have small, undiversified economies. Such economies typically depend on primary industries such as mining and agriculture rather than manufacturing industries and services for export. They tend to be buffeted by the erratic vagaries of global markets, through fluctuations in commodity demand, foreign exchange rates and fickle foreign investor sentiment. Poor countries are extremely vulnerable to external economic shocks and natural disasters. They are also often beset by internal political and social instability (Caiden & Widavsky 1970; Diamond 2003a & 2003b). While regular changes in government at election times are a standard feature of democratic government, developing countries often experience severe political trauma and violent coups. For example, between 1979 and 1993, Nigeria was subject to several unpredictable and often violent changes in government due, *inter alia*, to military coups which resulted in public management forms (including PFM reforms) being aborted in mid-implementation (European Union & World Bank 2008).

These environmental factors are amplified by institutional weaknesses: undeveloped public institutions, weak centres of government, and cabinet systems which undermine policy coherence and effective planning, poor accountability and oversight by Legislatures, patronage-based systems where the heads of key public agencies are incompetent presidential cronies, poor information systems, disengaged and disempowered civil societies and rudimentary PFM systems (Allen 2009; Caiden & Wildavsky 1970; Diamond & Khemani 2006; Premchand 1983).

Caiden and Wildavsky (1970), in their seminal study *Planning and Budgeting in Poor Countries*, articulate profound insights which are as true today as four decades ago when the study was published. Budgeting and planning systems, practices and performance in poor countries are the product of the chronic macroeconomic uncertainty, unrelenting volatility and resource scarcity characteristic of poverty. Unlike rich countries, which have sufficient redundant resources to cushion uncertainty and act as “shock absorbers”, poor countries have neither reserve financial buffers nor deep, multi-skilled human resources. Redundant resources provide some degree of security and predictability in the broader economy, which then can translate into greater predictability and longer-term horizons in the budget process. Some degree of spare capacity is also needed to facilitate change. For example, migration to a new budget system may require two systems to run simultaneously. Similarly, the more financially skilled resources are involved in checking (auditing), the fewer are available for doing (actual financial management). Typically, donors and external loans only cover the initiation of reforms, but do not provide resources for ongoing support (human, financial, infrastructural, etc.) to sustain and institutionalize reform.

The seemingly dysfunctional budgeting institutions prevalent in low income countries are not necessarily irrational pathologies, but rational responses of various individual actors in the budget process to adapt to uncertainty and minimise their own risk (even if, in doing so, they transfer to and compound risk for other stakeholders in the PFM process). These individually rational, but cumulatively suboptimal, adaptive responses include systematically underestimating revenues and overestimating expenditure, "repetitive budgeting" where the appropriated budget is continually revised depending on the availability of cash, and the proliferation of "off budget accounts" (Caiden & Wildavsky, 1970).

If the macroeconomic circumstances in a country do not permit a stable fiscal framework for a single year, it is improbable that a budgeting technique such as the MTEF would enhance certainty over three years. This implies that proposed PFM reforms need to be co-ordinated with improved macroeconomic management, a clear understanding of the appropriate role of government and a sound fiscal policy (Commonwealth Secretariat, 2005). As discussed in section 5.4 on page 169, this is an area in which the South African PFM reforms achieved considerable success.

Describing how budgeting systems in poor countries respond to the unremitting uncertainty born of pervasive poverty and consequent short-term budget planning horizons, Caiden and Wildavsky outline some of the coping strategies and budget games adopted by officials:

> Faced with multiples uncertainties they resort to tactics which give them room to manoeuvre. They favour short-term over long-term commitment, a generalized conservatism over exactly programmed outlays, political bargaining over economic analysis, and figures which can later be moved over hard-and-fast allocations. They desperately seek redundancy. The elaborate and often exasperating games which result are thoroughly grounded in the needs of spenders and guardians to create and defend a surplus when both are poor. The effect, as with so many other facts of life in low-income countries, appears to be perpetuation in a vicious cycle of misery, muddle and mendacity. (Caiden & Wildavsky 1970:165)

Because of resource scarcity and a lack of redundancy as a "fail safe" device, the cost of reform failure is especially acute in the developing world, where the long-term consequences are likely to be substantial, unpredictable and long-lived due to institutional "path dependency" . The institutional failure occasioned by inappropriate policy advice from international finance institutions, donors and international consultants may only manifest years after the advisors and consultants have long departed. The advisors and consultants do not bear the costs of their bad advice. These adverse consequences are borne solely by the citizens of the developing country, and this situation creates an environment ripe for moral hazard (Schiavo Campo 2005).

An added complexity is that many of the jargon terms introduced by NPM may not exist in languages other than English. So, for example, in Japanese, the terms "financial management" and "business process re-engineering" do not exist, so the English terms are usually used (Guthrie et al. 1999). Similarly, the fine distinction between accountability and responsibility. or between control and audit, may not exist in some languages (Allen 2008). This highlights the difficulties which arise when approaches such as NPM depend implicitly on political and managerial constructs which may not exist in the locations to which they are being exported, or operate completely differently.

In developed countries, the central budget office has traditionally functioned as an interventionist “central command and control post” to ensure aggregate fiscal discipline, “specifying the items of expenditure, monitoring compliance with regulations, ensuring that the inputs are those agreed in the budget, and intervening as deemed appropriate” (Schick 2001:9). In developed countries, Ministries of Finance are typically powerful, because they wield “the power of the purse” and can reward or sanction line departments through budget allocations. In the face of strong resistance to reforms from various interest groups, it is critical that the Ministry of Finance enjoys visible and unwavering political support in creating an environment conducive to reform, especially on contentious issues such as controlling the government wage bill or eliminating wastage and corruption. This unassailable political authority enables them to drive PFM reform and to catalyse sustainable change.

In developing countries, finance ministries are often weak, unable to resist pressures from the President and Cabinet colleagues to “find the money” and act as effective custodians of aggregate fiscal discipline. In developing countries, planning ministries are often more influential than finance ministries in influencing policy, wih the Ministry of Finance is relegated to the “bean counting” role of public book-keeper. Budgets in developing countries tend to be fragmented (with capital budgets residing in planning ministries and operating budgets controlled by finance ministries) and non-comprehensive (with proliferation of “special funds” and significant off-budget items). Moreover, reliance on foreign aid, which is typically managed outside the purview of the budget process, further diminishes the significance of budgets as policy instruments. By contrast, the national plan is often regarded as the foremost policy document in the allocation of public resources and for securing donor funding. Collectively, these factors weaken the Ministry of Finance’s ability to lead reform (Allen 2009:7-8). In South Africa, planning agencies at the centre of government (such as the National Planning Commission and the Department of Planning, Monitoring and Evaluation) were only created during the Zuma administration, with the first National Development Plan adopted in 2012 (as discussed in section 4.6 on page 148). This gave National Treasury untrammelled influence in the early PFMA reform period.

The complexity of the relationships between the Ministry of Finance and counterparts at the centre of government may be compounded by discordant dynamics with the Ministry of Finance itself:

> By contrast, in some countries, a finance ministry may be "controlled" by several political parties in a coalition government, with one deputy minister being responsible for, say, macroeconomic forecasting, fiscal policy and the budget, another for the treasury, and yet another for debt management. This fragmentation of the ministry can create a paralysis in terms of reform which is hard to override, even by a powerful finance minister. (Allen 2008:6)

It is clear that in many developing countries, the institutional preconditions for successful PFM reform may not be in place, for example, consistently applied and enforced legal codes, well-functioning political institutions, a competent and politically neutral civil service, little corruption or nepotism and well-functioning markets (Bale & Dale, 1998:116). Schick (1998a) regards New Zealand's robust market sector, legal institutions for enforcing contracts and its formal public sector management system which governs the hiring and pay of public servants as essential preconditions for NPM-inspired reform. If markets are dysfunctional, incomplete, monopolistic or collusive, then it is hardly surprising that reforms which rely on competitive market pressures for performance (such as outsourcing) may be unsuccessful (Schick 1998b).

Informal rules and the actual incentives in developing countries are often shaped by the collapse of formal incentive and accountability systems in the wake of structural adjustment, severe fiscal consolidation due to economic shocks, or excessive dependence on development aid. The collapse of formal civil service pay scales and HR practices in developing countries as a result of extreme fiscal pressures have created incentives for civil servants to respond rationally to this environment through a range of ethically and/or legally dubious, but widespread, practices: manipulating travel, expense and overtime allowances, doing private work in office hours and taking kickbacks (Stevens 2004). Having adapted to and benefited from parallel informal institutions, civil servants and politicians are likely to resist reform. In extreme cases, formal PFM institutions become virtually operationally irrelevant, and are merely the icing on an increasingly dysfunctional and corrupt cake – giving a deceptive appearance of probity attractive to donors and politicians, but not disrupting powerful entrenched and interlocking vested interests.

In Africa and developing countries elsewhere, there are formal institutions such as laws and policies on financial management, procurement or staff recruitment (often with roots in their colonial past). However, the informal institutions ("how things are actually done"), mediated by the incentives faced by public sector organizations and individual politicians and civil servants, tend to determine government budgetary and performance outcomes. Similarly, the private sector in developing countries tends to be characterised by informality, and public-private sector interaction lends itself to corrupt activities. Impersonal market exchange on the basis of price and quality is routinely supplanted by social roles; relationships (such as patronage) and informality, rather than policy, determine what is deemed acceptable in practice:

> The emergence of open, robust markets is as much a precondition for modernizing the public sector as it is for developing the private economy. It is highly unlikely that government will operate by the book when rules and regulations are routinely breached in private transactions. And if contracts and the rule of law are underdeveloped in business relations, it is highly improbable that they can be effectively applied in the conduct of the government's business. It would be foolhardy to entrust public managers with complete freedom over resources when they have not yet internalized the habit of spending public money according to prescribed rules. (Schick 1998b)

Informality in the public sector tends to extend to PFM in poor countries: there is frequently a formal budget appropriated by Parliament and a "real" informal budget. The formal budget is often unrealistic and more political rhetoric than binding constraint, so the real informal budget is reworked several times during the year, according to the availability of cash funds (Schick 1998a). This informality could be functional, in the sense that it maintains fiscal discipline despite unrealistic budgets, and facilitates service delivery by bypassing onerous red tape. However, a culture of regularly bypassing formal controls can open the door to institutionalized corruption.

The implication is that any attempt to reform PFM practice by focusing solely on formal managerial systems without considering the informal institutions is doomed to fail in many developing countries. In particular, those components of the PFM system (such as managing government investment, including awarding tenders, planning and managing aid flows from donors and controlling government bank accounts) which are susceptible to rent-seeking have proved less tractable to reform even in developed countries. Reforms on the tax collection and revenue enhancement side of the budget which expand opportunities for potential rent-seeking often encounter less resistance within government than reforms on the expenditure side (such as procurement reform), which typically constrain rent-seeking opportunities (Allen 2009).

As a result, many developing countries have implemented reforms in name only, but not in substance. Reform attempts then degenerate into purely symbolic rituals with little impact on incentives, the decisions and behaviour of public servants, their performance orientation or the administrative culture of public sector organizations. Official documents may boast a notional MTEF, but in practice it may be little more than three-year incrementalism, virtually bereft of credible analysis, updated in an *ad hoc* manner with scant documentation or explanation, and little impact on budget decision-making horizons beyond the first year (Allen 2009:3).

The introduction of new PFM approaches such as internationally recognised accounting standards require, firstly, formal institutions to succeed (for example, formal legislative frameworks), secondly, supporting norms and values (for example, accounting practitioners' belonging to internationally accredited professional bodies and adhering to codes of conduct), and, thirdly, cultural-cognitive mechanisms (for example, the cognitive capacities of accounting practitioners to interpret international standards within their local context). Some of these elements may be absent in developing countries. Reform attempts tend to focus predominantly on formal institutions, ignoring the informal components (such as norms and values) and hence are prone to failure:

> Accounting formalization, professionalization, standardization and disclosure were accepted as appropriate in many developed countries only after their economies had grown to levels which required such behaviours. Such norms are less evident in less developed settings, where family-based business is common and transactions informal and localized. Similarly, cultural-cognitive mechanisms supporting modern accounting systems – including graduate level chartered accounting knowledge – emerged in developed countries only when demand for such services was growing. (Andrews 2013:76)

Andrews (2013) therefore contends that the pre-occupation with international best practice standards leads to an "over-specification" of proposed reforms (which straitjackets developing countries) and a simultaneous "over-simplification" which focuses only on formal PFM institutions to the exclusion of crucial informal dimensions.

To institutionalize formality in developing country financial management systems, Schick (1998b) advocates a "back to basics" approach, where fair and realistic external controls are institutionalized before internal controls are devolved to public managers. He suggests that managers be required to manage inputs effectively first before graduating to managing outputs, and that they operate in integrated centralized departments before working in decentralized agencies. Unfortunately, this sequencing is not backed up by a theoretical framework, although it appeals to common sense. Even the "basics" (such as standardised external controls and input control) still require supporting informal institutions (such as political and social norms and cognitive orientations), which may be absent in developing countries (Andrews 2013).

There have been concerns that "leapfrogging" from traditional line item budgeting with centralized *ex ante* controls directly to devolved budget management systems would compromise the control environment and open the door to corruption without realising any attendant benefits. However, the counter-argument is that the risks of ineffective financial management associated with devolution must be considered relative to the risks inherent in more centralized budget systems (Laking 1998). Table 9 overleaf describes mechanisms in devolved and centralized systems for managing the risks of inefficient and ineffective service delivery and abuse of authority.

As Laking (1998) points out, risks endemic to centralized input-driven systems include long lags in expenditure authorisation which may be subject to frequent revision to delegation authorities and spending limits. Central provisioning of goods and services could lead to delays and inefficiencies in procurement (higher cost and lower quality).

Table 9: Risk management in devolved and centralized budget management systems

OBJECTIVES AND RISKS	DEVOLVED (NZ) BUDGET MANAGEMENT	CENTRALIZED BUDGET MANAGEMENT
Objectives: ensure lawful expenditure *Risks*: unauthorised over-expenditure or virement; misuse of authority: fraud, theft, patronage, tribute, reciprocal favours	Monthly reporting from agencies on use of authority; external audit of financial statements and control systems and tests of compliance; sanctions for overspending; control over release of cash to bank accounts.	Prior central authorisation of use of expenditure authority; detailed prescriptive rules for exercise of authority; external audit of compliance; sanctions for overspending, direct control over payments.
Objectives: efficient input use *Risks*: waste of resources	Authority to managers to make input decisions on staffing and other resources; tight aggregate budget control – assuming "productivity dividend"; audit of purchase and contracting practices, full (accrual) budgeting and accounting to asset costs.	Centralized purchasing; common services (accommodation, transport, cleaning, maintenance etc.); central control over staff establishments, pay and promotions; special procedures for asset acquisition and disposal.
Objectives: deliver service to specification *Risks*: government policy outcomes not achieved	Personal and agency accountability for meeting output specifications; quarterly reporting of output achievements; audited statements of service performance; personal rewards linked to achievement of output targets	Annual reporting of budgeted versus actual expenditure by input category; annual reports of achievement from agencies/Ministers.

Source: Laking (1998:228)

Increased compliance costs often outweigh any reduction in operating costs due to bulk purchasing. Treating capital spending through separate budgeting procedures unrelated to operation and maintenance with no accounting for cost of capital leads to sub-optimal use of assets. Input control means that performance (in terms of service delivery outputs or outcomes) is more loosely defined, leading to attenuated control over the quality or quantity of services delivered.

On the other hand, devolved budget systems are bedevilled by the need to specify outputs rigorously, and to devise, monitor and enforce contracts based on those output definitions. The New Zealand system also forces the need to determine notional "prices" of service delivery outputs in purchaser-provider agreements and for the use of public assets. Finally the system's success is critically dependent on timely and reliable *ex post* monitoring and reporting systems with consistency between budgeting formats and managerial reporting.

Hesitancy in moving from central authority to devolved managerial authority due to concerns about increased corruption may also be exacerbated by the fact that in traditional PFM systems, which emphasise and track control over spending aggregates (budget totals) but not their composition, waste and inefficiencies in the production of service delivery outputs is typically "invisible". It is therefore not seen as an appreciable cost, and there may be fears that with existing information and monitoring systems, devolving managerial discretion over the composition of inputs would compromise the enforcement of the aggregate budget constraint. There is therefore a need to build accounting and internal audit capacity, as well as information systems in spending agencies prior to devolving powers (Diamond 2003a, 2003b).

Drawing on the cases of Ghana, Uganda and Kenya, Diamond and Khemani (2006) found that many attempts by governments in developing countries to migrate to ambitious integrated financial management systems (IFMSs) tended to fail or stall. IFMSs computerise PFM processes such as budget formulation, budget execution and reporting. They typically consist of core modules (such as the general ledger, budgetary accounting, accounts payable and accounts receivable) integrated with optional modules (such as budget development, procurement, project ledgers and asset modules). While they have the potential to greatly increase the accuracy and timeliness of financial reporting, implementation could be compromised by:

(i) a lack of clarity about where ownership of the system lies (the Budget Office, the Accountant-General or the Ministry of Finance proper) and who has the authority to implement what;
(ii) unclear specification of the basic functionality of the IFMS in terms of user reporting needs and the operating environment;
(iii) an over-ambitious scope of information to be included in the first version of the system;
(iv) inadequate time devoted to the design phase and understanding end-user needs;
(v) failure to reengineer existing procedures – the introduction of the IFMS should not only automate and speed up existing processes, its implementation should also be accompanied by initiatives to optimise and streamline existing processes;
(vi) failure to undertake parallel reforms required by the IFMS, including the standardisation of manual standard operating procedures/business processes, documentation and reports used, and processing rules across all users;
(vii) poor change management and insufficient effort to obtain buy-in from line ministries;
(viii) unrealistically tight project completion deadlines;
(ix) under-estimation of the management skills and IT expertise needed and of the expense to implement the IFMS, and even more importantly, to maintain it on an ongoing basis; and
(x) a lack of incentives for reform – reforms may be donor-driven rather than by the government itself, or the reform may have unpalatable HR repercussions, such as retrenching finance administration personnel or increasing personnel budget pressures because of the higher pay needed to attract and retain staff with specialist skills (Diamond & Khemani 2006; Petersen 2006).

Many of these factors (such as unrealistic timelines, an over-ambitious scope and under-estimation of costs and skills requirements) have also hampered IFMS implementation in South Africa, as discussed in section 5.5.5 on page 226.

The argument that poor countries can "leapfrog" in modernising their PFM practices is based largely on improvement in the technical elements: greater understanding about good practice in conceiving and implementing budget reforms, adoption of international standards in public sector accounting and auditing, a body of knowledge on comparative reform experience and lessons learnt, and vastly improved communication and information technologies. Skills deficits are potential risks that need to be managed through capacity-building programmes, but these risks can be surmounted if there is sufficient political will. The fundamental constraint on reform in developing countries is "the absence of an enabling institutional environment that makes it possible to move forward in the first instance" (Allen 2009:16).

If the above diagnosis is correct, then much of the technical support provided by international financial institutions and donors through grants, loans and policy advice is likely to be inappropriate and ultimately futile, because it is predominantly focused on the technical dimensions of reform, neglects building formal budget institutions and ignores informal institutions completely:

> Nevertheless, donors show little inclination to modify their existing practices – despite accumulating evidence of poor results and low returns – since, as noted, fashions in reform are created and hard to throw aside, and project managers have a strong incentive to disburse loans and a much weaker incentive to ensure that the long-term impact of such lending (and related technical assistance) is positive. (Allen 2009:27)

In contrast to the "one-size-fits all" approaches adopted by international agencies and donors, Andrews advocates an alternative approach based on "problem-driven iterative adaption" which focuses on both the substance of public sector reform design, and the process itself. The process builds capability if it is grounded in a thorough understanding of the local context (both formal and informal institutions) and identification of underlying root causes, not merely manifestations. It should ideally engage multiple domestic and international stakeholders, particularly those involved in actual implementation, rather than solitary champions. An adaptive, iterative implementation approach based on experiential learning should entail a "gradual process of step by step experimentation" which "yields solutions which resembles bricolaged hybrids blending internal and external ideas" (Andrews 2013:3). According to the *Oxford English Dictionary*, the term "bricolage" refers to something constructed from a range of available things.

From the above analysis it is abundantly clear that merely amending PFM legislative frameworks, regulations, budgeting and accounting systems will not necessarily alter the actual practice and behaviour of the public managers charged with using public resources, nor will it necessarily improve fiscal and service delivery outcomes. PFM reform must to be supported by other formal management systems (such as organizational and individual performance management systems), and needs to ensure that informal systems do not undermine, and ideally reinforce, achievement of reform objectives. The importance of both technical dimensions and political and managerial leadership and governance dimensions as crucial pre-conditions for reform success cannot be understated.

3.13 Approaches to evaluating PFM reform processes

Despite the thrust towards rational, evidence-based policy and results-based reform, there has been comparatively little systematic analysis of the results or outcomes of public management reforms in general, and PFM reforms in particular. With few exceptions, for example, the work by Douglas (2000) testing budget reform theory in Georgia and research by Andrews (2013), theory development has also been scant.

This has led to public management reforms being disparaged as "faith-based" rather than evidence-based (Pollitt 1995). Paradoxically, while recent public management reforms have required public sector organizations to focus on results and assessing outcomes while minimising costs, this approach has not been applied to public management reforms themselves, supporting the criticism that "the international management reform movement has not needed results to fuel its onward march" (Pollitt & Bouckaert 2011:159).

There are a host of reasons (theoretical, political and pragmatic) why evaluations of reform seldom occur. The theoretical or conceptual reasons include the following:

(i) *There is a lack of consensus on a common conceptual framework* within which to analyse reforms. A common analytical approach uses the logical framework approach which links resource inputs, the activities or processes which convert them to service delivery outputs and the direct and intermediate outcomes, and ultimately final impacts The logical framework/results chain approach, has been accused of being simplistic and overly linear and rational. It provides a plausible analytical framework, but needs to be supplemented by a "theory of change" in order to enable rigorous evaluation of its application. (Pollitt & Bouckaert 2011).

(ii) *The aims and objectives of reforms are often vague*, making an evaluation of outcomes relative to initial objectives difficult.

(iii) *There are attribution problems.* It is exceedingly difficult to provide systematic evidence of causation between a particular reform intervention and any change in government performance in terms of outputs or outcomes. Reform programmes typically combine PFM reforms with other reforms, such as HR management, monitoring and evaluation, etc. It is thus difficult to isolate the effect of a single reform intervention.

(iv) *The viewpoints of different stakeholders* on the motivation for reforms, their usefulness and results differ. There can be widely divergent views on the criteria for measuring results and the objectives against which they are to be measured. For example, a study on the implementation of accrual accounting and output-based budgeting in German municipalities found that the top managers of various municipalities interpreted the reforms as either modernisation strategies, professionalization strategies or as merely improving the image of the municipality. Furthermore, top managers did not fully gain the co-operation of middle managers who have to actually implement these systems, manage their expectations and capabilities to adopt new management processes, creating the risk of middle management resistance (Ridder et al. 2006).

A framework for evaluating public sector performance improvement requires a “theory of change” in order to structure the analysis (for example, to categorise reforms meaningfully), understand why reforms had their intended consequences or did not, and to be able to predict their anticipated impact. For instance, Boyne, Boyne, Farrell, Law, Powell and Walker (2003) use a public choice theoretical framework as a basis for their evaluation of public management reforms, predicated on the premise that increased competition, the publication of performance information and disaggregation into smaller organizational units will lead to improved public service delivery efficiency and responsiveness to public demand. Boyne et al. (2003) show that efficiency in the Health and Housing sectors in the United Kingdom seems to have increased, but for Education the evidence is inconclusive. They have found, in fact, that the equity of all three services had, in fact, declined.

Political reasons for avoiding evaluations include the following:

(i) An unfavourable publicly available evaluation of a reform effort would be a political indictment on the politicians initiating the effort.

(ii) Where a new organization has been created or a function shifted, the step may be politically irreversible, and there is little likelihood that a negative evaluation could prompt a reversion to the previous *status quo*.

(iii) Where reform policy changes too rapidly, even if an evaluation is initiated, the policy may have moved on to the next “flavour of the month”.

There are also more pragmatic impediments to the evaluation of reforms:

(i) Baseline indicators for the *status quo* before the reform programme are often not collected. Evaluations may be initiated too late to capture this information.

(ii) Particular targets may be met, but with unintended consequences – for example, where quantity targets are met, but quality is compromised, or where short-term objectives are achieved at the expense of long-term performance (Pollitt & Bouckaert 2011:17).

Another reason for the dearth of systematic evaluation of reform is the difficulty in obtaining information at various stages of the reform process. These stages are described in Table 10 below. It is fairly easy to monitor the initiation of reforms, but assessing the extent to which policy intent is translated into changed practices is complicated and expensive, and assessing whether changed financial management practices have resulted in improved fiscal outcomes is even more difficult and costly. Where evaluations of PFM reforms have been done, they were often performed by originators or advocates of reform, casting doubt on their objectivity (Newberry & Pallot 2005).

Table 10: Researching public management reforms

STAGE	DESCRIPTION	RESEARCH
Talk	More and more people are talking and writing about a particular idea (e.g. contracting out).	Quick and cheap. Monitor what people are talking and writing about is fairly straightforward.
Decision	The authorities (governments, public boards etc.) publicly decide to adopt a particular reform.	Again, quick and cheap. The public decisions of the authorities can usually be located quickly and cheaply (on the Net, often without leaving one's desk).
Practice	Public sector organizations incorporate the reform into their daily operational practices.	Probably requires more expensive and time-consuming fieldwork. This needs both funding and access.
Results	The results (outcomes) of the activities of public agencies change as a result of the reform.	Final outcomes are often very difficult (and expensive) to measure. Even more frequently, there is an attribution problem (i.e. one cannot be sure how much of the measured change in outcomes can be attributed to the reform itself, as opposed to other factors).

Source: Pollitt & Bouckaert (2011:13)

Another problem for research is that PFM reform, most recently the NPM-inspired approaches, have led to a proliferation in professional jargon: accrual accounting, performance indicators, devolved budgets, budget institutions, performance indicators, performance budgeting, etc. Sometimes the same concept is referred to by different names in different countries, for example, performance budgeting, results-based budgeting and output-based budgeting are essentially the same thing. But even when countries adopt a similar terminology for reform instruments or management approaches, the way these are applied practically across country contexts can vary markedly (Guthrie et al. 1999:210).

More evaluation of PFM reform is needed, but there is also a danger of excessive evaluation, where more time and resources are spent on "checking" than on "doing" – actually delivering public goods and services. Guthrie et al. (1999) warn of a potential "evaluation trap" where, in the quest to enhance performance, increased monitoring and auditing is done, but this in turn raises the indirect cost of delivery. In times of fiscal stress, auditing and evaluation expenditure may be protected in the name of legitimacy and good governance or for compliance reasons and core service delivery budgets may therefore be subjected to disproportionally large cuts. This would raise the unit cost of the public service delivered, or decrease access to, or quality of, the service, which may in turn stimulate calls for even more evaluation.

There have been some important strides in monitoring and measuring the impact of public management reforms in various countries, including various cross-country indicator sets which enable tracking of progress with reforms within a country, as well as comparisons across countries, such as the World Governance Indicators. However, there are often challenges with such indicators. These include:

(i) vague definitions of performance constructs such as "government effectiveness", "good governance" and "perceptions of public service quality";

(ii) a lack of obvious coherence or logic in the proxy measures which comprise the various elements of the indices, which appear to be more dependent on data availability rather on any compelling merit in operationalising an underlying theoretical construct;

(iii) the complexity of the scaling and weighting procedures in the process of aggregating various elements of these indicators, and the contestability of procedures based on value-judgments;

(iv) changes over time which are difficult to interpret – sometimes there is actual change, sometimes apparent changes may be artefacts of the datasets used, such as changes in the number and composition of the underlying data sources; and

(v) premature declarations of success (Andrews 2008).

One of the better indicator sets which focuses specifically on PFM is Public Expenditure and Financial Accountability (PEFA) indicators formulated by a multi-donor group in 2005. The 28 indicators in the PEFA framework are structured into four categories:

(i) PFM system outcomes, such as deviations of the executed budget from the appropriated budget and the level of arrears;

(ii) cross-cutting features of the system, such as basic transparency and comprehensiveness of the budget, public access to budget information;

(iii) budget-cycle performance covering formulation (orderliness and participation in the annual budget processes, whether there is a multi-year budget perspective); budget execution (predictability, recording, control), accounting and reporting, external scrutiny and audit; and

(iv) donor practices and how these influence the performance of a country's PFM system, for example, the predictability of direct budget support and share of aid managed by recipient country budget systems (PEFA 2006:3).

Today, 70 countries apply the PEFA indicators, but only a much smaller sub-set make their assessments publicly available on the PEFA website, www.pefa.org, and there is substantial variation in the quality of indicators across countries (Overseas Development Institute 2007:6).

The PEFA approach has many advantages. It conceives of the PFM as a system consisting of inter-related processes which cumulatively generate PFM outcomes within a theoretical model explaining why certain combinations of processes can lead to certain outcomes. Despite quite extensive coverage of PFM process areas, the set of 28 indicators is concise. As high-level indicators, they strike a balance between standardisation and permitting variation in the detail. The assessments themselves are fairly simple and amenable to evidence-based analysis. Finally, governments who score poorly in certain areas gain insight into how they can improve (Andrews 2007:365).

The PEFA indicator set also has some limitations. PEFA indicators cover most process areas, but not all of them (such as budget policy development). Furthermore, PEFA indicators do not capture the dynamic links between processes, which are as integral to PFM systems effectiveness as the individual processes themselves. PFM outcomes emanate from the interaction of a multiplicity of role players (Ministries of Finance, line Ministries and other public sector entities). The PEFA indicator set does not capture these interactions. PFM effectiveness can, in the final analysis, only be evaluated relative to the goals of a particular PFM system, which differ across countries and may not be conducive to standardisation. Finally, an indicator set such as PEFA may be too static, and addresses only elementary levels of PFM development (Andrews 2007). Its biggest shortcoming in relation to PEFA assessment in developing countries is that its ambit is limited to the technical dimensions of PFM reform. A PEFA assessment:

> …takes little account of institutional factors that are critical to the reform of budgetary systems, and implicitly incorporates a value system that is based on the practices of developed economies. As a result, the diagnostic information deriving from a PEFA assessment is likely to be incomplete, and potentially misleading, when it is used – as is frequently the case – as the basis for preparing an action plan to be used by national authorities in reforming their budgetary institutions. (Allen 2009:14)

A fruitful line of further research relates to the fact that even within particular countries, certain institutions or groups of institutions perform better than their peers – they form what are called “reform enclaves”. Understanding systematically how and why these reform enclaves develop and their underlying performance drivers could support a broader dialogue on how the positive experiences within these enclaves could be replicated elsewhere (Allen 2006:160).

In summary, evidence-based evaluation techniques can assist in the systematic evaluation of the success or failure of PFM reforms. All impact evaluation techniques are, however, subject to certain methodological or data limitations in their application. Assessing the positive benefits consequent to reform as well as negative consequences relative to the resources consumed by reform always entails some degree of subjectivity. Because they entail value judgements, assessments of PFM impacts are "ultimately, inherently and inescapably political" (Boyne et al. 2003:157).

Section 5.7 on page 258 reviews the literature to date on assessing South African PFM reforms, including a more detailed analysis of the South African 2008 PEFA study scores. Section 5.8 on page 270 offers a high level qualitative assessment of PFM progress to date based on the perceptions of senior officials from the National Treasury and provincial treasuries. This qualitative analysis is complemented by Chapters 6 and 7, which provide quantitative analyses of progress with PFM reform in provincial Education and Health departments.

3.14 Summary and concluding remarks

Drawing on international experience, this chapter has developed a conceptual framework for assessing progress with South African PFM reforms aimed at pursuing value-for-money and increasing the developmental impact of public spending. The proposed analytical framework situates PFM reform in the broader international context of public sector reforms. Hence, the chapter has examined various factors precipitating PFM reforms, a menu of possible reform options and reform trajectories. In outlining the analytical framework, this chapter has deliberated on the appropriateness of exporting existing models formulated in economically advanced countries to poor countries, and how these models may need to be modified in order to be relevant to a developing country context. The chapter concludes by summarising existing methodologies for evaluating PFM reforms, as a basis for future research on South African PFM reforms. It has demonstrated that no universal, theoretically rigorous framework to guide PFM reform currently exists. In fact, some scholars doubt that such a single, optimal blue-print for PFM is possible or desirable:

> This implies that most good solutions to public administration problems, while having certain common features of institutional design, will not be clear-cut "best practices" because they will have to incorporate a great deal of context- specific information. (Fukuyama 2004: 189)

While there are certainly insights to be garnered from reform implementation experiences in other countries, there is no authoritative blueprint. However, there is a body of international knowledge sufficient to craft a framework on the basis of which to evaluate the South African PFM reforms.

In contrast to the predominantly technical PFM perspective which permeates most of the literature, this study makes a strong case for developing democracies to manage the political-economy dimensions of PFM reform in its broader governance context pragmatically. This chapter has highlighted that PFM reforms are unlikely to be successful unless they are accompanied by complementary public service reforms which genuinely reconfigure not only formal budget institutions, but also informal institutions, balancing technical, economic values such as efficiency and economy with democratic political values. Finally, the discussion has emphasised the pivotal role of leadership and governance in the reform process, and the need to create support and demand for reform, rather than merely focusing on the supply side of reform.

CHAPTER 4: THE GENESIS OF THE PROVINCES AND THE BROAD PUBLIC SECTOR REFORM AGENDA

4.1 Introduction

Understanding the PFM imperatives in South Africa since 1994 requires a deep appreciation of the broader public sector reform project since the first democratic elections in that year. Hence, this chapter analyses this backdrop, while the next chapter hones in on PFM reforms specifically. To this end, this chapter traces the trajectory of the transition to democracy, the creation of the nine provincial governments and beyond, through the lens of what Picard (2005:361) calls "the institutional state". This is a conception of the state as "a set of structures and processes, including the public service, state-social relationships and internal organizational dynamics, that is a permanent part of the dynamics of government, although it evolves over time" (Picard 2005:361).

In South Africa, as elsewhere, there are inextricable linkages between the development of the state and its associated interest groups, the broader economy dominated by the interests of the formal private sector and organized labour, and broader civil society. Analysing the evolution of the public sector reform agenda (and of PFM reforms in particular) requires a nuanced awareness of the complex dynamics of this context. This is especially true in relation to South African PFM, which, *inter alia*, attempted to alter the relations between the state and the private sector, for example, by using government procurement to achieve Black Economic Empowerment (BEE) objectives, and the increase use of outsourcing and public-private partnerships. New formal legislative frameworks, macro-organizational structures and processes have been largely super-imposed on existing ones in the two decades since 1994. However, despite the political rhetoric of complete transformation, each subsequent layer of institutional accretion has only partially displaced, and therefore continues to coexist with, its predecessors, like the many layers of sedimentary rock.

4.2 The broader context of public sector reform

The advent of democracy signalled the start of a radical transformation of South African society after the racially discriminatory and segregated apartheid era. This fundamental transformation was not only political in nature, but extended to the broader economy as well as the public sector. Economic reform challenges centred on revitalising South African economy which was racially biased, highly concentrated, predominantly centrally regulated, natural resource-dominated and uncompetitive, in order to promote growth, to create jobs, eradicate poverty and reduce inequality (Abedian & Standish 1992). Simultaneously, there was a pressing need to reform, indeed to re-create, a public sector under the auspices of democratic political control within a constitutional order which would be responsive to the imperative to redress apartheid legacies. The aspirations of a newly enfranchised citizenry imposed vast expectations on the public sector to eliminate apartheid backlogs in social services and infrastructure rapidly, especially in rural, mainly black areas, and to realise the socio-economic rights which were laid out in the Constitution in a manner which was compliant with the new democratic constitutional order.

As elucidated below, the interaction of four inter-related thematic focus areas have dominated in the reform discourse since 1994:

(i) institutionalizing democratic accountability in a constitutional state;

(ii) decentralizing powers, functions and budgets to provinces and municipalities;

(iii) achieving demographic representivity in the public sector; and

(iv) modernisation of public administration in order to effect redress and social upliftment.

The interplay among these themes is described below, from the late apartheid era, through the transition to the Government of National Unity under President Mandela, and the Mbeki era to the Zuma administration.

4.3 Pre 1994: The apartheid state mechanisms and the negotiated transition

Prior to 1994, there were four provincial administrations in apartheid South Africa ((he Cape, Transvaal, Natal and Orange Free State Provincial Administrations). Although they performed functions such as Health and Education, they were essentially merely administrative extensions of the national government, rather than distinct governments in their own right. Policy formulation was highly centralized in Pretoria. Although it was subverted by apartheid, there was a long tradition of relative civil service professionalism in the formal bureaucratic structures of white South Africa (Irvine 2010), such as the Provincial Administrations.

However, by 1980s and 1990s, the last decades of apartheid, the apartheid bureaucracy had acquired a reputation for inefficiency and widespread corruption, maladministration and outright looting of the state (Hyslop 2005; Lodge 2005; Picard 2005). The politicized bureaucracy “functioned as a major patronage network” and “an extension of Afrikaner nationalism” (Picard 2005:292). Since 1948 the National Party viewed public employment as a solution to the “poor white problem” and by making Afrikaans the language of the civil servants created barriers to entry to the public sector even for English-speaking white South Africans. Posel (1999) reports that insistence on the employment of Afrikaners only in the National Party civil service was associated with artificial skills shortages and declining service efficiency. She paints a nuanced picture of Afrikaner civil servants in sheltered employment with submissive public sector unions, dependent on, but treated with contempt by, their political principals, and looked down upon by English-speaking whites for their perceived inability to compete in private sector labour markets.

While Parliament was nominally supreme in apartheid South Africa, in practice, it was disempowered as an institution, a “rubber stamp” for Executive decisions (IDASA 2009). Under the rubric of “separate development”, a plethora of black “independent states” (such as Ciskei, Transkei and Venda) and “self-governing territories” (such as QwaQwa, KwaZuulu, KwaNdebele) were created, with the trappings of formal government structures such as Legislatures, and co-opted support from the black homeland elites and tribal leadership:

> By 1985, the homelands consisted of 14 legislatures with 1 270 members and 151 departments, which included 18 Departments of Health, 14 Departments of Education, 14 Departments of Finance, Budget, Agriculture and Forestry, 13 Departments of urban affairs or local government, 12 Departments of Works and Housing, 9 Departments of Economic Affairs, 5 Departments of Foreign Affairs, Transport, Post and Telecommunications, Labour and Manpower, Law and Order, and Defence and three Departments of Justice. There was one department of the Environment, and there were 11 Heads of Government. (Picard 2005:293)

According to the Public Service Commission (PSC), by 1992, there were 53 central and provincial administration departments in white South Africa, 80 in the so-called “independent” black states, and 62 in the “self-governing” territories (PSC 1997). The apartheid government channelled substantial resources into these black homelands, without any concomitant accountability requirements. Estimates of the number of homelands officials vary substantially. Picard (2005:300), for instance, reports that there were 638 599 homeland administration staff in 1992, mainly teachers, clerical staff and casual labour, comprising 16% of the economically active population living in homeland boundaries. It must be said that many of the homelands teachers and nurses were committed public servants, working under appalling conditions to serve their poor communities, lacking the most basic infrastructure and equipment.

Despite significant public resource flows to the homelands, bureaucrats were not democratically accountable to citizens. They operated in environments steeped in informality, where formal administrative systems and processes and equality before the law were virtually non-existent, and better services were routinely delivered to elites (tribal royalty, traditional leadership, etc.). For instance, between 1988 and 1994, government accounts were not audited in the Transkei, and payroll records, asset registers and controls were completely absent (Lodge 2005:739). Often this informality crossed the line into outright mismanagement and corruption, facilitated by the “fragmentation of structures, lack of co-ordinated policy frameworks, unequal allocation of financial and human resources as well as disregard for the democratic requirement of public accountability” (Kuye 2006:293). Picard observes that rent-seeking was built into the logic of homeland operations: “The politics of the homelands were the politics of competition over the spoils of separate development: usually access to land or control over people” (Picard 2005:295).

Prior to 1980, the senior management cadre, even in the homelands, was virtually totally white and predominantly male. White senior managers in the homelands often consisted of officials who had been transferred from the South African civil service because their performance was below standard (Chipkin & Meny-Gilbert 2012). This meant that most black administrative staff in the homelands typically had limited clerical experience only, rather than broader managerial experience, but by the time of the demise of apartheid, more managerial opportunities had developed in the Bantustans. On the positive side, the homelands could be considered a training ground for black administrators excluded from public administration in white South Africa.

In February 1990, the ban on the ANC and other political parties was lifted by the apartheid government, and Mr Nelson Mandela, the leader of the ANC, was released after 27 years of imprisonment. This fundamental shift was followed by the Groote Schuur Minute, sealing the National Party (NP) and the ANC's commitment to peace and a negotiated settlement in May 1990. The ANC renounced the armed struggle in August 1990, and the National Peace Accord was signed in September 1991. These events collectively signalled the beginning of a multi-party negotiation process, which included the Inkatha Freedom Party based in KwaZulu-Natal, and the homeland administrations. The subsequent Convention for a Democratic South Africa (CODESA I) talks started in December 1991. These talks culminated in the NP's capitulation to ANC demands for an interim government, general constitutional principles for a non-racial, non-sexist, democratic South Africa in February 1992, and a whites only referendum held by the NP, in which reform received overwhelming support from the white electorate. In an atmosphere of extreme tension, fear, infighting and mistrust, the CODESA II talks forged agreements at the Multi-party Negotiating Forum on a constitutional assembly, an interim government, the release of political prisoners, hostels, dangerous weapons and mass action. Finally, on 18 November 1993, the *Constitution of the Republic of South Africa,*1993 (Act 200 of 1993)(hereafter referred to as the interim Constitution) was ratified, paving the way for democratic elections, with the proviso that the two newly elected Houses of Parliament would sit as a Constituent Assembly to draft a new final Constitution.

At that stage, the decentralization debate centred around regionalism, which sparked intense political controversy on an array of disparate models and a vibrant academic literature. The NP's brand of highly decentralized federalism with entrenched regional autonomy (including regional taxation powers) was conceived as an instrument to curtail the future majority government's powers. Given the racial and spatial divides of the apartheid past, the ANC, wary of attempts to dilute its ability to govern the country from a strong centre, to curtail redistribution and the potential for political territorial mobilisation on the basis of race or ethnicity, punted a unitary state with strong local government, but weak regional elements. The Inkatha Freedom Party, based in Natal with mainly Zulu support, endorsed a confederationalist approach which would have amounted to virtual secession (Humphries & Shubane 1993; Maasdorp 1993; Schlemmer 1994; Wittenberg & McIntosh 1993).

The ANC's policy positions on regionalism (which would later transmute into the provinces) were outlined in two policy documents, *Ten Proposed Regions for a United South Africa* (ANC 1992), which proposed a regional demarcation similar to the developmental regions used by the Development Bank of South Africa, and the *ANC Regional Policy* (ANC 1993). The latter policy document advocated that the specifics of regional boundaries should be left to the Constituent Assembly, but did delineate proposals on the powers and functions of regions (which would later influence Schedules 4 and 5 of the 1996 Constitution). It also outlined technical arguments against the devolution of taxes, such as personal and company income taxes and Value-Added Tax to regional governments, and advocated instead a form of sharing of nationally collected revenue by a proposed permanent Advisory Commission on Fiscal Decentralization, which would later become the Financial and Fiscal Commission created by the 1993 interim Constitution.

An important element shaping the dynamics of the post-apartheid public service was the compromises embodied in the "sunset clauses" of the negotiated settlement. As part of the transition, negotiators agreed in October 1993 to protect the employment tenure and rights of homeland and central government employees until 1999 (Picard 2005:303). Ms Geraldine Fraser-Moleketi, the Minister of Public Service Administration from 1998 to 2008, argues that the strategic motivation for this compromise by the ANC was to prevent

> …massive destabilisation within the public service of South Africa by the right-wing forces by capitalising on the insecurity of disgruntled white bureaucrats who were fearful of losing their jobs. The approach was therefore, among others, to deny the right wing elements a fertile recruitment ground within the machinery of the state. (Fraser-Moleketi 2006:17)

As a consequence of this compromise, the white-dominated civil service of apartheid South Africa was not necessarily well disposed to, or aligned with, the new political leadership (Irvine 2010).

The newly elected political leadership hastened to deploy political appointees to top management positions, hoping that it could rely on their loyalty in pursuing transformation objectives. While some of these political deployees were highly competent individuals (for example, ex-academics), others lacked the necessary skills and aptitudes, and this had disastrous consequences for the public sector organizations they were expected to lead. Disturbingly, there were concerns that political deployment, in certain provincial governments, had ethnic or racial undertones: the Presidential Review Commission commented that "senior public service appointments have generally reflected the ethnic or racial composition of the Minister. While we understand the rationale for political appointments into the public service, we feel that this should be an interim and not permanent feature of the service, and wish to emphasise that skill and competence, rather than political loyalty, should be the guiding norm in future, especially as the threat of political sabotage diminishes." (1997, section 2.1.3, n.p.).

There was also a fair amount of distrust by the incoming democratic government of public service institutions inherited from the previous government, such as the Public Service Commission (PSC) and the State Tender Board. The distrust of these discredited old centralized institutions may have reinforced calls to decentralise control over staff appointments and procurement to departmental level, to neutralise the residual influence over the levers of state these institutions might have retained. For example, Mr Trevor Manuel, the then Minister of Finance, articulated a perception that the PSC was formerly a conduit for the activities of the Broederbond, a secret Afrikaner society:

> "*Before 1994 you didn't have a Department of Public Service and Administration. The Public Service Commission did all the appointments. There was a kind of a resistance because a lot of the members of the Broederbond activities ran through that system. They could appoint people that they wanted to departments. The one strand was that managers must manage and have better control over employment practice and over procurement so that they would have a stronger remit and a better field of accountability over that for which they were responsible.*" (Manuel, pers. comm., 14.09.2014).

Because of lacuna in information which existed at the time when the black homelands were merged with the four provincial administrations, the precise number of homeland officials to be transferred was based on estimates rather than exact figures. Table 11 on page 130 provides estimates by the PSC of the number of employees in each of the eleven separate public services. It is therefore not surprising that the phenomenon of "ghost workers" (a form of fraud where salary payments are made to non-existent employees, which would haunt the newly created provincial governments for some time) and the ballooning personnel budgets with negligible controls (discussed later in Chapters 6 and 7) persisted.

The sunset clauses in the Constitution made allowance for all existing (mainly white) civil servants to retain their jobs, but at the same time required that new (black) civil servants be employed to ensure representivity in a democratic public service. This created over-staffing and pressure to rationalize. These factors fostered

> …a psychological environment in which, on the one hand, a great many serving public servants were deeply concerned about their jobs and prospects in the new public service while, on the other hand, a large number of previously excluded people, who through circumstance of the past had been prevented from joining the public service, cherished the hope of being, and indeed expected to be, admitted to the new public service. Reconciling the manifest fears, anxieties, hopes and expectations of a great many people would obviously place great demands on the staffing process. (PSC 1997:Ch 1, n.p.)

Table 11: Estimated number of civil servants in 1993

SIZE OF THE FRAGMENTED PUBLIC SERVICE	NUMBER OF CIVIL SERVANTS	
South Africa (core public service)		**746 400**
(Source: Payroll Statistics on 30 September 1993)		
"Independent" states		**220 800**
(Source. Department of Foreign Affairs)		
Transkei	94 700	
Bophuthatswana	65 000	
Venda	30 500	
Ciskei	30 600	
"Self-governing" territories		**220 400**
(Source: Payroll Statistics on 30 September 1993)		
Gazankulu	35 100	
Kangwane	15 300	
KwaNdbele	12 500	
Kwa Zulu	82 500	
Lebowa	59 600	
QwaQwa	15 400	
TOTAL		**1 187 600**

Source: Adapted from PSC (1997: Ch. 1, n.p.)

Another key compromise by the centralist ANC was the creation of nine decentralized provincial governments within a unitary state as a concession to parties representing geographically concentrated racial or ethnic minorities which were pushing for a federal alternative (such as the NP in the Western Cape, and the Inkatha Freedom Party in Natal) (De Villiers 2008; Lodge 2005). Since the inception of the provinces, there has been political ambivalence in the ruling ANC party about the continued existence and role of provincial governments. This "lack of consensus" about the provincial governments would later "undermine the confidence with which these institutions are able to fulfil their roles" (Levy & Tapscott 2001:12).

The Commission on Provincial Government was established in terms of section 163 of interim Constitution to oversee the creation of the new provincial governments, together with the PSC (South Africa 1993). At that stage the PSC had executive powers, an inheritance from the institution's pre-democratic roots (Ncholo 2000). These powers were later transferred to the newly created Office of the Minister of Public Service and Administration. The Commission on Provincial Government's mandate was to advise the Constitutional Assembly on provincial constitutional arrangements, and national and provincial governments on the establishment, consolidation and rationalization of provincial administrative structures and systems. In terms of section 164(2), the Commission on Provincial Government would submit draft constitutional provisions to the Constitutional Assembly on the following (cited verbatim):

(a) the finalisation of the number and the boundaries of the provinces of the Republic;

(b) the constitutional dispensations of such provinces, including the constitutional structures within such provinces as well as the method of their election and their authority, functions and procedures;

(c) measures, including transitional measures, that provide for the phasing in of new provincial constitutional dispensations;

(d) the final delimitation of powers and functions between national and provincial institutions of government, with due regard to the criteria that are set out in subsection (3);

(e) fiscal arrangements between the institutions of national government and those of the provincial governments;

(f) the powers and functions of local governments; and

(g) any matter which the Commission considers to be relevant or ancillary to its functions.

Schedule 1 of the interim Constitution re-demarcated the geographical boundaries of the four provinces of white South Africa (the Cape, Transvaal, Natal and the Orange Free State) to establish the nine new provinces as follows:

(i) The *Eastern Cape Province* which included the South Eastern part of the former Cape province and the former homelands of Ciskei and Transkei, with its capital at Bhisho (formerly the capital of the Ciskei).

(ii) The *Free State Province* which included the former Orange Free State Province, the homeland of Qwaqwa and the "independent state" of Bophuthatswana with its capital at Bloemfontein (formerly the capital of the Orange Free State).

(iii) *Gauteng Provinc*e which was previously part of the former Transvaal province, with its capital at Johannesburg.

(iv) Natal Province (subsequently renamed *KwaZulu-Natal*) which included the former province of Natal and the former homeland of KwaZulu, with its capital at Pietermaritzburg (the capital of the former Natal province).

(v) The Eastern Transvaal Province (subsequently renamed *Mpumalanga*) which comprises the Eastern part of the former Transvaal province together with the former homelands of KwaNdebele, KwaNgwane, Lebowa and parts of Bophuthatswana, with its capital at Mbombela (formerly known as Nelspruit).

(vi) The *Northern Cape* Province which consists of the Northern part of the old Cape Province, with its capital in Kimberley.

(vii) The Northern Province (subsequently renamed *Limpopo)* includes parts of the former Transvaal province and the homelands of Venda and Gazankulu with its capital at Polokowane (formerly Pietersburg).

(viii) The *North West* Province which comprises the Western portion of the former Transvaal Province, the North Eastern part of the former Cape Province and parts of the Bophuthatswana, with its capital at Mafikeng (formerly Mafeking).

(ix) The *Western Cape* Province consisted of part of the Cape Province, with its capital at Cape Town.

From the above it is clear that certain provincial governments (Gauteng and the Western Cape) inherited substantial capacity (staff and infrastructure) from the former white provincial administrations and did not inherit any black homelands. KwaZulu-Natal and the Free State also inherited substantial capacity from the former provincial administrations but merged with one or more homelands. The Northern Cape was a completely new government which had inherited limited capacity from the former provincial administrations but did not merge with any homelands. Finally, the Eastern Cape, Mpumalanga, Limpopo and the North West Provincial Governments not only failed to inherit capacity from the former provincial administrations but also had to incorporate homelands. The task of establishing provincial governments in these four provinces after 1994 was obviously much more arduous and challenging than in Gauteng or in the Western Cape, which had been endowed with much more favourable initial conditions. These historical initial conditions, reinforced by institutional path dependency, have contributed to the wide variation in PFM and service delivery performance outcomes across the nine provincial, as discussed in Chapter 7.

4.4 1994-1999: Government of National Unity – redesigning the macro-organization of the state and policy frameworks

In describing developments during this period, the first part of this section is devoted to analysing the colossal task of establishing the nine provincial governments required by the 1993 interim Constitution within a space of a mere 24 months. The second part of the section reviews the start of the modernisation reform agenda in the latter part of this period, under the final Constitution of 1996 and the Reconstruction and Development Plan adopted by government (ANC 1994).

4.4.1 The creation of the nine provincial governments

Under the auspices of a Transitional Executive Council formed in January 1994, the first democratic non-racial general elections were held on 27 April 1994. On 10 May 1994, the historic inauguration of Mr Nelson Mandela as President of the Republic of South Africa was held at the Union Buildings in Pretoria. In June 1994, the Constitutional Assembly's Constitutional Committee and its six thematic subcommittees, led by Mr Cyril Ramaphosa and Mr Roelf Meyer, began to collate the views of all political parties on the main constitutional elements and engage in extensive public consultation. In an anecdote on a workshop held by the committees of the Constitutional

Assembly in Arniston in early 1996, Douglas Irvine, a technical advisor to the Commission on Provincial Government, notes that there was very little interest in the framing of the fiscal constitution:

> My colleague, Jimmy Vermaak, went to the one on the powers of provinces, and I went to the one on financial powers on provinces about which I know very little. But in fact this was a subject which didn't interest many people, so that I found myself on a very small committee in fact with Alec Erwin, and I happen to know Alec in a different context, and in effect we wrote the provisions for financial powers of provinces. (Irvine 2010:9)

Mr Alec Erwin would serve as Deputy Minister of Finance from 1994 to 1996 under Mr Chris Liebenberg, the first Minister of Finance appointed by President Mandela, as Minister of Trade and Industry from 1996 to 2004, and as Minister of Public Enterprises from 2004 to 2008).

In July 1996, the draft text of the final Constitution was sent to the Constitutional Court for certification against the constitutional principles in the Interim Constitution on which it was supposed to be based. The text was initially rejected by the Constitutional Court and then revised by the Constitutional Assembly. The text of the final Constitution was eventually certified by the Constitutional Court later in 1996, and was promulgated into law by President Mandela on 10 December 1996. The new Constitution came into effect in February 1997.

The interim Constitution specifically stated that the rationalization of the fragmented institutions of the old order into a single public service with effective new national and provincial governments had to proceed as soon as possible. Provincial Premiers were elected soon after the Government of National Unity assumed office in May 1994, and Provincial Executive Councils were appointed soon thereafter. As a result of pressures to establish the new public service as speedily as possible without disrupting existing services, the normal parliamentary procedures for new legislation were circumvented. The basic framework legislation necessary to establish the new public service was instead promulgated by presidential proclamation on 3 June 1994. This included the *Public Service Act,* 1994 (Proclamation 103 of 1994), hereafter referred to as the *Public Service Act,* the *Public Service Commission Act*, 1994 (Proclamation 103 of 1994) and the *Public Service Labour Relations Act,* 1994 (Proclamation 103 of 1994) which conferred full labour rights on civil servants for the first time.

All existing civil servants' positions were deemed to have been established in terms of the new *Public Service Act* and their incumbents were deemed to be employees in terms of the new *Act.* The *Public Service Act* also included a time-limit for the PSC to establish uniformity in the terms and conditions of employment of civil servants within one year. Uniformity in terms of the basic terms and conditions of employment for civil servants was accorded the greatest urgency, given concerns that continued racial disparities could result in further instability.

The *Public Service Act* also brought into existence a new structure of 35 national departments, offices and services, and nine new provincial governments, and introduced the post of Director-General to head each of the national departments and the nine provincial governments. A provincial government was regarded as the same as a national department in terms of this legislation, which meant that all provincial departments reported to a single Director-General.

The interim Constitution empowered provinces to make laws regulating matters falling into 29 functional areas delineated in Schedule 6, thereby linking functions to legislative powers. These legislative competences were qualified by reserving the right to override them at a national level under certain conditions. According to section 126(3) of the interim Constitution, a law by national Parliament would prevail over provincial legislation if a matter could not be regulated effectively by provincial legislation, if a matter requires regulation through uniform norms and standards which apply generally countrywide in order to be performed effectively or if a matter requires minimum standards of public service delivery. Other specific circumstances in which national legislation would prevail over provincial legislation are: the maintenance of economic unity, the protection of the environment, the promotion of interprovincial commerce, the protection of the common market in respect of the mobility of goods, services, capital or labour, and the maintenance of national security. By implication, all other residual functions not explicitly listed remained the preserve of the national government.

Provincial Executive powers are largely derived from provincial Legislative powers. Laws usually designate a particular political office bearer as responsible for their general administration and for taking policy decisions in matters determined by the law. The Executive role to be performed by a Minister or MEC depends on the laws that he or she administers, and the Ministers and MECs cannot function effectively in their areas of responsibility unless the relevant laws have been assigned to them (PSC 1997). Existing laws therefore had to be assigned to the provinces. The sheer volume of these laws made this an arduous task. Some 1374 statutes were assigned to provincial MECs over three years (Fitfield 1998). In addition, some national functions were also delegated to the Provincial Executives in the interests of administrative efficiency.

The complexity was compounded further by the fact that many of the existing laws needed to be amended or qualified before they were assigned, as the PSC points out:

> A task of great magnitude and substantial complexity was made even more difficult by the impatience, understandable under the circumstances, of the new provincial authorities to have the powers in question assigned to them. Their impatience was manifested in the exertion of sustained pressure on the Government of National Unity and the Commission, as well as direct appeals to the President, during the first six months or so of the new dispensation, calling for the expedition of the matter. (PSC 1997)

In the interim Constitution, there was a provision empowering the President to make an interim assignment of a law to a Minister of the national government if a provincial government were unable to assume responsibility for its administration within 14 days of the election of its Premier. When the 14 days lapsed, it became clear that the President would not be able to assign the laws by the stated deadlines. On 3 June 1994, Cabinet accepted the recommendation by the PSC that, as an interim measure, the administration of all laws (or parts thereof) relating to provinces be temporarily assigned to national Cabinet Ministers. The proclamation to this effect by the President was viewed with concern by Premiers and provincial Directors-General (PSC 1997).

Each sphere of government was therefore to perform functions in line with the legislative competence constitutionally assigned to it. However, the interim Constitution did not spell out explicitly which functions or aspects of functions were to be performed at the national and provincial levels, presumably leaving this to be resolved administratively. But, as the PSC (1997) points out, the correct division of functions was not self-evident. Many major functions did not fit neatly into either a national or provincial category. In general, the national overrides would pertain to policy within a function (especially norms and standards), overall planning and essential national coordination. Provinces would, in general, be involved in the actual delivery of public services in concurrent (shared) functions. For instance, although Agriculture was classed as a provincial function, overrides applied to the promotion and regulation of Agriculture. Determining the exact functional roles and responsibilities of national versus provincial departments in a particular sector (such as Health or Basic Education) would require detailed analysis of the service delivery value chain in each specific function, interpretation of the Constitution and agreement among national and provincial political office bearers.

The PSC, after consultation with the State Law Advisors, issued guidelines to the national departments operating in areas of concurrent responsibility and to the former provincial administrations. These guidelines were aimed at achieving a workable link between laws and functions. National departments with responsibilities in functional areas in which provinces would have legislative and executive competence, and provincial administrations were asked to prepare assignment schedules in which laws and parts of laws were systematically linked to the component parts of functions already identified for allocation to the national and provincial levels of government (PSC 1997).

State Law Advisors, in cooperation with departments and provincial administrations, prepared proclamations for the assignment of the administration of laws in line with Constitutional directives. In June 1994, the assignment of laws to the provinces commenced:

> However, provincial dissatisfaction about the matter, aggravated by the decision to assign all the laws dealing with provincial matters to the national ministers as an interim measure, continued at a high level. Matters came to a head at a particularly lively

> meeting of the Intergovernmental Forum in August 1994. A decision was taken that political office-holders at the national and provincial levels entrusted with responsibilities regarding matters denoted in the Constitution as provincial matters, would establish joint structures to reach agreement on the appropriate distribution of powers and functions. (PSC 1997: Ch.3, n.p.)

This gave rise to Ministerial forums consisting of a national Minister and his or her nine provincial MEC counterparts (MinMECs) for most concurrent functions with supporting technical committees. A decision was also taken at this Intergovernmental Forum meeting that the PSC should establish a joint technical committee "to prepare specific definitions of administrative capacity in relation to function and province". Besides the PSC, the Commission on Provincial Government, the Department of State Expenditure and the provincial governments were represented. This *ad hoc* technical committee proposed a single general definition of capacity, rather than a set of definitions, as envisaged by the Intergovernmental Forum. The definition put forward was "the ability to perform assigned functions effectively in accordance with certain basic requirements: clarity regarding the assignment of accountability to the relevant legislature, appropriated funds, sufficient suitable personnel, including supervisory and managerial personnel and adequate support services" (PSC 1997: Ch.3, n.p.). This proposed definition was accepted by the Intergovernmental Forum in September 1994.

Remarkably, the lack of capacity in the newly formed provincial governments was not seen as an impediment to the speedy decentralization of functions:

> …as far as the Commission was concerned, administrative capacity was not in general seen as an obstacle to the assignment of executive powers and therefore not as a factor causing delay (PSC 1997: Ch.3, n.p.)

On 1 July 1994, the PSC conveyed its formal recommendations on the movement of organizational components, posts and staff from the old organizational structure to the national departments and the provincial governments. The new organizational structure "shells" of departments which were created by the *Public Service Act*, 1994 were being filled. The PSC generally followed a phased approach to rationalization:

(i) *Phase one*: The *Public Service Act* created the national departments and provinces which would start out as an empty shell, to be filled with organizational modules, post establishments, staff and other resources relocated from the old structures.

(ii) *Phase two*: Existing organizational components (departments or parts of departments) were relocated to national departments and provincial governments. The initial aim was to place existing components where they fitted best.

(iii) *Phase three*: The placement of organizational components was refined to conform to the constitutional directives. Incorrectly placed organizational components were relocated to a more appropriate location.

(iv) *Phase four*: An effective organizational structure was designed for each national department and province from scratch, and all "inherited" components were rationalized into its structure.

After follow-up investigations, a series of relocations were set in motion, especially involving the decentralization of service delivery to provinces in the Basic Education, Health and Agriculture functions. Between 1994 and 1996, thousands of officials were moved from old provincial administrations and black homelands to the new provincial capitals, where they were typically appointed to senior policy levels (Picard 2005:199). In addition to departments in the Executive arm of the provincial governments, nine provincial Legislatures also had to be established.

A respondent who was in the Gauteng Treasury at the time describes how the bulk of the skills and capacity Transvaal Provincial Administration of the old "white" South Africa was transferred to the new Gauteng Provincial Government. Mpumalanga, the Free State and KwaZulu-Natal received shares of the Transvaal Provincial Administration budget but very little administrative capacity, and had to rely heavily on staff from the former homelands, the majority of whom were underqualified and managerially inexperienced:

> *"When Mpumalanga, Free State and KwaZulu-Natal provincial governments were created, 30% of the old Transvaal administration capacity was transferred to them. Gauteng provincial government retained 70% but everybody who was based in Pretoria stayed in Gauteng. We transferred some budget but we gave them nothing in terms of capacity when the Transvaal administration split up. They were on a highway to nowhere – they'd inherited the homelands which made their lives even more difficult."*

The PSC (1997) states that the "speedy realisation of the new dispensation, albeit imperfect and in broad terms, was considered by the Commission to be of greater importance than the immediate functional and structural precision". The Commission on Provincial Government was assigned the task of providing technical support and capacity-building to operationalize the interim Constitution of 1993, including a personnel audit of provinces and HR development strategy. Picard (2005:306-307) reports that unfortunately neither the personnel audit nor the HR development strategy was actually implemented then.

The new provincial government administrations, particularly those which had incorporated homelands, started their work, therefore, with skills and managerial deficits, pervasive informality, pernicious organizational cultures and distorted administrative values. They also had to deal with massive inequalities within provinces between formerly white and black areas in respect of access to, and quality of, public services, and immense backlogs of physical infrastructure (for example, schools, hospitals and roads). As will be discussed later, the deleterious effects of this administrative dichotomy still persistent, even today, like a malignant gene which has been passed down to successive administrations.

4.4.2 The modernisation agenda

The next important milestone in the public sector reform trajectory was the development of a policy framework for the modernisation agenda, as well as associated amendments to the public service legislation which had been hastily put in place to facilitate the creation of a unified public service during the transition. The key policy orientations were set out in the *White Paper on the Transformation of the Public Service* (1995) and *White Paper on the Transforming Public Service Delivery*: *Batho Pele, People First* (1997a). The *White Paper on the Transformation of the Public Service* addressed the issue of excessive managerial centralization and the promotion of departmental autonomy and responsibility, aiming to replace the rule-bound culture of work with a culture of efficiency and effectiveness, while ensuring representativeness in the public sector through affirmative action (South Africa 1995). It also introduced explicit racial, gender and disability targets for all national and provincial departments, for example, at least 50% of management positions should be occupied by blacks and at least 30% of new recruits to middle and senior management should be women within four years. The *White Paper on the Transformation of the Public Service* also recommended that a comprehensive review of the structures and functioning of the newly integrated public service be conducted by a presidential commission.

The 1997 *White Paper on the Transformation of Public Service Delivery* focused on principles for improving the quality of service delivery, setting service standards and putting the "customer first". The main challenge was to effect this transformation while still ensuring service delivery continuity (Kuye 2006). The modernisation project articulated by the *White Paper* was predicated on the view that outdated "over-centralized practices, hierarchical and rule-bound systems inherited from the previous dispensation" undermined accountability through their unclear, overly prescriptive decision-making processes. The PFM system inherited from the apartheid government was input-oriented rather than outcomes-based, characterised by inward-looking rather than customer-focused attitudes. The *White Paper* asserted that these inherited systems did not incentivise the pursuit of value-for-money and innovation in public service delivery, but instead encouraged inflexible uniformity rather than responsiveness and effectiveness. (South Africa 1997a).

While the policy frameworks articulated in these two *White Papers* contain elements of NPM thinking, the ANC government seems to have taken a more eclectic approach, especially given tensions with the competing ideology of the "developmental state" supported by ANC's alliance partner, the Congress of South African Trade Unions (COSATU). Ms Geraldine Fraser-Moleketi, a former Minister of Public Administration observes:

> There was never a deliberate strategy to adopt the NPM as an embodiment of a benchmark for public sector reform to be pursued uncritically. The African National Congress (ANC) government is focused on building an effective public administration,

> which is a key component of good and effective governance in the procurement of a developmental state. Use is made of different tools and processes. (Fraser-Moleketi 2006:15)

A slew of legislative amendments followed soon after these *White Papers*. The *Public Service Laws Amendment Act*, 1997 (47 of 1997) transferred authority for the management of the public service to the Minister of Public Service and Administration from the PSC where it had previously resided (Fitfield 1998). It also made provision for a reconstituted PSC in 1998, responsible for independent monitoring and evaluation of the public service, and for ensuring compliance with policies. In the provincial sphere, the *Act* recognised each provincial department as a separate legal entity, instead of treating provincial departments collectively, as if a provincial government were akin to a single national department (Cameron & Tapscott 2000).

A further set of amendments in 1999 expedited the devolution of HR powers to line Ministers and HoDs within the national norms and standards set by the Minister of Public Service and Administration. MECs would have the authority to determine the organizational structures of their departments, and appoint and dismiss staff in the newly established provincial departments. A concern around the significant HR powers conferred on Ministers and MECs was that this could “lead to a situation where senior officials, mindful of their job security, pander to the needs of their political superiors at the expense of rational policy decisions” (Cameron & Tapscott 2000:86).

In 1997, a team led by Mr Paseka Ncholo, the then Director-General of the Department of Public Service and Administration, reviewed the performance of the provincial governments and revealed numerous challenges. These included political interference by politicians in provincial administration, weak strategic planning, over-centralization of management controls, a shortage of HR management skills, poor discipline and widespread misconduct, “ghost” workers and poor IT management (Department of Public Service and Administration 1997). The report also indicated severe underperformance by national government departments in playing their policy-making, performance-monitoring, support and supervisory roles. For instance, the directions given to provincial governments were often confusing, resulting in “a lack of clarity over who is responsible for the management of key functions; poor support from national departments in processes such as bargaining with unions; poor communication to provinces of national human resource policy as well as the new grading system and treasury instructions” (Ncholo 2000:101).

Furthermore, new national policies were often made without due consideration of the impact on provincial organization, service delivery and budgets, and without adequately managing the attendant risks. Provincial governments, already struggling with capacity limitations, were overwhelmed by a deluge of new national initiatives. Some of these initiatives were unfunded or partially funded mandates, and additional expenditure obligations imposed by national government were often not accompanied by adequate additional funding; for example, salary increases were negotiated in the central bargaining chamber without provincial participation but had to be financed from provincial budgets (Mokgoro 2000). The state of HR management in the provinces was described as "parlous" (Mokgoro 2000:146), with bloated bureaucracies, low productivity, inappropriate organizational structures, weak systems, malignant organizational cultures and poor skills development, with no skills audits and a fragmented approach to training (Mokgoro 2000). Finally, national financial regulations were found to impede effective spending of public funds: "They do not establish value for money as the key principle. They require budgets to be in formats which are inappropriate and difficult for managers to use to make decisions. They constrain the purchase of goods and services to such an extent that the public regularly suffers" (Ncholo 2000:101).

Employment equity in the public service, as required by the Constitution, was achieved rapidly. By 1996, whites held only 63% of senior management posts, down from 94% in 1994 (Picard 2005:180). However, the concentration of technical, professional and managerial skills among whites meant that quick improvements in representivity in the short term inevitably came at the expense of service delivery capacity. Given the shortage of skills among previously disadvantaged groups as a result of the apartheid education system, "patronage appointments, unfortunately but understandably, became the norm" (Picard 2005:267).

The decline in service delivery capacity accompanying affirmative action was exacerbated by the conspicuous failure of the national government to implement sustained and effective HR development and intensive capacity-building strategies, particularly in provinces such as the Eastern Cape and Limpopo, which had to absorb many homelands. Achieving representativeness in the public sector was essential to transformation, but poor implementation did nothing to cushion its impact on delivery capacity, unfortunately reinforcing racial stereotypes. Picard (2005:177) observes that the "pressures of representation, and a fixation on numerical representation, were stronger than the need for restructuring. The result was a striking continuity with the apartheid period that preceded the Government of National Unity".

Vacancies for skilled managerial and technical positions in the provincial governments coincided with an excess of underqualified personnel, especially in the absorbed homelands, and where there had been many "ghost" workers, for example, in the Eastern Cape. While public funds were reprioritised to rural areas, skilled personnel remained in the urban areas, and simply migrated to the private sector (Lodge 2005). This meant that the infusion of funds into more rural provinces to ensure funding equity did not automatically translate into commensurate improvements in the quality of services, as the requisite skills and infrastructure were not redistributed to the same degree. Moreover, personnel information systems were so poor that employment statistics were not credible (Ncholo 2000).

Attempts to rationalize the size of the public service by the Mandela government in 1996 through public service retrenchments and voluntary services packages met with fierce resistance from public sector unions and ultimately failed to decrease the wage bill. Affirmative action appointments and salary increases more than offset any decrease in employment numbers (Ncholo 2000; Picard 2005).

Political leadership in the provinces was fractured, even in ANC-led provinces:

> A second challenge for the nine governments is posed by leadership conflict, even within those provinces governed by the dominant national party. To a certain extent, such conflict has reflected the political fault lines that follow the boundaries of the older administrations that were absorbed into the provinces, particularly where several homeland administrations needed to be amalgamated. (Lodge 2005:737)

This situation was exacerbated when the ANC National Executive Committee deployed Premiers to provinces who did not live there, eliciting resistance from locals (Lodge 2005:743). This factionalism within parties, as well as between parties, remains a feature of provincial politics even today, which inevitably spills over into the administration and destabilises the political-administrative interface.

High levels of corruption prevailed under the Government of National Unity, and the ANC government was able to establish neither effective accountability systems nor an administrative culture of accountability (Lodge 2005; Picard 2005).Although the quality of oversight by provincial legislatures varied markedly, portfolio committees did display a willingness to exercise their oversight function and to encourage citizen participation in governance (Lodge 2005).

The disappointing performance of the provincial governments was rooted in their history, particularly the toxic legacy of their homeland predecessors, and the interaction of this legacy with the emergence of new elites:

> The new provinces inherited all the worst traits of the homelands. A contemporary critic called the homeland administrations discriminatory, ponderous, overly bureaucratic, inefficient, fragmented, corrupt and anti-development. The inertia of existing bureaucracies would ensure that these practices were carried over in the new public service. The quality of the homeland administrators inherited by the provinces was poor. (Picard 2005:303)

The Presidential Review Commission (PRC) on Public Sector Reform tabled its report, *Towards a Culture of Good Governance* to President Mandela in 1998. The PRC (1998) report contained many recommendations to improve government performance. These included urgent right-sizing to contain the burgeoning public sector wage bill, enhancing strategic direction and coordination at the centre of government, rationalizing the number of national departments, and strengthening intergovernmental relations. The PRC in general supported greater decentralization of functions to provincial governments, but expressed concern that the provincial governments' capacity to assume these functions had not been considered sufficiently. As a result, intensive training and capacity-building was recommended, as well as decisive interventions in terms of section 100 of the Constitution, where provincial governments had manifestly demonstrated their inability to discharge their executive responsibilities. The PRC's recommendations on budgeting and financial management are dealt with in greater detail in the next chapter.

Bardill (2000) launches a scathing critique at the PRC's proposed institutional reform package, with its exclusive focus on formal institutions rather than the underlying informal values, attitudes, behaviours and power relations, beyond a simplistic narrative about resistance from old order white civil servants from the previous regime and inherited values and attitudes. The PRC underplayed the role of new ruling elites in stymying reform:

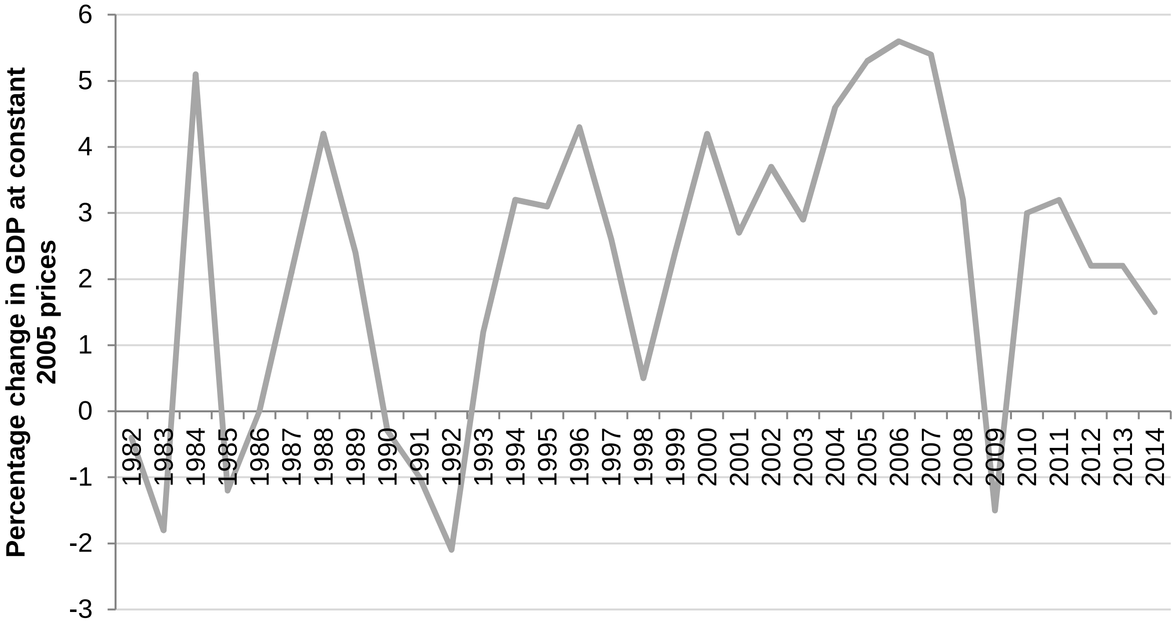
> The more pressing problem is the uncosy and somewhat messy alliance struck between conservative and transformative forces armed with new status scripts and drawing their strength from extant and emerging circuits of power. Not surprisingly, the transformation of the public service under these conditions has been rendered *ad hoc*, fragmented and unco-ordinated as the consolidation of power and prestige takes precedence over thoroughgoing reform. (Bardill 2000:115)

By status scripts, Bardill (2000:115) means the "stories, legitimations and symbolic references a social group employs to distinguish itself in competition for resources, power or influence from others within social institutions". With the benefit of hindsight, Bardill's sagacious insight is borne out by the rise of Black Economic Empowerment "tenderpreneurs" and the new politically connected elite (Maserumule 2007 & 2010). Picard (2005:311) is also of the view that the biggest obstacle to provincial service delivery, especially in rural areas, is a failure to change attitudes and values, rather than technical and administrative shortcomings per se.

4.5 2000-2008: The Mbeki administration: policy implementation and coordination

From a macro-economic perspective, the start of this period was characterised by slightly stronger levels of economic growth (as can be seen in Figure 8 overleaf) and greater job creation. However, unemployment rose sharply in the wake of the 2008 global recession, and greater spending pressures, combined with much lower revenues, created fiscal pressures, turning budgetary surpluses into deficits in pursuit of countercyclical policies to boost economic growth.

Figure 8: Real GDP growth rate, 1982 to 2014



Source: South African Reserve Bank Quarterly Bulletin, various editions

As the period of putting in place new policy frameworks drew to a close, policy successes and policy implementation failures became more apparent, and increasing service delivery protests at municipal level signalled increased community dissatisfaction (Roux 2005).

In order to accelerate economic growth and reduce unemployment, poverty, inequality and “the skewed patterns of ownership and production”, the ruling party and the ANC government envisaged a democratic developmental state, which would play a leading role by “directly investing in underdeveloped areas and directing private investment’ (ANC, 2007: n.p.). This was seen as a decline in the influence of “neoliberal” or market-oriented NPM influences, and as a sign of the ascendency of the trade union/left in the ANC. Unlike the authoritarianism of many earlier developmental state regimes in East Asia, this vision also emphasised democratic nation building and social policy. The ANC governing party, in its National General Council, committed itself to building a developmental state to achieve fundamental transformation in the South Africa economy in mid-2005. This theme was later reinforced at the ANC 52nd national conference in 2007 in Polokwane, and the ANC’s 2009 election manifesto (Edigheji 2010). The aspiration to achieve a developmental state also shaped the formal policy agenda of the South African government.

The *Ten Year Review* conducted by the Presidency in 2003 paints a vivid and comprehensive picture of the achievements and challenges over the period from 1994 to 2003 (Presidency 2003). Two of the most significant pro-poor achievements were the massive expansion of access to basic services, and of a social safety net, with the number of social grant beneficiaries expanding from

2.6 million in 1994 to 6.8 million in 2003, with the roll-out of the child support grant. The proportion of households with access to water increased from 60% in 1996 to 85% in 2001. Similarly, the proportion of households with access to sanitation climbed from 49% in 1994 to 63% in 2003. Just under 2 million housing subsidies were granted between 1994 and 2003. Access to education at primary school expanded to 95.5% and access to secondary school rose by 15% to 85% over the same period. Regrettably, the quality of black education (as measured by matriculation failure rates and poor mathematics and science results) has not improved commensurately, as discussed in Chapters 6 and 7. Despite significant expansion in people's access to primary health care services, life expectancy as measured by the Medical Research Council fell from an average of 57 years to 55 years, due to the ravages of the HIV/AIDs pandemic (Presidency 2003).

As the *Ten Year Review* noted, establishing policy frameworks consistent with the transformation required by the Constitution entailed passing more than 789 laws or Amendment Acts between 1994 and 2002. Thereafter the focus shifted to the implementation of these policy frameworks. In the first decade of democratic rule, the creation of a single public service and the redesign of the macro-organization of the state had been completed (Presidency 2003). Furthermore, racial representativeness had been achieved, with Africans constituting 72% of public servants at all levels). However, gender representation, especially at the senior management level, still lagged behind (Presidency 2003). The Presidency (2003:10) noted that "capacity constraints have meant that almost 25% of government's procurement budget annually is now spent on consultants primarily providing information technology, policy advice and project management services".

The *Ten Year Review* observed that the provincial governments, in particular, faced a shortage of technically skilled personnel, and suggested that national department and provincial departments would need to play a more active role in monitoring and supporting the capacity of provincial line departments and municipalities respectively, and intervene where there were chronic performance failures, as happened in the Eastern Cape, where national government intervened in terms of section 100 of the Constitution (Presidency 2003). New anticorruption legislation was also enacted, such as the *Prevention and Combating of Corrupt Activities Act*, 2004 (Act 12 of 2004) as well as whistleblowing mechanisms in the *Protected Disclosures Act*, 2000 (Act 26 of 2000).

The Presidency's *Fifteen Year Review,* published in 2007, reported that trends for the first five years of the Mbeki Administration had largely continued over the next five years. The *Fifteen Year Review* documented a decline of income poverty, resulting from the expansion of the social grant system, but disappointing economic growth and consequently inadequate creation of jobs and livelihoods. This period also saw further improvements in access to basic services such as water, and sanitation, and electricity. Access to Health and Basic Education services increased still further, but the quality of education and health continued to be a cause for deep concern (Presidency 2007a).

Despite the rhetoric of a “developmental state”, institutional capability at the provincial and municipal level remained weak. In response to the institutional weaknesses revealed by the increased pressure for implementation performance, there were reforms to improve planning, the GWM&E system, and the strengthening of HR management (for example, HR delegation and the PERSAL information). Accountability, public access to information and public participation were also identified as weaknesses. Racial representativeness was, by and large, already achieved, and more progress was made in respect of gender representativeness, with the proportion of women senior managers increasing to 34% (Presidency 2007a).

Early on in the Mbeki administration, a formal regime of performance agreements was introduced, between Ministers/MECs and their HoDs, to be cascaded down throughout the entire senior management service. The *Governance and Administration Thematic Report* of the Presidency’s *Fifteen Year Review* acknowledges however that in performance agreements were not concluded in practice:

> In a recent assessment of the performance of the public service, a perceived unwillingness to apply the performance management, disciplinary and incapacity processes strictly and fairly is seen as impacting negatively on accountability. Often the basic administrative requirements are not in place because departments are not rigorous in enforcing them. A key example is performance agreements, where compliance across the public service is unacceptably low. (Presidency 2007b:22)

This suggests that the new formal managerial performance management instruments that had been superimposed on organizational cultures beset by informality, patronage and inimical to a performance orientation simply did not find institutional traction. Problems with the implementation of performance management systems were encountered at the political administrative interface, particularly in provincial governments.

A study conducted by the PSC found that between the 2003/04 and 2006/07 financial years, the turnover rate among the heads of national and provincial departments (Directors-General) was 25%, which is high by international standards (PSC 2008a). Furthermore, the study found that the appointment of new Directors-General (especially when they are appointed from outside the department in question) typically result in a degree of further turnover at senior management level, as the new incumbents select their own teams. Changes to the organizational structure, strategy and other dimensions of a department’s operations also invariably follow. The new directions driven by the new appointees, while positively fostering innovation, often also undermine the gains, processes and reforms initiated by their predecessors. Aborted in mid-implementation before they can bear fruit, these continual changes can breed transformation fatigue and disillusionment. Furthermore, accountability may be undermined, as a new HoD may not be able to answer for work done in the previous period. Organizational continuity may also be compromised, since it generally takes between six months and a year for a new HoD to settle in and become fully productive (PSC 2008b).

Part of the reason for the high turnover of Directors-General is the short-term horizon of their three- to five-year fixed-term contracts. Political changes to the Executive Authority, such as the Minister or MEC, also generally results in a change in HoD, creating substantial insecurity for some HoDs. The Director-General appointment process is thus highly politicised:

> Respondents were generally resigned to the possibility that their positions would not be secure when there is a change of political leadership. Very few of the respondents served more than one EA [Executive Authority] and the general suggestion by some is that it is this relationship, and not necessarily competence to perform the job, that determines the length of the tenure of a HoD. In this regard, 89% of the current HoDs who responded to the questionnaire believe that their security of tenure is directly linked to their relationships with EAs. (PSC 2008:ix)

Although the preferences of the Executive Authority (the Minister or MEC) are crucial to the appointment of HoDs, provisions within legislation and regulations emphasise overall competence as a basis for appointment. HoDs are therefore not necessarily defined as political appointees. Despite this, the PSC survey found that they did in fact regard themselves as political employees. This would seem to indicate that informal systems of political control carry as much weight as formally legislated arrangements:

> However, the contracting arrangements and the role of EAs in the process have given rise to the view that the appointments are political and therefore will change with changes in political leadership. Whilst the reality might be very different, the perception that HoDs are political appointees is widespread amongst current HoDs. (PSC 2008:20)

In analysing the high vacancy rates among senior and middle managers between 2004/5 and 2005/6, Chipkin (2011) proposes a few key underlying drivers for these rates. He contends that the adoption of NPM philosophies has made the job descriptions of leadership positions vague, or led them to require such broad and disparate skills sets that it is hard to find them all embodied in a single person. He asserts that this may precipitate high levels of turnover and “job-hopping” as otherwise excellent candidates fall short, or vacancies as departments simply fail to appoint at all. The added racial and gender diversity requirements of employment equity legislation revolving around statistics and numeric proportions provide an added incentive to leave posts vacant (Chipkin 2011).

Patronage systems for the most senior administrative positions based on political connectedness tends to reinforce a public service culture of mediocrity. This culture is exacerbated by conflicting attitudes to skills and merit arising from the dynamic between skills and competences and white racial domination, shaped by the exclusionary apartheid political systems and the discriminatory Bantu education system:

> The consequence in the post-apartheid state has been a degree of ambivalence towards skill and those, mostly white, who have high levels of skill, knowledge and expertise as a consequence of the policies of apartheid. In many parts of the state, the new post-apartheid authorities adopted cavalier policies towards the incumbent officials with management, systems and subject-specific expertise, as well as towards experts with "hard" technical skills such as mine inspectors, water engineers, town engineers and so on, and over time much of this knowledge and skill was lost to the state. (Von Holdt 2010:249)

Poor performance in all three spheres of government (national, provincial and local), coupled with vacancies in technical, managerial and professional positions coincided with sustained use of mainly white consultants (Picard 2005:359), a trend which had begun during the Government of National Unity. These consultants from minority groups (often teamed up with Black Economic Empowerment consortium partners who often offered little more than window-dressing and political connectedness) were often vilified in the public sector as being opportunistic, rapacious and an obstacle to skills transfer. The Auditor-General's performance audit on infrastructure delivery in provincial Health and Basic Education departments in 2011 paints a sorry picture of delays and poor performance by contractors, despite which tenders are repeatedly awarded to the same contractors/consortia. The additional costs incurred to the fiscus as a result of replacement of contractors and delays in implementation amounted to an additional R45.7 million for provincial Health departments and R313.4 million to provincial Education departments (Auditor-General 2011k).

Analysts hardly ever discuss the role of white and international consultancy firms with their BEE counterparts in legitimating the patronage-based system of political deployment, especially to the provincial governments, by ensuring that delivery continues, even where underqualified and inexperienced officials are appointed. The only losers in these mutually beneficial transactions have been the taxpayers, who in effect have to fund a public good or service twice, and the most poor and vulnerable, who have forgone the additional services which could have been delivered.

From the passage of the anti-corruption legislation referred to above, it appeared that the Mbeki administration took a tough stance on corruption, but this policy stance was belied by a lack of action. In this regard, the Presidency's *Fifteen Year Review Governance and Administration Thematic Report* comments:

> Failure to act decisively on ethical transgressions and alleged corruption where they occur, coupled with a general wave of materialistic greed, undermine the promotion and application of professional ethics and constitutional values. (Presidency 2007b:22)

Another blot on the Mbeki administration's anti-corruption record is the notorious "Arms Deal", which eventually resulted in the then Deputy President, Mr Jacob Zuma, being relieved of his duties after a high profile trial relating to Mr Schabir Shaik's role in the Arms Deal, in which the High Court found that Mr Sheik had made corrupt payments to Mr Zuma *(State versus Schabir Shaik and others, case CC27/04, Durban and Coastal Local Division*). On 12 September 2008, a High Court judgement ruled that corruption charges had been incorrectly brought against Mr Zuma by the National Prosecuting Authority, possibly as a result of political interference (*Zuma vs National Director of Public Prosecution, case 8652\08, Pietermaritzburg High Court*). Soon thereafter, the National Executive Committee of the ANC "recalled" President Mbeki on 20 September 2008. Mr Mbeki announced his resignation, six months before his term of office was due to end. Deputy President Mr Kgalema Motlanthe assumed the office of President until the 2009 general elections. In May 2009, after the ANC had again won the national elections, Mr Jacob Zuma, the President of the ANC elected at the Polokwane Conference in December 2007, assumed office as President.

Throughout this period, perceptions of poor delivery performance by provincial governments elicited calls for their disestablishment. In 2007, the then Department of Provincial and Local Government initiated a policy process to review the provincial system which was supposed to culminate in a *White Paper on Provinces* (Department of Provincial and Local Government 2007). Unfortunately, by 2015, this policy process was still incomplete, and the fate of provincial governments in South Africa must still be definitively resolved. The deleterious impact of this protracted policy uncertainty on the functioning of provincial governments and public sector reform processes is discussed in more detail in section 8.4 on page 378.

4.6 2009–2015: The Zuma administration

Although it is still premature to comment on the Zuma Administration's impact, it is fair to say that the delivery and administrative trends outlined in previous sections of this chapter, by and large, continue. After the global crisis of 2008, economic growth remained subdued (as illustrated in Figure 8 on page 143), exacerbated by frequent electricity outages (now euphemistically called "load shedding"), trenchant labour relations conflict and policy uncertainty in key sectors such as Mining and Agriculture. The economy after the 2008 global economic crisis has remained sluggish in general, with high (albeit slightly declining) budget deficits and an escalating public sector wage bill. In order to ensure the sustainability of fiscal policy and to avert sovereign credit rating downgrades, the fiscal policy stance (discussed in the next chapter) has tightened over this period.

Furthermore, as illustrated in Table 12 below, in the wake of the global financial crises unemployment rates have remained high, at around 25% from 2009 onwards, as measured by the narrow definition (the number of people who were without work in the reference week, had taken steps to look for work or start a business and were available to work). Using the expanded definition of unemployment (which includes discouraged workers who were unemployed but not actively seeking a job), the unemployment rate rose to 34.6% in December 2014. With more than a third of working age South Africans unemployed, job creation continues to be the primary economic objective for the Zuma administration.

Table 12: Official provincial unemployment rate (percentage), 2001 to 2014

	Eastern Cape	Free State	Gaut-eng	KwaZulu-Natal	Lim-popo	Mpuma-langa	North West	Northern Cape	Western Cape	South Africa
2001	29.4	23.8	27.3	25.8	33.1	21.2	30.8	20.9	19.9	**26.2**
2002	30.7	24.6	26.8	26.3	32.6	21.9	32.0	19.8	22.0	**26.6**
2003	30.4	23.5	25.0	23.5	28.8	17.9	31.3	21.2	21.7	**24.8**
2004	28.2	25.2	22.7	20.6	24.5	19.4	27.2	19.7	21.0	**23.0**
2005	28.6	26.1	20.5	24.7	27.8	20.5	27.0	20.0	21.0	**23.5**
2006	29.3	21.9	19.9	19.1	26.2	23.1	32.1	22.3	17.6	**22.1**
2007	24.6	21.4	17.9	22.3	24.7	18.6	26.6	21.2	19.4	**21.0**
2008	27.2	22.5	21.6	21.7	29.2	23.0	26.7	22.0	18.9	**22.8**
2009	26.8	28.1	26.0	18.3	25.1	25.3	27.8	29.3	22.1	**24.5**
2010	26.7	29.7	27.4	19.5	24.7	28.4	27.7	25.3	22.5	**25.4**
2011	26.8	25.0	28.0	18.7	19.0	28.6	28.5	28.0	23.0	**25.0**
2012	28.8	31.6	24.8	20.6	21.6	30.5	24.9	29.6	24.8	**25.2**
2013	30.4	33.7	24.3	20.6	17.2	26.5	26.5	27.9	23.1	**24.5**
2014	29.5	34.6	24.6	24.1	15.9	29.3	26.8	29.7	23.6	**25.4**

Note: The narrow definition of unemployment on September annually (the number of unemployed persons as a percentage of the total number of people willing and able to work , the labour force) excludes discouraged workers not actively seeking work.
Source: Quarterly Labour Force Survey, Statistics South Africa

As can be seen from Table 12 above, the Eastern Cape, Free State, Mpumalanga and the Northern Cape Provinces have official unemployment rates substantially in excess of the national rate of 25.4%. The relatively low official unemployment rate for Limpopo (15.9%) reflects the higher levels of discouraged workers who were excluded from the narrow official definition of unemployment, rather than higher levels of employment. These geographic concentrations of unemployment (and hence) poverty in certain provinces have immediate fiscal consequences: substantial demands on public Health, Basic Education and Social Welfare services, which are provincial government competences, as well as attenuated revenue bases in respect of hospital patient fees, school fees and other provincial revenue sources. This problem is explored further in Chapter 6: An overview of provincial government fiscal performance on page 275.

The *2012 Mid-Term Review* by the Presidency highlights a few of the salient achievements and challenges (Presidency 2012). A particularly important achievement is the administration's emphasis on Early Childhood Development, with substantial increases both in coverage (from 300 000 Grade R learners in the pre-primary reception year in 2003 to 705 000 learners in 2011) and per capita funding (R2 158 per learner in 2008/9 to R3 109 per learner in 2009/10). In 2011 the National School Nutrition Programme fed 8.8 million underprivileged learners in 2 095 primary and secondary schools every day of the academic year (Presidency 2012:5). By 2011, 1.7 million people were receiving antiretroviral treatment for HIV/AIDS, up from 1.1 million in 2009, one of the largest treatment programmes in the world. There are encouraging indications that the HIV/AIDS pandemic may have stabilised, with the rate of new infections in the 15- to 24-year age groups declining from 1.4% to 0.8%. Furthermore a Green Paper on a proposed National Health Insurance has been released, and planning and scoping is underway (Presidency 2012:9). Levels of access to basic municipal services have been maintained and expanded slightly: 94.5% of households had access to water in 2010/11, 82% of households had access to sanitation, 72% had access to refuse removal, and 84% had access to electricity (Presidency 2012:33).

In analysing why policy outcomes were frequently inferior to those in other countries of similar levels of development, where civil servants were in fact less qualified, and were paid more poorly in departments which were relatively less resourced, the *Mid Term Review 2012* concludes that the fundamental underlying driver was weakness in public sector management:

> These [drivers] included weak performance management and accountability mechanisms for civil servants, as well as overly centralized and inappropriate decision-making processes in many departments.... It was also recognized that high turnover rates of heads of department and senior management could be a contributing factor to the weak implementation of policies and plans. Furthermore, senior managers often did not pay sufficient attention to ensuring that basic administrative problems are addressed and that issues such as long queues and slow turnaround times at service delivery sites are addressed. (Presidency 2012:43)

With regard to slow delivery of the Government's infrastructure programme and serial underspending of budgets, the *Mid-Term Review* notes that "[c]orruption and incompetence in planning, infrastructure budgeting, procurement at the provincial and local levels are obstacles to job creation" (Presidency 2012:18). This resonates with international perceptions of deep-rooted South African corruption. Transparency International's *Corruption Perceptions Index* ranks 183 countries according to their perceived levels of public sector corruption; a score of 10 indicates a "clean" public sector, and 0 a "highly corrupt" one. The 2011 Index ranked New Zealand (9.5), Denmark (9.4) and Finland (9.4) at the top the list, with North Korea and Somalia at the bottom, both with a score of 1.0. South Africa was ranked 64th in 2011 with a score of 4.1, along with Georgia. By 2012, out of 176 countries, South Africa has fallen to 69th on the index, along with Brazil and Macedonia, with a score of 4.3 (Transparency International 2012).

One of the main reform thrusts initiated by the Zuma administration is a much greater emphasis on outcomes-based monitoring and evaluation, as outlined in the position paper, *Improving Government Performance: Our approach* (South Africa. Presidency, 2009). President Zuma has signed performance agreements with individual national Ministers who coordinate with other ministerial counterparts to ensure that 12 priority outcomes are achieved. This is an attempt to introduce an element of political accountability to the GWM&E system, which had hitherto encompassed officials only (Engela & Ajam 2010). Groups of Ministers with complementary portfolios then signed delivery agreements, which commit all government departments and entities across the three spheres of government to specific sector performance targets.

A separate Department of Planning, Monitoring and Evaluation has been established, and various sectoral initiatives, such as the introduction of the Annual National Assessments in Basic Education, which requires learners across all nine provinces in Grades 1 to 6 to write standardised national tests for literacy and numeracy each year. As noted in the *Macro Indicator Trends in Schooling 2011*, the average aggregate obtained in Grade 3 for numeracy was 44% and 39% for literacy. While 41% of Grade 3 learners passed the numeracy assessment, only 33% passed the literacy assessment. In Grade 6, the situation was even worse, with only 13% of learners passing mathematics and 20% passing language. The average aggregate achieved in language was 31%, and the average aggregate in mathematics was 30% (Department of Basic Education 2011a). The Annual National Assessments were coupled with measures to improve performance, such as increasing curriculum coverage by teachers, the distribution to textbooks and workbooks, etc.

Provincial governments are also expected to align their Provincial Growth and Development Strategies with the national outcomes which are relevant to them (for example, Health and Basic Education). This is expected to enhance strategic coordination across all sectors and spheres of government. However, it is not clear yet how the intergovernmental budgeting system will be aligned to this new results-based planning and monitoring and evaluation approach in practice (Rakabe 2013).

According to the National Planning Commission (NPC), a second major milestone of the Zuma Administration was the adoption, for the first time, in 2012, of a long-term National Development Plan 2020 with which existing medium-term planning and budgeting processes are supposed to align (NPC 2012). This was a result of extensive consultation around the draft Plan (NPC 2011). The National Development Plan (NDP) aims to mobilise all sectors of South African society (the private sector, public sector and broader civil society) around the ambitious goal of eradicating poverty and reducing inequality by 2030. To achieve this vision, the NDP focuses on 13 themes: creating 11 million jobs, improving infrastructure, reducing the carbon footprint, transforming urban and rural spaces, improving the quality of education, promoting health, building state capacity, fighting corruption, building safer communities, unifying the still-divided South African society, creating a flourishing and inclusive rural economy, broadening social protection, and positioning South Africa in the region and the world.

At the core of the NDP is its attempt to articulate a new development paradigm for South Africa, based on economic growth, as well as redistribution, as complementary ways to fight poverty and unemployment. The NDP calls for individuals and communities to become actively involved in their own development and in governance. It requires the state to extend opportunities to all through excellent education and other essential services, and creating the right conditions for investment and job creation that drive a virtuous cycle of sustained development. The NDP advocates a shift from passive to active citizenry and the development of people's own agency to pursue the lives they value.

Transcending the usual narrow sector-focused five-year planning cycles, the NDP aims to encourage business, the public sector and broader society to think about the future over a much longer horizon, so that a broad consensus on long-term goals for the country can emerge. This consensus, underpinned by emerging national values, will provide a basis for making future trade-offs and prioritising major policy and planning decisions.

To ameliorate the uneven and often poor performance and capacity of government and create a more capable and effective state, the NPC, in *Our Future: Make it Work,* advocates the following:

(i) The political and administrative interface should be stabilised: The NPC recommends the use of a hybrid approach to top appointments to balance the need for top civil servants to be responsive to the government of the day against competence and experience. It also advocates that top officials be given full statutory authority to appoint lower level staff through "purely administrative approaches" (NPC 2012:55). It furthermore recommends that an office of an administrative head of the public service be created to which Directors-General would report, such as in Singapore, Ghana, United Kingdom and Kenya (NPC 2012:55). Within provincial governments, political-administrative instability has been particularly pronounced, and hence this recommendation is of particular relevance to them.

(ii) The public service should be professionalised and move away from political deployment. This should be achieved by (i) enhancing the Public Service Commission's monitoring of the recruitment for senior management posts to ensure the requisite competence and experience, (ii) implementing coordinated and long-term strategies to build managerial and technical professional skills, and (iii) instituting a formal graduate recruitment scheme to attract high quality talent into the public sector. This requires a shift towards embracing merit, potential and representativeness, in contrast to the current public sector ambivalence towards skill: "The skills that staff possess are not always valued, and status and connections are often prized more than expertise" (NPC 2011:372). Given the skills deficits in many of the provincial governments, implementation of professionalization and skills development is crucial.

(iii) Intergovernmental coordination across the three spheres of government should be enhanced, especially in the areas of implementing public service reform and micro-economic reform.

(iv) Governance of state-owned enterprises should be improved. The NPC recommends that government appoints the boards of directors of state-owned enterprises, which in turn appoint the CEO, rather than the current practice where Ministers recommend CEO candidates to Cabinet, which then appoints them. The NPC noted that the complicated and unclear appointment process coupled with occasional undue political influence has generated confusion and blurred accountability lines (NPC 2012:55).

In order to fight corruption, the NPC recommends that

(i) large tenders or tenders of large duration be centralized, which would obviously also impact on provincial governments;

(ii) the tender compliance monitoring office be given a wider ambit to investigate value-for-money infractions;

(iii) anti-corruption agencies be more insulated from political interference, legally and politically;

(iv) dedicated specialist corruption courts, prosecutors and judges be established; and

(v) legislation restricting the business interests of civil servants be enacted, and that individual corrupt public servants should be made liable in their personal capacity for losses – again this legislation would apply to the provincial and national spheres.

Unlike the prevailing public sector ethos of delivery to and on behalf of beneficiaries as passive recipients, the NPC also emphasises the role of an active citizenry, as co-creators of development, democracy and state accountability, and as co-producers of services which shape the developmental destinies of communities.

4.7 Summary and concluding remarks

Despite the rhetoric of total transformation and indeed the concrete achievements in consolidating a decentralized constitutional democracy, the transition period and its aftermath have been marked by as much continuity with pre-apartheid practices as radical departures. From the perspective of the "institutional state", this outcome is hardly unexpected. Ideally, the bureaucracy should transcend narrow individual or group interests when acting within the broader institutional system. However, institutional relationships can become distorted when the bureaucracy instead pursue their own immediate economic, political or social interests. This "disjointed institutionalism" of the state "once institutionalized, has a formidable capacity for its own reproduction across time and in the face of systematic efforts by new regimes to uproot prior reforms and build new blueprints" (Picard 2005:361). The laws, policies and systems may formally change, but the actual practice of civil servants and their political masters in relation to broader society are conditioned by persistent informal institutional systems which ultimately co-opt and subvert formal change initiatives.

The creation of the nine new provincial governments arose from the merger of the four provincial administrations of white South Africa with the black homelands and so called "independent" black states, each of which had their own institutional logics. The institutional logic of the former provincial administrations was grounded in formal administrative institutions but these were slated by the *White Paper on the Transformation of the Pubic Service* as being over-centralized, hierarchical, rule-bound and inefficient. The institutional logic of the homelands was also inefficient but highly informal, fragmented, and often prone to corruption. Both these inherited institutional logics would pose a challenge to, and compete for dominance with, the NPM-inspired reforms mandated by the PFMA. .

Two of the new provincial governments (Gauteng and the Western Cape) were created from long-established provincial administrations, without absorbing any homeland territories. The compulsion to achieve numeric diversity targets across the public service as soon as possible meant that these two provincial governments recruited staff from the former homelands. In general, however, the institutional logic of the old provincial administrations largely continued to dominate in these two provincial governments. KwaZulu-Natal and the Free State were also created from established provincial administrations but they did incorporate homelands. There appear to be elements of institutional logic of both the old provincial administrations and those of the homelands in these two provinces.

Most of the remaining newly established provincial governments (such as the Eastern Cape, Limpopo, Mpumalanga, and the North West) incorporated homeland territories and inherited little or no capacity from the old provincial administrations. The new Northern Cape Provincial Government did not incorporate any homeland territories but also needed to be established from scratch in Kimberly, with minimal limited capacity transferred from the old Cape Provincial Administration. A large proportion of the initial staff complements of these four provincial governments consisted of former civil servants relocated from the homelands. It is not therefore surprising that the informal institutional dynamics of the homelands have persisted in these provincial governments.

Reform efforts after the transition to democracy have focussed predominantly on formal systems and, as a result of NPM influences, concentrated on streamlining the bureaucracy, modernising and creating incentives for performance. These reform efforts have however left many of the informal dimensions, deeply rooted in South Africa's past and reinforced by the emerging elites in the present, largely unaddressed. Whether the model of public sector reform which was adopted after 1994 was indeed based on an accurate diagnostic of the apartheid public administrative legacy, and therefore whether it was indeed an appropriate response at all, is therefore open to question:

> To what extent have new public management approaches interrupted apartheid-era logics or merely unwittingly reproduced them? For example, the introduction of NPM in the environment just described may have exacerbated corruption and poor service delivery by giving increasing autonomy to leaders implicated in patrimonial networks. (Chipkin & Meny-Gilbert 2012:109)

NPM-inspired reforms centred mainly on formal institutions would have been most appropriate for, and most likely to be effective in, those provincial governments which had inherited formal administrative systems intact from the former provincial administrations of white South Africa (such as Gauteng, the Western Cape and to a lesser extent, KwaZulu-Natal and the Free State). In provincial governments whose establishment incorporated homeland administrations where pervasive informality had held sway, it was much less probable that formal institutional changes could displace established informal institutions and organizational cultures which were shaped by the previous dispensation and never consciously redeemed and recast in line with constitutional aspirations. As is explored in greater detail in the subsequent chapters, these institutional dynamics have conditioned the success of PFM reforms in achieving their desired outcomes two decades later.

CHAPTER 5:
PFM REFORMS IN SOUTH AFRICA: A PROVINCIAL PERSPECTIVE

The spirit of a people, its cultural level, its social structure, the deeds its policy may prepare – all this and more is written in its fiscal history, stripped of all phrases…. The public finances are one of the best starting points for an investigation of society, especially – though not exclusively – of its political life. He who knows how to listen to the message here discerns the thunder of world history more clearly than anywhere else.

Joseph A. Schumpeter, The Crisis of the Tax State (1918)

5.1 Introduction

The broader civil service reforms outlined in the previous chapter have undoubtedly left their mark on the trajectory of South African PFM reform. The PFM reform programme itself was driven by the complex dynamics among the imperatives for (i) urgent macroeconomic and fiscal stabilisation to accompany South Africa's reintegration into the global economy, (ii) the creation of a more decentralized fiscal system, as envisaged by the 1996 Constitution, (iii) the need to reprioritise racially and geographically skewed apartheid spending patterns towards equitable, progressive realisation of socio-economic rights to education, health, etc., and (iv) increased value-for-money and developmental impact of public expenditure (the subject of this thesis). These four themes are recurrent *Leitmotifs* in the analysis in this chapter, which traces how interplay between these four policy imperatives shaped the sequencing, timing and ultimately the outcomes of PFM reform, especially in the provincial sphere.

This chapter commences with a brief description of the fiscal and PFM legacy which the newly elected government had to confront immediately after the transition to democracy in 1994. It then discusses the initial PFM reform period from 1994 to 1999, which was dominated by fiscal sustainability concerns, tax reform initiatives, institution-building to give effect to the constitutional imperatives for establishing provincial governments, the redirection of public expenditure towards equity in social services and other forms of pro-poor spending, and enacting a legislative framework for reform, the PFMA. The focus of reform efforts from 2000 to 2008 then shifted to implementing the PFMA. The most recent period (from 2009 to 2015) continues to be centred on consolidating and deepening reform efforts, with increased emphasis on parliamentary fiscal oversight, outcomes-based GWM&E and supply chain management reforms. The chapter concludes by examining evaluations of the South African PFM reform process, with particular emphasis on the PFMA reforms aimed at increasing value-for-money in public spending.

5.2 Pre-1994: the apartheid fiscal legacy

South African fiscal conditions at the dawn of the new democratic dispensation presented a rather bleak picture. Aggregate fiscal discipline was weak. Increasing government expenditure in the dying days of the apartheid era, coupled with weak revenue collection, created burgeoning debt, raising concerns about fiscal sustainability and the looming spectre of a debt trap (Abedian, Biggs & Cronjé 1995; Ajam & Aron 2007; Folscher & Cole 2006). In keeping with the apartheid philosophy, a highly centralized budget process allocated resources along racial lines, with substantially less per capita being spent on Health, Basic Education and other services for black South Africans in comparison to their white counterparts.

Allocative efficiency at a macro level had, however, already begun to improve, even in the apartheid era, with shifts towards increased social spending and towards narrowing racial disparities in social grants (Van der Berg 2001), as well as race and gender disparities in civil servant salaries (Simkins 1995). Micro-prioritisation in sectors such as Health and Basic Education, however, still left much to be desired. Operational efficiency was extremely weak, with high levels of unproductive and wasteful expenditure, as well as outright corruption, especially – though not exclusively – in the black homelands (as discussed in the previous chapter). On the whole, fiscal governance was weakened by a lack of transparency and accountability (Abedian et al. 1995; Abedian, Ajam & Walker 1997; Folscher & Cole 2006).

An ex-National Treasury official noted that while the debt-to-GDP ratio was relatively low in 1988 and 1989, the National Party government accumulated a considerable amount of debt between 1990 and 1995, bringing the South African fiscus to the brink of a debt trap:

> *"The big increase in debt was between 1990 and '95 and there were two or three reasons for that. First, during the transition there was a vacuum in governance; there was no political will to cut spending or increase taxes. Second, the world suffered a mild recession and South Africa suffered a deep recession in 1992 so in some ways running a deficit was the correct response to that. And the thirdly, by coincidence, we suffered one of the worst droughts in living memory in 1992, with a lot of expenditure on drought relief. Finally, per capita expenditures on pensions per race had been equalized by 1992. All of these meant that the public finances went completely out of whack."*

Over the preceding three decades, the National Party government had attempted to introduce purely technical reforms for fiscal management, divorced from any changes in political decision-making by the Executive or Legislature in the PFM process or the underlying political-administrative interface. These attempts included the system of Budgeting by Objectives (*Doelwitsbegrotingstelsel*) and a shift towards long-term expenditure frameworks (*Langtermynberamings*) in 1976. The State President's Committee on National Priorities was established in the early 1980s (Du Preez 1996). Guideline amounts for budgeting were introduced, and function committees were established (their roles are discussed later in the chapter). The failure of these reform attempts during the apartheid era can be attributed to "inadequate planning, little or no involvement of ministers, an incremental budgeting approach and the lack of performance measurement" (Du Preez 1996:1).

As alluded to in the previous chapter, the system of fiscal governance in South Africa was highly disjointed prior to the 1996 Constitution (which mandated a single, integrated public service deployed across national and provincial governments). This made it extremely difficult for the incoming ANC government to determine a reasonably precise estimate of aggregate expenditures and liabilities before the transition. This difficulty is reflected by Mr Andrew Donaldson, a senior official who joined the Department of Finance (the forerunner of the National Treasury) in 1993, becoming the Deputy Director-General responsible for Public Finance by 2013:

> "And we said, well, do we add up the homelands, do we add up extra budget expenses? These are things that had not ever been done before because the budget had been such a fragmented exercise," recalled Donaldson. (quoted in Green 2008:377)

Anecdotes of the interaction between the incoming government officials with the officials who were their predecessors suggest that the Ministry of Finance under the National Party could not quantify aggregate expenditure and debt liabilities accurately. Mr Alec Erwin (who would become Deputy Minister of Finance from 1994 to 1996) described a meeting with the then Minister and Director-General of Finance. Erwin was accompanied by Mr Trevor Manuel, who would later serve as Minister of Finance from 1996 to 2009, and Mr Tito Mboweni, who would hold office as Governor of the South African Reserve Bank from 1999 to 2009:

> Alec Erwin recalls a meeting that included Manuel and Mboweni, among others with the then Minister of Finance Derek Keys and Calitz. They asked the same question. Keys had been candid about the financial crisis and said they needed to manage it into the transition "very, very tightly". "We agreed with him," said Erwin, "and asked, what is our debt?" And Calitz and he looked at each other and said, "We don't know, we just don't know." We walked out of there thinking, "Fuck! Have we got problems now!" (Green 2008:377)

In 1994, one of the respondents interviewed was part of a three-person team which closed the accounts of the four provincial administrations when they merged with the homelands, created the accounts for the nine new provincial governments and determined new budget baselines for each of the provinces. He noted that a proposal to standardise the budget and programme structures was not implemented at that stage:

> *"It took us a while to set the baseline and to set up the provinces. At that point we had the opportunity to create uniform budget and programme structures for the provinces. [The team] actually did the work and we went to the Director-General of State Expenditure with a proposal saying 'Here is the proposed budget and programme*

> *structure for provinces.' He looked at us. He took his red pen and scrapped it, saying 'This is none of your business.' Fourteen years later I went through a process to standardise the programme and budget structures for all departments at the programme, sub-programme and even lower levels. Because the budget and programme structures were not standardised from the start, National Treasury had to undertake this process more than a decade later, which was obviously much harder to do later."*

Partly as the result of the apartheid government's international pariah status and perceptions of a high degree of sovereign fiscal risk, the cost of government borrowing at the time was very expensive and treasury bonds traded at a huge discount. The PFM systems for financial reporting, debt and cash management inherited from the previous regime also exhibited severe shortcomings:

> One [problem] was that government expenditure fell within the purview of the Department of State Expenditure, not the Department of Finance. Information flows were slow, so the department that drew up the budget for the following year had little idea what the expenditure was for the previous one. Partly because the apartheid government had been under siege, it borrowed as much money as it thought it needed at the start of the financial year, most of it from the Government pension fund. André Roux, who joined later in 1996, and became the head of the Budget Office, explained that government would borrow for all its cash needs at about an 18 per cent interest rate, then put it in the bank at 12 or 13 per cent. (Green 2008:429)

With hindsight, it is very easy to underestimate the information vacuum which pertained at the time of the transition. The two foremost challenges posed by the imminent threat to macroeconomic stability which confronted the government-in-waiting, and the momentous task of re-orienting the fiscal system towards non-racial, democratic accountability and transparency were daunting in themselves. These challenges were compounded by the additional imperative of simultaneously establishing a decentralized fiscal system.

The *Regional Policy* of the ANC (1993) which helped to shape the roles and functions of provincial governments as part of a compromise with minority parties in the constitutional negotiations also required significant changes to the fiscal system. For ease and cost-effectiveness of administration and to effect redistribution, minimise harmful tax competition among provincial governments, ensure macro-economic stability, and limit micro-economic distortions, the ANC maintained that tax collection should remain highly centralized, rather than be devolved to the provinces. By contrast, minority parties such as the National Party regarded the devolution of tax powers to provincial governments as a check to limit redistribution, especially in provinces such as the Western Cape, where whites constituted a sizeable minority.

Some scope for expenditure decentralization to subnational governments was conceded, but it was argued that this needed to be highly circumscribed: "Balancing the extent of redistribution across the country, limits not only the regional variations which can be permitted in the progressivity of taxation, but also constrains the autonomy which can be given to different regions over how resources are spent" (ANC 1993:n.p).

To fill the vertical fiscal imbalance gap between the retention of revenue-raising powers at a national level and the decentralization of expenditure responsibilities to regional governments (which would later be called provinces), the 1993 *ANC Regional Policy* document envisaged a more comprehensive and systematic system of intergovernmental grants. The majority of the transfers to regions were envisaged as conditional grants, earmarked to finance the implementation of specific national government policies by the proposed regional governments. The *ANC Regional Policy* (ANC 1993) also proposed that the functions for which regional governments were given exclusive competence be financed by unconditional grants (discretionary lump sum grants). The design of these conditional grants would take into account the fiscal capacity of subnational governments to raise their own revenues and would promote equity in funding across regions/provinces.

On the one hand, leaving control over the intergovernmental grant system to national government alone was deemed unwise, because this could fundamentally affect the relations between different levels of government. On the other hand, the 1993 *ANC Regional Policy* made the point that details of the intergovernmental transfer mechanism should not be specified in the Constitution itself as such a specification was likely to be either too inflexible or too vague. Instead, the creation of an independent, permanent statutory Advisory Commission on Fiscal Decentralization was proposed (this would later morph into the Financial and Fiscal Commission established by the interim and final Constitutions):

> Its task would be to advise government [on] how best to ensure that the allocation of taxes and transfers to the various levels of government takes place within guidelines laid down in the constitution. These guidelines must be consistent with the extent of political autonomy decentralized government is to have, and with the Bill of Rights. Such guidelines should ensure that transfers are made in such a way that lower levels of government are able to plan properly; that they are structured so as to enhance efficiency and local accountability and that they are open to clear and effective monitoring. The guidelines must seek, in a transparent and objective manner, to redress inequalities between regions. (ANC 1993)

5.3 The fiscal constitution of 1996

As noted earlier, besides confronting the immediate macroeconomic challenges, the incoming government was also charged with the long-term project of implementing the provisions of the newly adopted 1996 Constitution. Unlike the constitutions of most other countries, the South African Constitution gives substantial direction on the type of fiscal institutions that must support decentralized, democratic accountability. These "fiscal constitution" imperatives would be the driving force behind much of South Africa's sustained PFM reform initiative. The adoption of the *Bill of Rights* (in Chapter 2) and the "fiscal constitution" (in Chapter 13) of the Constitution mean that the objectives of the fiscal system are not the sole prerogative of the government of the day, but must also meet constitutional requirements. Furthermore, the fiscal instruments chosen and the modalities of their application also have to be constitutionally compliant. The fiscal constitution also provides a framework for fiscal and budgetary processes and identifies the major role-players who must engage in these processes.

5.3.1 The fiscal constitution and the intergovernmental system

There are several extensive reviews of the intergovernmental relations system in South Africa: its constitutional and legislative frameworks, intergovernmental forums, processes etc. This thesis draws on this rich literature, concentrating on those elements of the intergovernmental relations regime which are most pertinent to the implementation of PFM reform (Ajam 1998, 1999, 2001; Kalema 2000; Layman 2003; Malan 2005; Murray & Simeon 2010; Levy & Tapscott 2001; Simeon & Murray 2004; Wehner 2000).

As outlined in Chapter 4, the adoption of the 1996 Constitution precipitated a complete restructuring of public policy and of the public sector configuration into a unitary state with three distinct, but inter-related spheres of government: national government, nine provincial governments, and 283 municipalities in the local sphere. The emerging intergovernmental fiscal system was predicated on the parameters for expenditure assignment, revenue assignment, intergovernmental grants and borrowing powers set out in Chapter 13 of the Constitution.

Revenue-raising powers, in terms of the Constitution, remains highly centralized in the national government. The most significant and productive taxes (such as value added tax, personal and corporate income tax) are thus reserved for national government, and are collected by a single entity, the South African Revenue Service (SARS). Provincial government, by contrast, has few own revenue sources (Ajam 1998, 2001; Ajam & Aron 2007). Own revenue sources refer to revenue instrument for which provincial governments have substantial control (in the sense that they can set the revenue base and/or the rate in their own province). Section 228 of the Constitution assigns to provinces revenue sources which are not very buoyant or high yielding, namely "taxes, levies and duties other than income tax, value added tax, general sales tax, rates on property and customs duties". Provincial own revenue sources include gambling taxes, hospital patient fees and motor vehicle licence fees.

The primary administrative rationale for this centralization is that tax collection is easier to administer at a national level due to economies of scale, and the duplication associated with a more decentralized system is avoided. As discussed in greater detail in Chapter 6 which outlines salient fiscal trends, income raised within province as "own revenue" (mainly from car licenses and hospital fees) amount to less than 5% of the provincial budget. Significant expenditure responsibilities have, however, decentralized been to the provincial governments, notably Basic Education, Health, Agriculture and Provincial Roads. Consequently, there is a substantial vertical fiscal imbalance between the significant expenditure mandates of provincial government and their restricted own financial resources. Provincial governments are accordingly highly dependent on intergovernmental fiscal transfers from the national government.

The functional competences devolved to provincial governments may be concurrent (shared responsibility of national, provincial and/or local governments) as outlined in Schedule 4 of the Constitution, or exclusive (sole responsibility and discretion of the province, municipality or of the national government) as outlined in Schedule 5. With concurrent functions (such as providing primary and secondary education and health services), the national government sets policy, but implementation is largely the responsibility of the provinces. The separation of policy, financing (at national level) and implementation (at provincial level) has sometimes resulted in unfunded mandates (or partially funded mandates) and complex coordination problems. Unfunded (or partially funded) mandates occur when functions are devolved to provinces or municipalities without the commensurate funding sources. All residual functions that are not specifically assigned in Schedules 4 and 5 remain exclusively at the national level (for example, matters relating to foreign affairs, defence, trade policy). Local government's concurrent and exclusive competences are detailed in part B of Schedules 4 and 5.

Provincial legislation with regard to the exclusive Schedule 5 functions take precedence over national legislation, except when national legislation is necessary to establish national norms and standards, to maintain economic unity, to protect the common market in respect of the mobility of goods, services, capital and labour, or to promote economic activities across provincial borders (section 146 of the Constitution). Thus provinces do have a limited degree of fiscal (and political) autonomy, but this is weighed up against the broader national interest.

Given that provinces have significant expenditure responsibilities and comparatively small own revenues, section 214(1) (a) of the Constitution confers on provincial governments the right to an "equitable share" of nationally collected revenue. In addition to the provincial Equitable Share grant, which is unconditional, section 214(1)(c) also permits national government to extend to a provincial government, from its national share of revenue, conditional allocations which are earmarked for specific purposes.

The process by which tax revenue is collected nationally by SARS, pooled with the proceeds of debt finance raised and subsequently divided among national and subnational governments is referred to as revenue sharing. The process is formalized annually in a *Division of Revenue Act* (*DoRA*) tabled in Parliament. The Fiscal and Financial Commission (FFC), an independent body established in terms of section 198 of the interim Constitution and section 120 of the final 1996 Constitution, has the constitutional mandate to make recommendations to Parliament on equitable allocations to national, provincial and local government from nationally collected revenues.

The Constitution lists a number of factors in sections 214(2)(a) to (j) which must to be taken into account in determining a province's Equitable Share allocation. These factors include: the need to ensure that provinces and municipalities are able to deliver basic services and perform their mandates, economic disparities within and across provinces, differing fiscal capacities and efficiency, and the developmental needs of provinces and municipalities. Section 220 of the Constitution formally establishes the FFC to give impartial advice to Parliament on the equitable sharing of revenue. The Constitution thus acknowledges that the revenue-sharing process has both administrative and political dimensions. The technical administrative process requires that national government annually consult provincial governments, organized local government (the South African Local Government Association) and the FFC. The political process of the revenue-sharing culminates annually in the *DoRA* passed by the National Council of Provinces and the National Assembly of Parliament.

The unconditional nature of the Equitable Share intergovernmental grant means that the Equitable share is in effect a substitute for provincial governments' own revenue and thereby strengthens the fiscal discretion and integrity of provincial government as a sphere of government (rather than merely an administrative extension of national government). The national government cannot instruct provincial governments directly on how to spend their Equitable Share intergovernmental grant, but provincial governments are obliged to adhere to any minimum norms and national standards of public service delivery set by the national government. Furthermore, the conditions of service of provincial civil servants (such as salaries and benefits) are negotiated centrally via collective bargaining in the national sphere. Given that provincial government services such as Health and Basic Education are very labour-intensive, and that personnel budgets constitute the biggest part of provincial government expenditure, in practice, provincial governments have limited fiscal authority.

Provincial governments also have limited borrowing powers, conferred by section 230 of the Constitution. Section 230 imposes the fiscal rule that provincial operating budgets be balanced, permitting debt financing for bridging purposes only within a particular financial year. This effectively rules out borrowing to fund current expenditure in operating budgets. However, provincial capital borrowing is permitted. Under the interim Constitution, the *Borrowing Powers of Provincial Government Act*, 1996 (Act 48 of 1996) was promulgated, which established a Loan

Coordinating Committee with identical membership to the Budget Council, to coordinate provincial borrowing. No regulations were ever issued in terms of this Act, and the Budget Council agreed in 1997 that there would be no borrowing until a framework compliant with the final Constitution was finalised (National Treasury, 2001a).

The *Budget Review* in 2001 announced: “Provincial borrowing powers for capital projects will also be phased in over the MTEF. The Budget Council is expected to approve a framework later this year” (National Treasury, 2001a). It was expected that when the 1996 Constitution came into force, new legislation for provincial borrowing powers would be enacted. This had not happened by 2015 and provincial borrowing to date has been limited, which is probably a good thing, given the negligible provincial own revenues and poor expenditure controls and financial management practice in many provinces. However, the Gauteng Provincial government did access loan finance of R1 billion in 2011 to contribute to the construction of the Gautrain light rail infrastructure project (Gauteng Department of Finance 2011).

Municipalities are endowed with more substantial fiscal capacity, being entitled by the Constitution to impose rates on property and surcharges on fees for services provided by or on behalf of the municipality (for example, for electricity or sewerage). Municipalities are also allowed to borrow, subject to similar restrictions as the provincial government.

In order to balance provincial priorities and national priorities, provincial governments are given a degree of discretion in their delivery of concurrent functions within the parameters of national legislative frameworks, provided they conform with minimum national norms and standards of service delivery, and do not conflict with the national economic unity, national security or minimum national standards, in terms of sections 42(2) and 100 of the Constitution. As observed earlier, the national government in general formulates policy which is then implemented by the provincial and municipalities.

As observed earlier, this concurrent, overlapping nature of the functional assignment of competences of provincial governments (and municipalities) necessitates effective intergovernmental relations. Accordingly, section 41 of Constitution places great emphasis on “cooperative government” as the fundamental norm to underpin intergovernmental relations: “…organs of state have the obligation to respect the constitutional status, institutions, powers and functions of government in the other spheres” and to “co-operate with one another in mutual trust and good faith” by

- (i) “fostering friendly relations;
- (ii) assisting and supporting one another;
- (iii) informing one another of, and consulting one another on, matters of common interest;

(iv) coordinating their actions and legislation with one another;
(v) adhering to agreed procedures; and
(vi) avoiding legal proceedings against one another".

The *Intergovernmental Relations Framework Act,* 2005 (Act 13 of 2005) outlines procedures to deal with intergovernmental disputes in order to resolve potential conflicts and pre-empt litigation between spheres of government.

It is clear that in terms of the Constitution, the national government plays an important role in monitoring the compliance of provincial governments with national minimum norms and standards, supporting provincial governments in the discharge of their mandates and intervention (in terms of section 100) in the event that a provincial government is unable or unwilling to fulfil its executive obligations. This should be read in with section 125(3), which requires that the national government "by legislative and other measures, must assist provinces to develop the administrative capacity required for the effective exercise of their powers and performance of their functions".

For the national government to play its supervisory and support role effectively, it needs to ensure that clear, well-specified service norms and standards are in place, that the relevant national sector departments have adequate monitoring and evaluation systems to assess compliance with national norms, as well as the capability to build capacity in subnational governments as required.

National norms and standards are typically enshrined in sector legislation for concurrent functions and regulations, issued in terms of the relevant pieces of legislation, for example, the *South African Schools Act*, 1996 (Act 84 of 1996), and the *National Health Act*, 2003 (Act 61 of 2003). These norms and standards are therefore not unilaterally introduced by the national government, but are the product of consultation with provincial governments in intergovernmental forums such as the MinMecs and in the National Council of Provinces legislative process. Unfortunately, many norms and standards have still not been determined. The absence or poor specification of national norms and standards undermines national supervision and support effectiveness, since effective monitoring and evaluation can only take place against those pre-defined norms and standards.

A hotly contested case in point is national school infrastructure norms, which became the subject of a court case in 2012 between an NGO, Equal Education, and the national Minister of Basic Education, Ms Angie Motshekga, (Equal Education 2012). On 2 March 2012, Equal Education filed an affidavit in the Eastern Cape's Bhisho High Court against Motshekga, and 12 other respondents, including nine provincial Ministers of Education, the Minister of Finance and the Eastern Cape Provincial Government. The NGO sought emergency relief for two schools, Mwezeni Senior Primary School and Mkanzini Junior Secondary School in the Eastern Cape, where classes had to be taught in mud classrooms or corrugated iron shacks. They also sought an order that would instruct Motshekga to prescribe minimum norms and standards for school infrastructure

(Equal Education 2012). This was granted by the Bhisho High Court on 11 July 2013. On the 29 November 2013, the Minister of Basic Education approved infrastructure norms and standards for the construction of classrooms, access to electricity, water, sanitation, libraries, perimeter security, school safety, sport and facilities and electronic connectivity. Timeframes within which school infrastructure backlogs must be eradicated by the provincial Education departments were also stipulated (Department of Basic Education 2013b).

5.3.2 The fiscal constitution and justiciable socio-economic rights

National and provincial governments (and indeed all organs of state) have the duty to promote the social and economic rights listed in sections 26, 27, 28 and 29 of the Constitution (rights to access to housing, health care services, food, water, social security, and education, and the rights of children). Implementation of these socio-economic rights places obligations on the government to "take reasonable legislative and other measures, within its available resources" to achieve their "progressive realisation" over time. Many of these rights are concurrent functions under Schedule 4 of the Constitution and have significant policy and fiscal implications.

Because the rights enshrined in the *Bill of Rights* in Chapter 2 of the Constitution are justiciable, their enforcement falls within the jurisdiction of the court system and, ultimately, of the Constitutional Court. The judicial decisions in enforcing socio-economic rights potentially have profound implications for the structure and functioning of the system of intergovernmental fiscal relations and the intergovernmental budget process.

For example, the seminal *Grootboom* constitutional court case on the right of access to adequate housing implicated all three spheres of government (*Government of the Republic of South Africa and Others v Grootboom and Others, 2000 (11) BCLR 1169 (CC)*).The more recent *Khosa* case, which was about access to social grants, has had an impact on the division of revenue between the national and provincial governments (*Khosa and Others v Minister of Social Development and Others, Unreported judgment, 4 March 2004, CCT 13/03*). As Ajam and Murray point out, court orders not only bind the parties immediately before the court, but also set precedents which have a much broader import:

> This is because court decisions provide authoritative interpretations of the Constitution that bind other courts in future decisions. Cases thus often have a far-reaching impact. For instance, a decision on the right to housing in the Western Cape, like the *Grootboom* decision, provides an interpretation of the right that is relevant to the entire housing sector and beyond. This means that the potential of the courts, and particularly the Constitutional Court, in initiating systemic change with considerable distributive and allocative efficiency consequences, is large. (Ajam & Murray 2004:5-6)

The Constitution requires that the imperative for equity in public service provision pursuant to the progressive realisation of rights be reconciled with the devolved power to provinces to implement (and presumably vary) delivery within nationally prescribed frameworks in order to respond to regional conditions and priorities. In order to balance provincial priorities and national priorities, the Constitution therefore refers to "minimum standards" for rendering public services, for example in section 44 (2)(d). The implication of the term "minimum standard" is that standards of service delivery may differ across provinces, provided that they comply at least with the nationally set minimum standard.

As observed earlier, the concurrent nature of the functional assignment of competences of provincial governments (and municipalities) necessitates effective intergovernmental relations in a framework of "cooperative government" (section 41). It is clear that in terms of the Constitution, the national government plays an important role in monitoring provincial governments' compliance with national minimum norms and standards, supporting provincial governments in the discharge of their mandates, and intervening (in terms of s100) if a provincial government is unable or unwilling to fulfil its executive obligations. This role should be read in with section 125(3), which requires that the national government "by legislative and other measures, must assist provinces to develop the administrative capacity required for the effective exercise of their powers and performance of their functions".

The impact of socio-economic rights on the fiscal system is only beginning to be understood, although recent socio-economic rights jurisprudence has cast some light on this complex issue (Ajam & Murray 2004). However, two implications are clear. First, PFM systems have to become increasingly output-oriented rather than input-driven. Second, budget allocations and intergovernmental grants need to be closely linked to service delivery outputs. It is not sufficient for government to argue that it has met its obligation in respect of socio-economic rights by allocating sufficient funds for health services, education and other forms of service delivery. These budgeted allocations have to be translated into actual and equitable service delivery.

5.3.3 The fiscal constitution and PFM reforms

In contrast to many other countries, the ideals of good fiscal governance in South Africa have been constitutionally entrenched in Chapter 13 in a fair amount of detail. To ensure budget comprehensiveness and fiscal accountability, section 213 of the Constitution establishes a single National Revenue Fund, and section 226 establishes a single revenue fund for each of the provinces. Sections 215, 216 and 217 of the Constitution require that the budget processes of all three spheres of government promote transparency, accountability and effective financial management, using uniform classifications. Section 215 regulates national, provincial and municipal budgets, and requires national legislation to prescribe the form of budgets, and when they should be tabled. Section 216 covers treasury control, and it requires legislation to "establish a national treasury and prescribe measures to ensure both transparency and expenditure control in each sphere of government" by introducing, among other things, "uniform treasury norms and standards". The requirement of section 216(1)(a) that "generally recognised accounting practice" (interpreted in South Africa as accrual accounting) be used has prompted a range of accounting reforms, outlined in section 5.5.5 on page 226. Section 218 deals with government guarantees, and section 219 covers the remuneration of persons who hold public office. Section 217(1) deals with procurement, balancing the use of preferential procurement as a vehicle for black economic empowerment with the imperative for supply chain management systems to be "fair, equitable, transparent, competitive and cost effective". Procurement is discussed further in section 5.5.4 on page 212.

Although the 1996 Constitution came into effect on 7 February 1997, the implementation of sections 213 to 216, and 218 of the final 1996 Constitution was deferred to 1 January 1998, along with the constitutional provisions dealing with fiscal powers and the functions of provincial governments and the division of nationally collected revenues among the provinces (sections 226 to 230). Schedule 6 of the 1996 Constitution on transitional arrangements envisaged that the National Treasury would pass national framework legislation to give effect to these sections of the Constitution. In respect of procurement in section 217, Schedule 6 required that the national enabling legislation be enacted within three years of 7 February 1997, when the new Constitution took effect. There was therefore a sense of urgency about enacting the enabling legislation required by the new Constitution, since from 1 January 1998, the prevailing *Exchequer Act*, 1975 (66 of 1975) would be inconsistent with the new Constitution. As explored further below, these constitutional budget reform imperatives were eventually given substance by legislation such as the PFMA, and the *Municipal Finance Management Act,* 2003 (Act 56 of 2003) (hereafter referred to as the MFMA). These frameworks have had profound implications for both Executive and Legislative action on the budget. During the apartheid era, Parliament acted as a mere "rubber stamp" in respect of the budget. The Constitution enhanced Parliament's oversight role over budget formulation and implementation (sections 55 and 77). It even provided for Parliament to amend Money Bills (budget appropriations) in section 77(2).

This section has outlined the challenging macro-economic and PFM legacies from the apartheid past and analysed the new fiscal constitution, which embodies a vision of democratically accountable and socially transformative PFM institutions. The focal point of the next section is an analysis of the implementation of the reform programme. The PFMA implementation trajectory can be loosely categorised into three broad phases: (i) 1994 to 1999, in which the primary focus was on macro-economic stabilization, and on crafting a legislative framework for PFM reform, (ii) 2000 to 2008, during which the emphasis fell on the implementation of PFM reforms, and (iii) 2009 to 2015, during which consolidation, institutionalization and deepening PFM reforms were the major imperatives.

5.4 1994-1999: macro-stabilisation and the legislative framework for PFM reforms

The main reform thrusts during this period related to (i) tax policy and administration reform, (ii) the fiscal policy sustainability and macro-stabilisation, (iii) the establishing the intergovernmental fiscal relations system, (iv) financing the progressive realisation of socio-economic rights and (v) the inception of the PFM reform process. These are explored in greater detail below.

5.4.1 Tax reform

A key contributor to the new government's ability to restore fiscal sustainability was tax policy and administration reforms that have successfully broadened the tax base, improved the efficiency of tax collection and ultimately permitted across-the-board tax cuts in both personal and corporate income tax. The additional public revenues generated by enhanced revenue collection sustainably financed greater aggregate expenditure outlays. The first change was the creation of an autonomous revenue service entity, the South African Revenue Service (SARS), amalgamating Inland Revenue and the Customs and Excise branches of the then Department of Finance. The impetus to modernise tax administration centred on improved audit capability, by introducing computerised systems, enhancing SARS's capacity to investigate and prosecute tax evaders, and instituting better debt recovery procedures. At the same time, tax legislation was reviewed to eliminate gender and racial discrimination and ensure compliance with constitutional provisions on the right to privacy and administrative justice.

Some of the other tax reforms reflected in various National Treasury *Budget Reviews* between 1994 and 1999 included

(i) granting tax amnesties;
(ii) introducing tax relief for low- and middle-income taxpayers;
(iii) reducing the number of personal income tax brackets;
(iv) reforming fringe benefit taxation and the taxation of Trusts;
(v) reducing corporate income tax rates and the Secondary Tax on Companies;
(vi) providing tax incentives for a limited period in the form of a Tax Holiday Scheme and accelerated depreciation allowances;
(vii) incorporating transfer pricing and thin capitalisation provisions in the *Income Tax Act*, 1962 (Act 58 of 1962).
(viii) introducing the Tax on Retirement Funds;
(ix) significantly reducing rates in respect of ad valorem excise taxes;
(x) concluding several double tax treaties with foreign jurisdictions,
(xi) moving from source- to residence-based taxation, and
(xii) introducing a capital gains tax in 2000 (Ajam & Aron 2007).

In a pure source-based taxation system, tax is levied on income earned from a source within the country, irrespective of whether it was earned by a resident or non-resident. Under a pure residence-based taxation system, tax is levied on the income of residents of a particular country, irrespective of where in the world that income was earned (National Treasury 2001a).

The broader tax base has contributed to increasing the fiscal space for lowering tax rates. Corporate tax rates fell from 35% in 1994 to 30% in 1999, and the personal income tax rate has also declined across all tax brackets (Ajam & Aron 2007). More emphasis has also been put on cost-recovery through user charges, as evidenced by increases in the number of user charges (such as toll road fees, hospital fees, and other direct payments for benefits received). These charges often have a strong redistributive dimension (Calitz & Siebrits 2003).

Without these increases in tax efficiency to stabilise the fiscal framework and the other macro-economic stabilisation measures outlined below, it would have been impossible to create a predictable medium-term fiscal framework and a stable system of intergovernmental fiscal relations, or to mobilise additional public resources to fund the transition and provide redress. One respondent, who was employed as a senior official at the National Treasury at the time, noted that the PFM reforms would have been much more difficult in the absence of an effective revenue collection agency:

> *"The SARS reforms provided the space in the budget to change the spending patterns and be much more policy-responsive in terms of budget allocations. SARS's exceeding revenue targets every year created space not just for a technical budget reform but also a reform that is pro-poor."*

5.4.2 Fiscal policy and macroeconomic stabilisation

The newly elected government had to negotiate the fraught domestic socio-political dynamics of the transition to a democratic order, the imminent threat of macro-economic instability and a vast and complex transformation project precipitated by the final Constitution. It also had to contend with the country's reintegration into the world economy after the isolation of apartheid era, when South Africa was an economic pariah. The small, open South African economy has also had to respond to the uncertainty and volatility of an increasingly global world economy. Economic globalisation has significantly curtailed the policy discretion of developing countries such as South Africa, in respect of both the revenue and expenditure dimensions of fiscal policy (Abedian 1998; Calitz 2000). The pressures to achieve policy convergence have focused on deficit reduction, tax reform to broaden the tax base while lowering marginal rates, and the restructuring of public sector enterprises. Deviations were often seen as a signal for unsound economic fundamentals, sanctioned by adverse foreign capital flows (Ajam & Aron, 2007).

The introduction of the Reconstruction and Development programme (RDP) in 1994 and later the Growth, Employment and Redistribution (GEAR) macro-economic policy in 1996 may be regarded as the cornerstones of macro-economic policy in the post-apartheid South Africa. To avoid exacerbating the potential debt crisis and negative inflationary and balance of payments consequences, the RDP did not aim to increase government spending as a proportion of GDP, but instead intended to redirect public resources towards transformational objectives within that envelope:

> Given the fiscal malaise left by apartheid, careful programmes must be developed around financing increased capital expenditure, increasing the efficiency of consumption expenditure and improving the revenue recovery capacities of government….The existing ratios of the deficit, borrowing and taxation to GDP are part of our macroeconomic problem. In meeting the financing needs of the RDP and retaining macro-stability during its implementation, particular attention will be paid to these ratios. The emphasis will be on ensuring a growing GDP, improved revenue recovery, and more effective expenditure, in order to make more resources available. In the process of raising new funds, the ratios above must be taken into account. (ANC 1994:143)

A separate Ministry was set up to implement the RDP in June 1994, with a special RDP fund to kick-start the reprioritisation of public expenditure towards reconstruction and development goals, by identifying, planning and implementing high impact capital projects, which were called Presidential Lead Projects. Initially, the RDP fund was small (R2.5 billion in 1994/95), but it was expected to grow by a similar amount each year, reaching R12.5 billion in 1998/99. However, the two years when the RDP fund was operational were characterised by under-spending and under-delivery relative to the targets set, except with regard to the electrification of existing houses, water services and primary school feeding. By the middle of 1996, the RDP Ministry was abolished, with the ambiguities about its role and scope still unresolved (Blumenfeld 1997; Craig 1995; Nattrass 1995). As discussed further below, during the period of the RDP Office's existence, the Office and the Department of State Expenditure were charged with public expenditure management reforms (for example, medium-term fiscal planning) and they initiated a first, unsuccessful attempt at an MTEF. In mid-1996, the RDP Office was closed and the RDP project funds were transferred directly to national departments or provincial votes via the normal budget process (National Treasury 2007a:4.3).

During and after the democratic transition, in addition to the tax reforms alluded to above, the National Treasury also focused on active debt management to maintain liquidity, while lowering the high cost of borrowing under the apartheid regime (as discussed above in section 5.2 on page 157). It also tapped into international bond markets to lengthen and smooth the maturity structure of public debt (National Treasury 2001a:98).

Revenue management improved markedly and contributed significantly to macro-stabilisation, but efforts to control expenditure growth were much less successful. As noted in the previous chapter, one of the main cost pressures in the aftermath of the transition came from the public sector wage bill, as a result of the decision to eliminate race-based disparities in public servants' salaries in one fell swoop in the 1995/96 wage settlement, rather than phasing in convergence more gradually. For instance, African female teachers in the Transkei homeland were the lowest paid, and white male teachers in the Transvaal Education Department (TED) were the highest paid. According to Mr Kuben Naidoo, who had joined the Treasury in 1998 and subsequently headed the Budget Office, this is what happened:

> "And so everybody was bottomed up to a TED teacher. The person in the Transkei got a 56 per cent salary increase. In addition everybody got a 7.5% increase so the whole band went up. It was hugely costly. It pushed up labour costs in education and health by 15-20 per cent." (quoted in Green 2008:453)

This escalation in personnel costs affected the provincial governments disproportionately, since they were charged with delivering labour-intensive education and health services. The problem of the mushrooming provincial wage bill was aggravated by the limited personnel controls and information systems (PERSAL) described in the previous chapter, which permitted fraud and corruption, for example, in the form of "ghost workers". These problems exacerbated fiscal rigidities in provincial budgets, precipitated overspending, crowded out spending on complementary inputs (such as medicines and text books) to the detriment of service delivery. As a *de facto* first claim on budgeted resources in the provincial sphere, escalating personnel expenditure coupled with other labour rigidities also limited reprioritisation, which was one of the main objectives of the RDP.

The added expense of new national policies and concomitant decentralization of control of budgeted expenditure to provincial governments, combined with poor management and an inadequate information system led to significant over-expenditure on 1996/97 and 1997/98. The annual input-based budget system then in use still relied on deficient management systems.

As a result of the carry-through costs of the 1995/96 wage settlement and the massive increase in social grants (such as the child support grant), where entitlements were set nationally but had to be budgeted for and disbursed by the provinces, provincial government overspending reached around R5.8 billion, roughly one per cent of the GDP. Another significant cost factor was the function shift of primary healthcare functions from municipalities to provinces. The long delays in compiling annual financial statements and poor in-year reporting undermined spending accountability. Delays also rendered it difficult to identify incipient fiscal problems proactively. Over-expenditure in the Basic Education, Health and Social Development departments was detected late in 1997, only when the 1998 budget was being prepared: "During this time, departments frequently ignored their budgets, and provincial treasuries proved unable to curb spending" (National Treasury 2001b:6).

President Mandela appointed Mr Trevor Manuel as Minister of Finance in February 1996, the first black South African to hold this office. Initially, Manuel's appointment was not well received by the business establishment. The subsequent depreciation of the rand from R3.60 to R4.60 to the US$ was interpreted as a lack of confidence by foreign investors in the South African economy, and in the new government's ability to create a stable environment conducive to investment (Abedian & Ajam 2009). Foreign perceptions of rampant and unchecked crime added to doubts about the credibility of the new government.

On 14 June 1996, in the wake of severe currency depreciation and volatility, the then Minister of Finance, Trevor Manuel, tabled the Growth, Employment and Redistribution (GEAR) strategy in Parliament, announcing that the parameters of the policy "were not up for negotiation at this stage". The strategy aimed to attain a growth rate of 6% per annum, and job creation of 400 000 per annum by the year 2000. GEAR attempted to offer an integrated strategy based, *inter alia*, on keeping the real effective rate stable at a competitive level, maintaining a consistent monetary policy to prevent a resurgence of inflation, gradually relaxing exchange controls, reducing tariffs, adding appropriately structured flexibility to the collective bargaining system, and using expansionary infrastructure programmes to address service deficiencies and backlogs. Fiscal policy also played a pivotal role in this "renewed focus on budget reform to strengthen the redistributive thrust of expenditure; a faster fiscal deficit reduction programme to contain debt service obligations, counter inflation and free resources for investment" (Department of Finance, 1996:2).

GEAR garnered widespread support in the business community. The South African Foundation which represented big business interests in South Africa had published *Growth for All*, its proposed macro-economic strategy, in February 1996, based on deficit reduction, privatisation, increased labour market flexibility, enhanced export orientation and more effective anti-crime strategies. NEDLAC's Labour caucus also put its economic policy vision forward in *Social Equity and Job Creation* later that same year (Abedian & Ajam 2009).

However, both the substance of the macro-economic strategy and the process by which it was compiled drew criticism from the ANC's alliance partners, COSATU and the South African Communist Party, as well as NGOs such as the South African Council of Churches, and the South African Non-Governmental Organization Coalition. Because GEAR had never been discussed in the structures of the ANC until it was publicly announced, it was slated by COSATU as a knee-jerk reaction by government officials to perceived pressure from the private sector, epitomised by the devaluation of the rand in 1996 (Abedian & Ajam 2009). The Government claimed there had been no material shift in its macro-economic policy and that the GEAR policy actually underpinned the development goals of the RDP (Department of Finance 1997, 1998). However, GEAR was widely regarded as a turnabout in economic policy – "neoliberalism" triumphant over the more activist developmental state-oriented approaches of the RDP. GEAR was branded "a neoclassical macroeconomic stabilisation policy along the lines of the so-called Washington consensus" (Fourie & Burger 2003:810) and as a self-inflicted "homespun structural adjustment programme" (Marais 2001).

Labour's opposition to the basic thrust of the GEAR strategy created faultlines in the tripartite alliance (Gomomo 1997), as well as tensions within the ANC itself. COSATU (2000a, 2000b) argued that decreases in budget deficits would be inimical to economic growth and job creation. Proposals to reduce current government expenditure were seen as weakening Government's commitment to reducing the social backlogs identified in the RDP. COSATU's *People's Budget* (2000a) identified "the current macroeconomic policy as a major obstacle to development" and aimed to "counter the deep budget cuts on public spending", arguing that budget cuts compromised service delivery and the satisfaction of basic needs.

In addition to the non-consultative nature of the process, the GEAR strategy was also criticized on technical grounds: the realism of its underlying assumptions (*inter alia*, assumptions on growth drivers such as the elasticity of domestic and foreign private sector investment, and expansion in exports), the robustness of its projections, its over-dependence on private sector investment, the lack of detailed analysis on the sustainability or otherwise of the current fiscal policy stance and the arbitrariness of deficit targets (Adelzadeh 1996; Marais 1996; Nattrass 1997).

Gelb (2003:42) notes that the South African reforms, once introduced, were effectively "locked in", at least for the medium term, "since stopping or reversing them would have resulted in a massive loss of confidence and increased costs of access to external capital". Later, the tensions within the alliance subsided somewhat. In the 2005/6 *People's Budget* (COSATU 2004:2,6), the government's fiscal policy stance since 2000 was described as "more appropriate" and as "moving away from the restrictions and cuts of the late 1990s" and as being "more developmental". The tenure of Trevor Manuel as Minister of Finance until 1999 saw tax rates and deficits both declining, accompanied by expenditure increases above inflation, financed by sustained efficiency improvements by SARS and tax base broadening. The period also saw increased reprioritisation towards social services (Health, Basic Education and Social Security), but personnel expenditure remained high.

5.4.3 Creating the South African intergovernmental fiscal system

One of the main problems with the budget process in the period after the transition is that the system of function committees begun in 1991 did not accommodate the fiscal decentralization envisaged in the 1993 interim Constitution (Hartzenberg 1995). The 13 function committees for Basic Education, Health, Housing, Welfare, Roads, etc. were used to evaluate and prioritise spending proposals in a particular function, within the macro-economic framework developed by the Central Economic Advisory Service. The absence of a meaningful role for the newly created provincial governments in these function committees undermined the efficiency of resource allocation and exacerbated tensions between the national and provincial spheres (Abedian et al. 1995).

Furthermore, the fiscal discretion and accountability of the provincial governments immediately after their creation by the interim Constitution was negligible, since there was "minimum choice at the provincial level, and revenue and expenditure at the subnational level were not co-determined" (Pillay 1995:2). Provincial budgets under the interim Constitution were little more than the sum of all the individual function committee allocations which provincial governments had received and on which they had given minimal input. At that stage, the final Constitution had not yet been adopted.

A respondent who was a senior Gauteng Treasury official at the time recalls the frustrations experienced by the province:

> *"So we went into the 1995/96 budget and said [to the Department of State Expenditure], 'Hang on, this doesn't comply with the Constitution. You can't decide our budget'. So in 1995, we actually took 5% of the money we received from the function committees and we reallocated it. We got into big trouble. People at National were up in arms. But we said 'We're a government. We have an Executive. We have a Legislature. And we will make those decisions in line with the Constitution'. The following year in 1997/98 we drove through change. We put together the MTEF and Iraj Abedian helped us."*

Dr Iraj Abedian, a policy advisor who provided technical support for the Gauteng 1997/98 MTEF processes, reflected on the impact of the MTEF in empowering provincial politicians to understand the limitations and possibilities of their budget allocations:

> *"There was a subtext; it was not explicit that the MTEF was a platform for new political leaders to take charge, to say, 'This is my budget for the next three years. I've been part of it, it hasn't been given to me by a previous regime so to speak. This is a new dispensation'. So I think when that came to light half way through – I was completely oblivious – it created a new sense of ownership among political leaders who had felt up to then pretty embarrassingly side-lined by technocrats. …. Up to then the rules had been 'Here's a budget, Minister. Sign it' …[The MECs] had no clue as to where the cuts were, how it was massaged, what allocative decisions were made and why. But because they had to go through this number crunching, tough tutorial then back in the afternoon to see how the numbers pan out, MECs suddenly realised that 'Wow! If*

> *somebody in Soweto asks them why did you do that?' he or she knows why."* (Abedian, pers. comm. 22/7/2014)

The new fiscal institutions created by the Constitution, such as the Financial and Fiscal Commission and intergovernmental forums such as the Budget Council and the Technical Committee on Finance, initially coexisted uneasily in parallel with the pre-existing PFM mechanisms. At that stage, commentators observed that the establishment of the FFC was not really helping to create a decentralized intergovernmental PFM process, because, as a new institution, the FFC itself was grappling with defining its own role in the process:

> Of course, a complicating factor might well be the fact that the FFC is nowhere close to being able to perform its statutory duties. Judging by its proposed framework document it has offered nothing to help the fiscal issues or to overcome some of the obstacles in the process of transition to fiscal federalism. It might be argued that the FFC is far too young, has too little resources, and that the prerequisite statistical database for its role is not available. True as some of these might be, the real problem lies in the fact that the existing budget process is not designed to accommodate an entity such as the FFC. (Abedian et al. 1995:14)

The FFC's recommendations did, however, turn out to be enormously influential in creating a constitutionally compliant, decentralized system and crafting the legislative framework, intergovernmental processes and institutions. Of particular importance was the introduction of formula-based revenue-sharing mechanism, initially proposed by the FFC (1995) in their *Framework Document for Intergovernmental Fiscal Relations in South Africa.*

The recommendations of the FFC were only partially accepted by the Budget Council, which recommended to Cabinet a revenue-sharing system whereby interest on government debt, funds for improvements of conditions of service, the carry-through costs of social pensions and RDP projects were first "top-sliced" (deducted first from the pool of revenue available for distribution to the provincial governments). The remainder of the revenue pool was then split vertically, into separate allocations for the national, provincial and local spheres. The provincial sphere allocation was then shared among the nine provinces by means of a formula. The 1997/8 budget process was still effected in terms of the interim Constitution, because section 245(3) of the final 1996 Constitution had delayed the effective date of the sections of Chapter 13 that deal with intergovernmental fiscal relations until 1 January 2008 (National Treasury 1997). The "Equitable Share" formula applied only to provincial governments in 1997/98, with local government still receiving fragmented *ad hoc* transfers. This shift from (national) function committee allocations to global unconditional lump sum allocations (through the Equitable Share formula) increased provincial budget discretion to determine budget allocations in line with local priorities in that particular province.

Other significant milestones in the evolution of the system of intergovernmental fiscal relations include the creation in 1996 of intergovernmental forums such as the Budget Council which presides over the annual revenue-sharing process), and the promulgation of framework legislation to introduce predictability and transparency into the intergovernmental budget process. The Budget Council, formalised in the *Intergovernmental Fiscal Relations Act*, 1997 (Act 97 of 1997), consists of the National Minister of Finance and his or her nine provincial MEC counterparts, with the FFC as observer. The *Intergovernmental Fiscal Relations Act*, which took effect on 1 January 1998, gave effect to the intergovernmental revenue sharing provisions in section 214 of the Constitution, and the introduction of the annual Division of Revenue Acts.

These intergovernmental fiscal relations forums, driven by the then Minister of Finance Mr Trevor Manuel, were effective in promoting consultation and building an *esprit de corps* among the treasuries. An ex-National Treasury official recalls:

> *"Trevor went out of his way to build what he called 'Team Finance': the National Treasury, and the nine provincial treasuries. We spent huge amounts of time with the provincial treasuries. The MECs for Finance from the ANC, IFP and National Party were all of high quality."*

Another control framework weakness which contributed to the overspending described in section 5.3.3 on page 167 was the inability of the newly created provincial treasuries to monitor and control the spending of line departments. Some provincial treasuries even ran up large overdrafts with private banks, often failing to clear them within the requisite 12-month period, resulting in what was ostensibly bridging financing becoming accumulated longer-term liabilities. The refusal by the banks to extend additional overdraft facilities to two provinces was one of the factors that triggered intervention in terms of section 100 of the Constitution by the national government in 1998. In the aftermath of the 1998 Asian Economic Crisis, to ensure that the GEAR deficit targets were respected, the Department of Finance (which was later renamed the National Treasury) intervened in the Eastern Cape and KwaZulu-Natal in early 1998 (in terms of section 100 of the Constitution). But these were by no means the only provinces affected:

> Limpopo (the Northern Transvaal), for instance, had a teacher shortage of 20 000. It also had a classroom shortage. Instead of building classrooms and then hiring teachers, it simply hired 20 000 teachers only to find that there were no classrooms for them. So they had to retrench many of their new teachers. Likewise, the Western Cape had to retrench a proportion of its teachers. It made no sense in a country which had prioritised education, but likewise it made no sense to spend in a profligate fashion in a country that had decided to dramatically reduce its debt. (Green 2008:470)

The section 100 interventions by the national government included a bail-out to cover the over-expenditure, coupled with stringent financial reform conditions, including cutbacks in non-social security spending, spending controls, budgeting and financial management improvement programmes, monthly monitoring of expenditure, the recruitment of competent financial management personnel, the training of financial managers, and improved reporting and oversight. As a result of the national government's intervention, aggregate provincial deficits of R5.9 billion in 1997/98, mainly in the form of bank overdrafts and unpaid bills (accruals), were converted to a surplus of R0.6 billion in 1998/99, which was used to pay off the debt (National Treasury 1999:22). This intervention, as will be discussed in the next chapter, was merely the first of a series of provincial expenditure "booms and busts", like over-eating and regurgitating in persons suffering from eating disorders like bulimia. Because the bail-out from the national government had to be repaid in subsequent years, at least the provincial budget constraint was not softened, even though the personnel spending pressures at the heart of the overspending did squeeze out other non-personnel complementary inputs, infrastructure and maintenance, with serious consequences for delivery of services, particularly in Health and Basic Education.

As noted earlier, the 1997/98 budgets were the first budgets over which provinces had discretion. These budgets proved to be problematic for a variety of reasons, but primarily because they were based on the previous year's budgeted amounts, rather than on actual expenditure. In the absence of functioning management information systems, little detail was available on the costs of the new policies, particularly on personnel and social security (National Treasury 2001b:A10). When the budgets were decentralized to the provincial governments, many of the new provincial governments did not have much planning capacity (either at a province-wide or sector level) and at that stage, none of them had Provincial Growth and Development Plans to guide the prioritisation of their budgets (Rantete 1997).

In August 1997, a *Provincial Review Report*, commonly known as the Ncholo report, was published on the performance of the nine newly created provincial governments (Department of Public Service and Administration 1997). The report was an indictment of the performance of both the national and provincial government in the newly created intergovernmental system. National government policies were devised "without due consideration to the organizational, financial and service delivery implications in provinces" and often resulted in unfunded (or partially fumded) mandates. National government departments (such as Health and Basic Education) had not yet developed sufficient monitoring or evaluation capacity over provincial delivery, nor effective capacity building programmes for provincial departments in their respective sectors.

Reflecting on the 1997/98 budget process, the National Treasury commented:

> Many of the problems arising in 1997/98 can be attributed to the weak management systems which are not geared for a decentralized system, and a lack of capacity, particularly in the poorer provinces and municipalities. There was also considerable uncertainty arising from the implementation of the new Constitution, the shifting of

> functions between spheres and the evolution of the inter-governmental financial system in general. (National Treasury 1998:4.4)

While some of the underlying causes of provincial overspending related to capacity deficiencies or management ineptitude, other drivers were more systemic in nature. For example, the provincial governments initially paid social security grants to beneficiaries. While the quantum of the social grant and the eligibility criteria were set at a national level, the funding for social grants came from the provincial budgets. As grant take-up rates increased, for example, of the new child support grant (which had been introduced 1998) and of disability grants (as a result of the HIV/AIDs pandemic), provincial budgets were placed under increasing pressure. Some of these problems have been resolved, for instance, through the creation of a social security agency in 2004 at a national level to administer and pay social grants. From 1 April 2005, the social grant function was administered as a conditional grant until the new social security agency became fully operational in April 2006, and the provincial grant equitable share was adjusted accordingly (National Treasury 2005a). Other systemic tensions remain, such as central wage bargaining in the national sphere, whereas budgeting for personnel spending is done at the provincial level (explored further in Chapters 6 and 7).

By 1998, the emerging intergovernmental budget process had evolved to give greater content to the constitutional requirement of cooperative government, with the establishment of the South African Local Government Association and the Intergovernmental Forum, consisting of Cabinet members, Premiers and provincial Members of the Executive Council (MECs) (National Treasury 1998:4.2). However, several challenges still remained, including the need to align provincial budgeting and implementation with national government policy-making, to address weak capacity in the provincial and local spheres, and ensure more effective financial and non-financial monitoring and evaluation systems (National Treasury, 1998:4.4).

As a further initiative to strengthen the relationship between sector planning and the intergovernmental fiscal system, the Budget Council began meeting separately with the Ministers and MECs for Health, Basic Education and Social Welfare around policy prioritisation and options. This was complemented at the technical level by the creation of three permanent joint technical teams consisting of the provincial treasuries, the national Departments of Finance and State Expenditure, together with national and provincial officials from Health, Basic Education and Welfare. These technical teams conducted reviews of these sectors as part of the MTEF process, as well as of personnel, infrastructure and the criminal justice system (National Treasury 1998). In 1998, at the request of Budget Council, the Katz Commission (Commission of Enquiry into Certain Aspects of the Tax System of South Africa 1998) prepared a report on the tax powers of provinces as a basis for legislation to give effect to section 228 of the Constitution.

The *Provincial Tax Regulation Process Act*, 2001 (Act 53 of 2001) was promulgated in 2001. Rather than dealing with provincial tax powers *per se*, the *Act* delineates the process by which any province which wishes to impose a new tax must make a submission to the Minister of Finance and the Budget Council (National Treasury, 1998). Despite this *Act*, provincial governments have not since acquired significant new revenue instruments.

5.4.4 Financing the progressive realisation of socio-economic rights

As illustrated in section 5.3.2 on page 166, the fiscal constitution had immediate consequences both for PFM processes and for substantive policy and fiscal outcomes. In particular, as has been argued above, the curtailing the growth of aggregate expenditure during the transition depended on revenue enhancement. It also depended on fundamental redirection of the existing public resources envelope, from defence spending, for example, to greater social expenditure (Basic Education, Health, etc.), as well as better micro-prioritisation within sectors (for example, from curative to preventative medicine, towards under-resourced schools in formerly black and rural areas).

After the transition to democracy, there was some concern that *ad hoc* and incremental budgeting processes driven mainly by budget technocrats with minimal political oversight could further entrench apartheid fiscal inequities, rather than promoting the transformational objectives of the incoming ANC government to eliminate race, gender and spatial differences in public spending. As Dr Pundy Pillay of the FFC noted in 1995, budget allocations were “essentially mark-ups on past spending which locks departments and provinces into apartheid spending patterns” (Pillay 1995).

In response to such concerns, the newly elected national Executive displayed the necessary political will to ensure more political input into the budget process to drive transformation. As discussed in the next section, the creation of the Ministers’ Committee on the Budget (MinComBud) and the MTEF were two powerful vehicles for effecting this transformation. However, at that stage, the Executive did not see the need for a strong Parliamentary role in the budget process (IDASA 2009). Once provincial governments were given global budgets in 1997/98, rather than the function committee allocations, thus increasing the provincial governments’ fiscal discretion, the role of the provincial Legislatures in PFM oversight increased significantly:

> Since its election in 1994 the legislature was [expected] somewhat nominally to approve the budget after it had been constructed out of the combined slices of the national function committees. An extensive process of consultation between the provincial departments and the legislature’s standing committees has been followed in determining spending priorities for the new budget. Evidence suggests however that the success of this involvement has been somewhat sketchy since committees lack the capacity to engage meaningfully with the executive arm of government on in-depth policy issues and their fiscal implications. (Humphries 1997:2)

At the same time, there were several calls from civil society for greater public participation in the budget process from the trade union movement (COSATU's *People's Budget*), academia and NGOs such as IDASA's Budget Information Service (Abedian et al. 1995; Timmel 1996).

5.4.5 Early PFM reforms

Giving operational substance to the fiscal constitution (described in section 5.3 on page 160) posed the challenge of driving PFM reform in a decentralized government environment, while giving effect to cooperative government in the nascent fiscal system:

> To increase the efficiency of service delivery, the intergovernmental system is dependent on the proper coordination of policy, budgeting, planning, implementation and reporting between the affected spheres, and at technical, executive and legislative levels within a sphere. All spheres of government will have to face the challenge of aligning their policy and implementation processes. (National Treasury, 2004a)

In the South African context, it is clear that PFM reform supported the evolution of a well-functioning intergovernmental fiscal system and that these two reform thrusts were inextricably linked. One respondent interviewed described the ethos in the nascent democracy where the deep mistrust of apartheid institutions, legislation and managerial practice created an environment conducive to a complete overhaul of the public administration in general, and of PFM in particular:

> *"It was a forgone conclusion that apartheid was not the right regime and anything apartheid did was questionable… It doesn't happen every day in the history of every country but 1994, '95 and '96 were those foundation years, so called 'dawn of democracy' years, and you could question everything. The fact that you had once-in-a-lifetime political change made it much easier to say we need to look at everything, and you had political support. You had Jay Naidoo from the RDP Office for completely different reasons than the Minister of Finance, Chris Liebenberg, saying that we need to re-look at everything. And Deputy Minister Alec Erwin said, 'Of course these things need to be re-looked at.'"*

At the beginning of the democratic dispensation, the RDP Office and the Department of State Expenditure were jointly charged with the responsibility of leading budget reform in South Africa. Their mandate was supposed to culminate in a *White Paper on Budget Reform* that would create an intergovernmental budget process which would accommodate meaningful participation by provincial governments and Parliament (Du Preez 1996; Smit 1995). However, for two years there was no appreciable progress with PFM reform.

The RDP Office had tried to initiate an MTEF, but the first iteration failed, due to insufficient political input. At a provincial level, the failure of the first MTEF attempt was particularly acute. Rantete described the situation in the Free State Provincial Government in 1997 as follows:

> Although the now-defunct national RDP Office under the Departments of Finance and [State] Expenditure had, since 1995, urged departments to produce a medium-term expenditure framework and to base their budgets on departmental plans including a

> zero-based budgeting process, not all the departments have managed to do this. The result has therefore been a return to thumb-sucking figures. (Rantete 1997)

One impediment to speedy reform was ineffective coordination between the then Department of Finance (charged with revenue management and macro-economic coordination), and the Department of State Expenditure (which coordinated the annual expenditure budget cycle). This institutional arrangement was inherited from the apartheid era. The move towards an MTEF (a three-year rolling budget framework) meant, however, that closer coordination between the two departments became crucial. Mr Andrew Donaldson, an official in the then Department of Finance, noted that greater emphasis needed to be placed on the macro-economic consequences of sector level decisions. For instance, personnel remuneration costs in social sectors such as provincial Basic Education and Health were dealt with as personnel policy, without sufficient consideration of pension fund and labour market mobility issues:

> Economic policy-making, financial planning and development coordination cannot satisfactorily be centralized into a single imperial office. Nor can coordination be achieved if activities are kept strictly compartmentalised into narrowly focused responsibilities. (Donaldson 1996:6)

In 1997, because there had been so little movement towards the much-anticipated *White Paper on Budget Reform*, the responsibility to lead the South African budget reform initiative was moved from the Department of State Expenditure to the Department of Finance, where reorganization had led to the creation of a new Budget Office. This shift was not in itself a clear solution to the reform coordination problems described above, and there was concern that this shift might result in a divorce of accounting and financial management guidelines from the budget policy issues, thus undermining integrated policy issues (Krafchik & Abedian 1997). However, after this shift, the pace of PFM reform picked up markedly.

After the demise of the RDP Office, the National Treasury played a pivotal role in driving PFM reforms:

> When this Office [the RDP Office] was closed down in 1996 it was replaced by a Policy Coordinating Unit in the office of the President. These coordination efforts failed because of their lack of integration into the budget process. The most recent efforts at thinking through the poverty linkages and trade-offs between services have come from the Treasury. This is an encouraging development given the treasury's centrality in the budget process. It controls the incentives that could enforce the compliance of departments with efforts at interdepartmental coordination. (Van Zyl 2003:19)

The first wave of reforms included

(i) greater political input into the budget through the Minister's Committee on the Budget (MinComBud), a new Cabinet subcommittee chaired by the Minister of Finance;

(ii) the tabling of the budget before the start of the financial year from 1999 onwards, rather than the apartheid practice of tabling the budget after the financial year had already started;

(iii) the introduction of an annual *Medium Term Budget Policy Statement* (MTBPS) in December 1997 that disclosed government's broad fiscal intentions for the following year's budget, as well as indicative figures on the division of revenue among provincial governments; and

(iv) improved debt and cash management strategies, and

(v) a second attempt at budgeting over a three-year horizon in the MTEF in 1998/99, which comprehensively covered national and provincial governments (this second attempt at the MTEF was successfully piloted in the Gauteng Provincial government in 1997/98 before being extended government-wide the following fiscal year).

Three-year rolling budgets created space for Cabinet and Parliament to influence spending plans early on. The link between budget reform and the roll-out of the intergovernmental fiscal system was clearly articulated:

> The introduction of three year budgets and their consolidation into resource envelopes is an important step in the evolution of the institutional framework for intergovernmental policy making and budget planning. The intergovernmental forums of the spending departments will, for the first time, have expenditure projections within which to develop and refine the norms and standards for service delivery. (Department of Finance 1997:B.5)

A key success factor for the re-launched MTEF in the 1997/98 fiscal year was that, instead of being a mere adjunct to the budget process, the MTEF *became* the intergovernmental budget process (Folscher & Cole, 2006), displacing existing budgeting practices. Unlike the first medium-term planning effort under the RDP Office, the second attempt was introduced comprehensively for the national and provincial spheres:

> Because the MTEF is a framework approach and because ceilings are determined in a top-down manner within the framework, it would have been very difficult to establish credible forward funding projections at any level if they were not connected to the fiscal framework and other projections. Similarly, because it is about competing priorities at any level, having only a few priorities competing within the MTEF, while others are still outside, would have undermined the principle of working within a framework. (Folscher & Cole 2006:34)

Other crucial success factors were greater political oversight and engagement with the budget process via the MinComBud, the political and technical intergovernmental committees which had been established (for example, the Budget Council and the Technical Committee on Finance), the credibility of the underlying macro-economic forecasts, revenue collection improvements which enabled collection targets to be achieved, and disciplined enforcement of hard budget constraints (Chaponda, Cole, Schoch & Gadsden 2004:13). Finally, the MTEF was soon able to demonstrate its value as a strategic budgeting tool when the 1999 budget reflected fewer resources than had initially been projected:

> Instead of having to institute budget cuts, as would have been required under a one-year framework in order to meet deficit targets, the government used the medium-term framework to keep spending stable in the short term, absorbing the shortfall by drawing down the contingency reserve and shifting the impact to the outer years. So, whereas an annual budget cycle would have forced immediate expenditure disruption (and could have reinforced the negative economic environment), the medium term framework allowed the shock to public finances to be smoothed over the economic cycle. (Folscher & Cole, 2006:36)

This "quick win" helped to diffuse resistance at the political and institutional level and to embed the approach institutionally. Later, the MTEF was instrumental both in facilitating the re-prioritisation of the South African budget towards pro-poor social services and in maintaining aggregate fiscal discipline (Chaponda et al. 2004).

However, the MTEF was not without its shortcomings. An *Intergovernmental Relations Audit* conducted in 1999 noted that while using an MTEF was a move towards a multi-year expenditure planning framework which in principle permitted greater programmatic integration, the South African MTEF at that stage was "dislocated from service delivery" (Department of Provincial and Local Government 1999:110), which exacerbated coordination challenges among the spheres of government:

> Currently, programme officers tend to scale down all programmes across the board in order to stay within the allocation, rather than looking at service delivery needs and discarding low-priority activities. Cuts appear to be arbitrary and programmes do not change with the given scenario. As a result, the MTEF so far seems to be regarded by many participants simply as a "numbers exercise". It would be preferable to introduce a performance-based budgeting system, which would link planning, resource allocation and service delivery. (Department of Provincial and Local Government 1999:115)

The *Intergovernmental Relations Audit* contended that faster PFM reform implementation within provincial governments was critical for improving intergovernmental coordination and monitoring. In particular, it was noted that provincial managers had very little control over provincial budgets and resource inputs, since salaries and conditions of service, hiring and firing of staff, office accommodation and tendering procedures were all centralized nationally (Department of Provincial and Local Government 1999:115).

Furthermore, there had been some decentralization to provincial governments, but within provincial government departments, financial management was still largely centralized at the head office level (rather than delegated down to district or institution level). In respect of improving the quality of delivery and of performance information, National Treasury noted that "it is important that management of resources is appropriately decentralized to schools, hospitals, clinics and other cost centres" (National Treasury 2003:10).

Despite the introduction of the MTEF, budgeting in the national and provincial departments was still largely *ad hoc* and incremental. In some votes, budget structures did not reflect the activities for which the departments were responsible, planning was divorced from budgeting, budget preparation was not integrated with monitoring of budget execution, and capital projects were undertaken without providing for the attendant increase in recurrent costs (Kahlo & Fourie 2006:40).

The PRC on Public Sector Reform also called for more PFM reform, which would decentralize sufficient control over budgets to managers in exchange for greater accountability for service delivery outputs. For instance, compensation of employees typically constitutes the major cost driver in provincial budgets, yet,

> …[s]uch costs were effectively determined centrally, particularly through the Central Chamber of the Public Service Bargaining Council. Managers had little authority to hire and fire, because this function was also largely centralized -- initially in the Public Service Commission (formerly the Commission for Administration) and more recently in the DPSA [Department of Public Service and Administration]. The responsibility for office accommodation and many capital expenditures fell under the Department of Public Works rather than individual line departments. Tendering and procurement were notoriously slow and cumbersome. And effective financial management systems were noticeable largely by their absence. (PRC 1998: Ch. 5, n.p.)

In particular, the PRC recommended the adoption of a performance-based budgeting system, improved costing through activity-based costing techniques, the delegation of greater managerial authority to line managers (accompanied by greater accountability for results), greater public participation in budget processes, regular programme expenditure reviews, strengthening financial and payroll controls, and better cash, asset and liability management. The PRC also supported the decentralization of procurement from the State Tender Boards to individual departments, as proposed in the *Green Paper on Public Sector Procurement Reform in South Africa* (Department of Finance & Department of Public Works. 1997) but advocated a gradual phase-in. Furthermore, the PRC recommended that the use of more ambitious accrual accounting reforms be deferred until the accounting basics were in place, and highlighted the need for sustained and systematic capacity-building.

One of the critiques levelled at the PRC report was that it focused disproportionately on budgetary issues, paying much less attention to financial management (such as supply chain management) and accounting (Bardill 2000). With the benefit of 20-20 hindsight, the lack of attention paid to supply chain management issues, in particular, is striking.

Even before the implementation of the PFMA, the quality and comprehensiveness of data for the national and provincial spheres had begun to improve since 1994. These data are regularly published by the National Treasury in the annual *Budget Review* and the biennial *Intergovernmental Fiscal Reviews/Budget and Expenditure Reviews* since 1999. The data permit benchmarking of provinces' financial performance, and to a lesser extent, of their delivery performance. The 2001 *Intergovernmental Fiscal Review* for the first time supplemented financial data with service delivery performance data, noting both the dearth of such data as well as the lack of standardisation in the way the data are defined, which undermines benchmarking across provinces:

> Where information is available, it is not readily accessible, indicating that many managers do not fully use such data. Reforms to modernise management, including the Public Finance Management Act, aim to change this. The ability to provide information, particularly on the cost-drivers underlying departmental budgets, is a good indicator of the quality of management. (National Treasury, 2001b:10)

Large variation in the departmental programme and sub-programme structures across the nine provinces in sectors such as Health and Education, and differences in functional and economic classification further detracted from a comprehensive picture of public finances (National Treasury 2001b:10). Despite PFM improvements such as the MTEF and the newly enacted PFMA, by 2001 "the budget remains largely input driven, as accurate information on the costs of service delivery outcomes is generally unavailable" (National Treasury 2001b:A10).

One of the reasons why the government had rejected the FFC's recommendation of a costed norms approach to the division of revenue in its *Annual Submission on the Division of Revenue 2001-2004 MTEF* (FFC 2000) was precisely because of lack of costing information at provincial level. The existing revenue-sharing formula (by means of which allocations from the available provincial resource pool were determined for each of the nine provinces) was principally based on the demographics of each province as a proxy for expenditure need. The "costed norms approach", as its name suggests, instead advocated a closer linkage between the costs of the services which a province was mandated to provide and the actual allocation the province received from the national government.

The costed norms approach was predicated on the specification of minimum policy norms and standards for delivery in each sector (as required by the Constitution). These would be costed per sector, and provincial allocations would essentially be the aggregate of these sectoral cost estimates. Government responded that the lack of costing data "poses serious practical limitations on the FFC's approach". The FFC had acknowledged in its report that crucial data required in order to develop cost estimates were not available. Many of the desired output measures, policy parameters and costs of inputs did not exist and would be difficult (if not impossible) to obtain

(National Treasury 2001a: B.4). This was a clear illustration of the interdependence between PFM reform and decentralization.

5.5 2000-2008: implementing the PFMA

At the start of this period, the macro-economic climate facing the South African government was much improved. Perceptions of improved macro-economic management prompted more favourable investment ratings from all four ratings agencies, diminishing the cost of borrowing. Tax reforms aimed at broadening the tax base continued to increase tax yield, permitting corporate income tax rates to be lowered from 30% in 2000, to 29% in 2006 and the current rate of 28% in 2009. Low deficits and modest surpluses over this period widened the fiscal space and permitted sustainable expansion both of social spending (Health, Basic Education, Social Development) and an infrastructure programme (Abedian & Ajam 2009).

Concern over lingering and unacceptably high levels of unemployment impelled the launch of the Accelerated and Shared Growth Initiative for South Africa (ASGISA) in 2006. ASGISA aimed to remove the barriers inhibiting growth of the economy:

> …the relative volatility of the currency, the cost, efficiency and capacity of the national logistics system, shortages of suitably skilled labour, and the spatial distortions of apartheid affecting low-skilled labour costs, barriers to entry, limits to competition and limited new investment opportunities, the regulatory environment and the burden on small and medium enterprises and deficiencies in state organization, capacity and leadership. (Presidency 2006:4)

The much stabler macro-economic environment and fiscal framework opened up opportunities for reforms of a more micro-economic nature. The second factor which prompted further micro-economic fiscal reform (as mentioned earlier in section 5.4.3 on page 175) was the frustration of Gauteng Provincial Government and some of the other provincial governments with the function committees which had been imposing detailed nationally determined budgets on the newly created provincial governments. A respondent who was a senior official in the Gauteng Treasury during the period when the PFMA was drafted noted that the Department of State Expenditure had proposed minor changes to the *Exchequer Act, 1975* to the Budget Council, in order to bring it into compliance with the Constitution. These superficial amendments had been rejected by the Gauteng Treasury, which had demanded "wholesale change". At the request of Mr Trevor Manuel, the then Minister of Finance, the Gauteng Treasury submitted a four-page document on the principles which should underpin a *Treasury Control Bill* (Bill 119 of 1998*)* that would give operational substance to the Constitution.

The respondent went on to report that "*because at the time there was significant tension between the Departments of Finance and State*", the Gauteng Treasury was tasked with leading a small team consisting of officials from the Departments of Finance and State Expenditure to flesh out the four-page principles document into draft legislation. One of the respondents from Gauteng Treasury who had served on the team drafting the PFMA reminisced:

> *"I remember long discussions about whether it should be a 'may' or a 'must' or 'will' [in a particular clause]. We had really intense discussions and the legal advisor took this and started writing [the draft legislation]. I'd call a meeting and at each meeting we'd talk about a specific part of it from the principles document I'd drafted, look at the Exchequer Act, look at New Zealand and other countries, and then put that all together. And though all that we'd come back to our objective: accountability, creating a framework, taking away the restrictive control, empowering managers and putting guidelines together."*

In 1998, the National Treasury submitted a *Treasury Control Bill* to Parliament to give effect to sections 215 and 216 of the Constitution. This would later evolve into the PFMA and replaced the national government *Exchequer Act*, 1975 as well as the nine *Provincial Exchequer Acts*. The Constitution had used the term "treasury control", but this terminology seemed to continue to emphasise input-based controls, which was at odds with the PFMA's shift towards an output-based focus and a framework for accountability based on strategic plans, multi-year budgeting, linking outputs to inputs, reporting on actual delivery and financial performance, and ultimately external auditing by the Auditor-General.

As another respondent from the National Treasury who also served on the team drafting the PFMA recounted:

> *"It was called the* Treasury Control Bill *before its name got changed. During the last few sessions of Parliament Barbara Hogan [the Chair of the Finance Committee] and I said, "But this is about management, and it's not about control". I think it does both. The whole issue was that managers should manage but they should be held accountable. That was our mantra. Control was a part of it but management was our biggest priority."*

The PFMA, which came into effect on 1 April 2000, was the cornerstone of the South African government's PFM reform agenda. It aimed to modernise PFM and "secure accountability and sound management of revenue, expenditure, assets and liabilities" of national and provincial organs of state.

As described above, the first wave of reforms such as the tax reforms, GEAR and the deregulation of many areas of the economy were aimed at attaining macro-economic stability and aggregate fiscal discipline. The second wave of reforms, such as the MTEF, the emerging IGFR system and the realignment of sectoral policies, placed greater emphasis on the allocative efficiency of public resource allocation. The third generation of reforms – of which the PFMA is part – emphasise operational efficiency (whether government departments are producing the maximum possible service delivery outputs with the resources available to them). Other management reforms aimed at enhancing operational efficiency are contained in the *Public Service Regulations*, 2001 (Notice R.441 of 25 May 2001) in terms of the *Public Service Act*, 1994, hereafter referred to as the *Public Service Regulations*. As discussed in Chapter 3, international experience has shown that budget reforms seldom succeed unless they are supported by complementary public management reforms.

The PFMA represents a radical departure from the prescriptive, detailed old national and provincial *Exchequer Acts* of the past. As discussed earlier in this Chapter, the *Exchequer Acts* were concerned mainly with procedural accountability for finances (such as whether the correct authorisation procedures for a financial transaction were followed). The PFMA places much more emphasis on accountability for results (outputs and outcomes). So the PFMA essentially locates PFM within an institutional performance management framework. The PFMA envisaged moving from a highly centralized input-oriented expenditure control system to a more performance-oriented system that will "allow managers to manage but hold them accountable". As noted in the introduction to the Act, the PFMA focuses on "outputs and responsibilities, rather than the rule-driven approach of the old *Exchequer Acts*". Instead of treasuries exercising procedural controls and approvals over, for example, writing off losses, these powers are devolved to Accounting Officers (AOs) who have to put appropriate systems in place to do so, and who have to explain their decisions to the Auditor-General or the Public Accounts Committees, or face sanctions (National Treasury, 2000:4).

Moreover instead of a narrow focus on current year expenditures and revenues (as in the old cash-based systems), in the PFMA more emphasis is placed on managing assets and liabilities as well. Conventionally, cash-based accounting systems (such as those that used to be employed in the South African public sector) tend to highlight expenditure rather than reveal the true cost of service delivery. Indeed, even after two decades of reforms, accurate and comprehensive unit costs of service delivery outputs are still virtually unobtainable in many areas (discussed further in section 5.5.3 on page 209). Challenges with defining and tracking service delivery outputs and inadequate costing and accounting systems are discussed further in Chapters 6 and 7. Furthermore, the achievement of value-for-money is contingent on creating sensitivity in public managers to opportunity cost in asset and liability management.

As framework legislation, the PFMA articulates broad principles. Much of the implementation detail has been supplied by subsequent *Treasury Regulations for Departments, Trading Entities, Constitutional institutions and Public Entities* issued in terms of sections 76 and 77 the PFMA (National Treasury, 2005a), hereafter referred to as the *Treasury Regulations*, and good practice guidelines. In this regard, Folscher and Cole (2006:21) comment:

> … the PFMA does not prescribe specifics, for example what payment approval procedures should be. Instead, the Act specifies who is responsible for putting in place such procedures, what the procedures should achieve, what the information and reporting requirements are, and how these are to be overseen and monitored and compliance assured.

The framework approach also acknowledges that implementation will also bring an element of "learning by doing" which feeds back into the development of policy and regulation (Wildeman & Jogo 2012). Ms Maria Ramos, the then Director-General of the National Treasury, acknowledged that PFMA implementation would be a "collective learning experience for all concerned" (National Treasury 2000:1). The introduction to the *Explanatory Memorandum* of the PFMA emphasises that implementation first has to ensure that the basic building blocks of sound financial management are in place (for example, well-functioning financial management systems, internal controls and lines of accountability) before advancing to more sophisticated best practices relating to programme effectiveness and efficiency.

The PFMA fulfilled the constitutional requirement in section 216(1) to establish a National Treasury. The nine provincial treasuries are not directly mentioned in the Constitution but were established by statute. Although the nine provincial treasuries had been operational soon after the creation of the provincial governments in 1994, they were only formally established by the section 17 of the PFMA in 1999, from which they derive derive their statutory powers and responsibilities. In 2000, the former Departments of Finance and State Expenditure were amalgamated to form a modern National Treasury where the entire PFM process, from macro-economic forecasting, fiscal planning and annual budgeting right through to in-year management, reporting and accounting, became the responsibility of a single Executive Authority and AO. This resulted in better articulation between budget formulation and execution (Jacobs 2009).

Section 216(1) of the Constitution clearly delimits the National Treasury's PFM leadership role in ensuring "both transparency and expenditure control in each sphere of government" by introducing "generally recognised accounting practice" (GRAP), "uniform expenditure classifications" and "uniform treasury norms and standards". Once the PFMA came into effect, all departments were required to submit implementation plans to Treasury within six months:

> The plans were structured to assess the financial management and accounting capacity in departments, the financial skills of line managers and the quality of internal control systems. They were required to propose an implementation plan for each department, particularly the strategy for risk and performance management. In the first year of PFMA implementation, the appointment of chief financial officers was prioritised, as were the establishment of internal audit committees and the implementation of monthly reporting requirements. (Folscher & Cole 2006:26)

The focus of the first year of PFMA implementation was on "empowering managers, enhancing accountability and linking planning and budgeting" (National Treasury, 2000:2), while reforms relating to performance indicators, performance budgeting, GRAP and procurement were envisaged beyond 2001 (National Treasury, 2000).

The PFMA not only changed the role and responsibilities of line department AOs, but also changed the role of the treasuries themselves, shifting " their focus from the policing of detailed expenditure control procedures to a more constructive, guidance role in financial matters" (National Treasury, 2000:61). In discharging its reform leadership role, the National Treasury supported departmental PFMA implementation processes by providing best practice guides, training and capacity-building. One of the key challenges of the PFMA implementation was to ensure that the financial management practices of AOs and their departments embraced the spirit of the PFMA, rather than settling for mechanistic and superficial compliance with the letter of the law.

In this regard, Mkhize and Ajam (2007:773) note that in order to change managerial behaviour, more was required than specific technical skills; a changed mind-set, oriented to value for public resources, was also essential. An empirical study included in Van Wyk's doctoral thesis, *A Performance Measurement Approach to Improve Financial Management in Provincial Governments in South Africa*, reaches similar conclusions:

> The empirical study showed that 93% of the respondents are of the opinion that management skills will have to change in future whilst 72% felt that leadership styles will also be influenced. Both finance and non-finance professionals, therefore, should be suitably capacitated to implement the reforms. (Van Wyk 2003:44)

Non-financial line managers in the public service, accustomed to highly centralized financial management systems which were disjointed from planning and implementation, tended to regard that their responsibility as being confined to spending the budget, while accountability was thought to reside with the departmental finance section. Similarly, prior to the PFMA, financial managers saw their role as enforcing compliance with financial regulations, rather than as strategically supporting service delivery (Nkoana 2006).

As observed by Mr Newman Kusi, the then Director-General of the Eastern Cape Provincial Treasury, PFMA implementation required a holistic approach to effecting not only technical changes, but also institutional changes at organizational and individual levels:

> The transformation process thus requires a systematic approach that will impact on skills transfer and acquisition, behaviour and attitudes, organizational culture, financial and management information systems, and institutional management. The challenge is how to go about speeding up the development of these cultural, management and financial architectures as well as financial management skills in the provincial administration. (Kusi 2006:9)

The results-oriented approach to performance management inherent in the PFMA therefore requires a very different skills complement to the skills profile that previously prevailed in the public sector. It is often said that such skills are in lamentably short supply in the South African public sector, but it should also be noted that until the promulgation of the PFMA, such skills had never been demanded in the public sector. Procedural accountability only required administrators who could comply with regulations. Being accountable for results and value-for-money requires managers with initiative who will employ the public resources over which they have stewardship effectively and efficiently.

All these factors require increased professionalization of budgeting, financial management and auditing in the public sector. Prior to the PFMA, budgeting and financial management were often the preserve of relatively junior officials, while senior officials formulated policy – another institutional reason for the dichotomy between planning and budgeting. As the responsibilities of CFOs and other financial managers became more stringent, CFO posts were increasingly designated as senior positions. The situation therefore became more analogous to the private sector, where the principal financial manager often reports directly to the Board of Directors. Professionalising the CFO function and creating a direct managerial line to the AO was one of the priorities in the first year of PFMA implementation:

> The ability of the CFOs in the provincial governments has to be strengthened as they are currently not suitably qualified or do not have the necessary expertise to implement the requirements of the PFMA, in particular with regard to GRAP and accrual accounting effectively. The empirical study showed that only one CFO in the Free State Province has a professional qualification and this will hamper the implementation of the GRAP due to a lack of expertise. (Van Wyk 2003:81)

To play the crucial role of strategic financial management support in decision-making, the CFO can no longer be just a “bean counter” or “number cruncher”, but must be a professionally qualified critical and analytical thinker “with a flexible mind to adjust to the changing circumstances and to perform his/her duties in such a manner that relevant information is provided to enhance financial management” (Van Wyk 2003:82). Ngakwe (2012:316) cautions that political patronage in the appointment of CFOs rather than their proficiency could open the door to fraud and corruption: “There can therefore be no financial accountability at the national, provincial or municipal spheres of government if political choices override merit in the selection and placement of CFOs.”

At the same time, the responsibility for the effective and efficient management of public resources is becoming more diffuse, cascaded down from the AO throughout the department. Just as the PFMA requires financial managers to become more oriented to supporting service delivery, so line managers are also expected to take increased responsibility for the financial consequences of their actions, and the effective application of resources within their control.

The inherent complexity of the reforms initiated by the PFMA and the delegation of financial management functions to line managers means that the upskilling of existing financial officials is critical. In 2003, a study by Van Wyk (2003:91) revealed a “serious lack of skills, knowledge and expertise among the finance staff of Free State Government Departments together with a negative attitude towards change”. Despite the obvious need to scale up financial management skills development in response to the PFMA, Fourie noted in 2002 that the training budgets of departments had remained inadequate and disproportionate to the training needs. He called for better coordination of financial management training and clearer signals to private training providers and academia on desired training outcomes and content (Fourie 2002).

The PFMA represents a destination to which all departments are gradually expected to converge, given their specific initial conditions. The challenge for departments and public entities was to assess their initial extent of compliance with the Act and to put in place incremental implementation plans for gradually achieving compliance. It has been recognised that this is likely to be an ongoing medium- to long-term process rather than a “quick fix”.

At the time when the PFMA was promulgated, the internal PFM processes of many national and provincial departments and public sector entities were not integrated. There was often a dislocation between policy, planning, budgeting and monitoring and evaluation. Furthermore, there were also serious disjunctures between these management processes and accountability systems. The requirements of the PFMA compelled departments to re-assess all these systems as part of PFMA implementation.

A panoply of reforms were envisaged in the PFMA and related legislation. These relate to (i) roles and responsibilities, (ii) financial planning, (iii) financial management of revenues, expenditure, assets and liabilities and the internal control environment, (iv) monitoring, reporting, and accounting and, finally, (v) the accountability cycle. Each of these categories is examined in more detail below.

5.5.1 Roles and responsibilities: the political-administrative interface

In the past, the division of fiscal responsibility between Ministers and HoDs was not clearly defined. On the one hand, there was often insufficient political input into the budget process, which then degenerated into a technical, bureaucratic process where civil servants took allocation decisions by default. On the other hand, there was frequently excessive ministerial intervention in the day-to-day operation of departments once budgets had been appropriated.

The PFMA attempted to clarify political and managerial accountability by distinguishing between budget policy and its implementation, following an approach underpinned measurable performance objectives that was broadly inspired by the NPM philosophy. The *Explanatory Memorandum* notes that the PFMA is predicated on the assumption that the Minister or MEC (the Executing Authority) is responsible for policy matters and outcomes, whereas the HoD (the AO) is responsible for outputs and policy implementation and is directly and personally statutorily accountable to Parliament or the provincial Legislatures for the execution of the budget.

As political head, the Executive Authority takes overall responsibility for developing a five-year vision, broad strategic direction and obtaining approval for the desired policy outcomes in Cabinet, and engaging with the relevant portfolio committee(s) of the provincial Legislature or Parliament. Individual Ministers should determine, in consultation with the HoDs, the appropriate outputs (the mix of public goods and services) to be produced, and should ensure that these are reflected in a written performance agreement. Ministers have to ensure that the outputs selected contribute to the appropriate outcomes (allocative efficiency), and that departmental resource allocation is aligned with whole-of-government priorities. These output choices are then ratified by Cabinet collectively. Performance criteria relating to the volume and quality of outputs, etc., are devised simultaneously with the associated budgets, and are not an add-on to the system. They provide the basis for managerial accountability to the Minister, to Parliament and broader civil society, and should also be reflected in the budget format which is laid before Parliament.

Once the outputs of each department have been agreed upon, the HoD is then responsible for delivering those outputs within the budget allocated to the respective department. The HoD is responsible for achieving delivery efficiency (best value-for-money). The Executive Authority then is expected to assume a monitoring role to ensure that departmental spending remains within the envelope of the voted funds, through monthly financial reports and quarterly performance reports from the AO (section 63(1) of the PFMA) and through AO's performance agreement (section 36(5) of the PFMA). At the end of the financial year, the Executive Authority must table an annual report with audited financial statements in the appropriate Legislature, or provide a written explanation for its failure to do so (section 36 of the PFMA). If the AO fails to comply with the PFMA or commits financial misconduct as outlined in sections 81 or 83 of the PFMA, the Executive Authority must initiate disciplinary proceedings and table the findings in the appropriate Legislature (section 65(1)(b) of the PFMA).

As noted previously, within the framework legislation of the PFMA, AOs are responsible for putting in place systems which will support good PFM practice in their departments. Failure to discharge this statutory liability could result in AOs being held personally liable. The role of the AO revolves around general responsibilities (section 38 of the PFMA), budgetary control (section 39) and reporting (section 40):

(i) *General responsibilities*: Because the AO is responsible for the effective, efficient, economical and transparent use of resources in his/her department, he/she must ensure that effective systems are put in place for financial and risk management and internal control, internal audit under the direction of an audit committee, procurement, evaluating capital project proposals and effective and appropriate disciplinary procedures in event of financial misconduct.

(ii) *Budgetary control:* To achieve this, the AO has to put in place early warning systems in place to prevent overspending on the department's budget vote or main division of that vote, possible revenue under-collection or any shortfall in budgeted revenue (which he/she has to report to the executive authority).

(iii) *Reporting:* The AO is responsible for submitting all reports and other information required by the PFMA e.g. in-year financial and performance reports, annual reports with audited financial statements.

The PFMA permits the AO to delegate these responsibilities in writing to other departmental officials such as the CFO (section 44 of the PFMA), but this does not divest the AO of ultimate accountability. All other departmental officials, both financial managers and line managers, have their own statutory obligations for the stewardship of public resources within their areas of responsibility (section 45 of the PFMA).

Section 64 of the PFMA contains a ministerial override: an AO may absolve him-/herself of statutory responsibility for implementing the directive of a Minister which is likely to result in unauthorised expenditure by informing the relevant Minister in writing of this probability. If the Minister thereafter still decides to implement the directive regardless, this decision must be put in writing, and the AO must file a copy of the written over-ride with the Auditor-General, the National Treasury and the provincial treasury (in the case of provincial departments).

The *Public Service Act*, 1994 (as amended in 1997) vests human resource (HR) and organizational structure powers with the Minister, as in the Westminster tradition. This contradiction between the PFMA and the *Public Service Act* can create potential conflict. These potential conflicts could, however, be resolved if the Minister or the MEC delegated all HR-related powers to the HoD. In many cases, the political principal may choose not to delegate these HR powers. This creates a tension with the PFMA, which holds the AO responsible for financial outcomes, meaning that top managers are answerable for the financial implications of decisions over which they have limited control. It also leads to instability, as the degree of delegation can vary with each change of Minister. This prevents top managers from delegating authority to their line managers on a sustainable basis (NPC 2012).

In the interviews conducted with past and current officials from the National Treasury and provincial treasuries, a number of inter-related issues were raised: firstly, the confusion created by the lack of alignment between the *Public Service Act* and the PFMA, secondly, the large variations in skills and competence across both AOs and Executive Authorities, thirdly, weak accountability and, fourthly, the perception that, over the last decade, the appointment of AOs has become more politicised, with the result that less competent candidates are being deployed. These themes are explored in greater detail below.

A respondent who was a senior official at the National Treasury described how the misalignment between the *Public Service Act* and the PFMA has blurred accountability between the Executive Authority and AO, and undermined the PFMA's objective to "let managers manage":

> *"The split between the PFMA and the Public Service Act about who is accountable, the Executive Authority or the AO, has created confusion. In law the Accounting Officer is accountable for the spending and the Executive Authority is accountable for personnel appointments. But if I'm an Accounting Officer and you tell me I can't procure what I want, I can't hire whom I want, how can you hold me accountable? So I think the system is weak in that sense, another reason why you have weak accountability."*

The right "tone at the top" is critical for decisively signalling commitment to good fiscal governance. In many instances AOs have provided excellent leadership in the PFM reform process. For example, a respondent who used to be at the Gauteng Treasury described the administrative leadership in the early years of the PFMA:

> *"We were very privileged in the first ten years to have a group of HoDs that were there to really make a difference. So it was exciting times with all these new policies and reforms, and they had the energy. With the group of senior officials who had bought into that we had very robust debates. They understood it and were part of that generation in government which drove massive reform."*

The quality and competence of both the political heads (as Executive Authorities) and the administrative HoDs (as AOs) has varied markedly across provincial departments and over time (as explored in section 7.3.5 on page 342. The blurred lines of accountability in relation to HR powers has also led to increased political appointments, often without the requisite skill set or appropriate experience. These appointments have not been confined to the AO and his/her direct reports, but often cascaded down to much more junior levels. An interviewee from Limpopo Province noted:

> *"The thing that has killed PFMA implementation is that we are having a lot of political appointments where people are not even able to meet competency levels. So if we want to implement the PFMA we need the full support of our political leaders. If they don't do that, really it will be back to square one."*

A National Treasury official observed that many of the first generation of Directors-General after 1994 were experts in their particular sectors. But over time, corporate service managers and other officials had applied for AO positions, without the necessary subject expertise. He expressed the opinion that the calibre of Directors-General had declined as a result of the deployment of underqualified individuals:

"Then it gets worse after 2009 when somebody just comes and gets appointed, you don't even know who they are. They don't know how the public service works. I'm not saying you shouldn't have new blood, but the person has to demonstrate that they have the skills and the understanding of how the public service works. Before they start, send them for two months' training to make sure that they meet that standard. But the most important point is get the interface between the Minister and the Director-General right. It has become highly politicised and when you start deploying and so on, it's no surprise that people don't even last a year."

Another interviewee who also formerly served at the National Treasury described the invidious position that Directors-General find themselves in as political appointees:

They were caught somewhere in the middle in terms of doing what was required in terms of the Act and doing what is required in terms of political economy pressures. And also they are at the receiving end of HR management failures of the public service. I don't think it's a wilful desire not to comply. They want to but they don't necessarily have access to the right resources to comply and at the same time they come under political pressure to do things that are morally wrong."

A former academic who had acted as a policy advisor on PFM reform in South Africa expressed the opinion that many Directors-General saw themselves primarily as political employees who had to satisfy political objectives and regarded PFMA statutory compliance only as a "necessary evil":

"Increasingly it is evident that their political obligations and responsibilities by far dominate their technical obligations and responsibilities. Therefore it is not unnatural to observe that they are not paying that much attention until the audit period comes. As soon as the Auditor-General's team moves in, they say 'it's that time of the year again' and the notion of 'that time of the year again' means that for the rest of the year I have neglected my Accounting Officer role. The Accounting Officers with whom I've interacted seldom have had monthly meeting with their Chief Directors solely to discuss matters relating to the PFMA, or resource allocation and efficiency. It's all about the political and operational issues but not matters related to the triple E's [efficiency, effectiveness and economy]."

Another element of the "tone at the top" is the quality of the working relationship between the AO and the CFO. Poor working relationships can sabotage PFMA implementation, as illustrated by a respondent who was a former senior official at the National Treasury:

"All departments have exactly the same accounting system, the Basic Accounting System, and the same payroll system (PERSAL) – exactly the same transversal systems. They all have the support of the Treasury should they need advice in certain areas. But some Accounting Officers say to their CFOs and internal auditors 'don't think you're working for the Treasury here'. They are seen as an extension of the Treasury."

Rather than providing detailed, one-size-fits all prescripts, the PFMA decentralized to AOs the power to customise fiscal systems in their particular departments within broad national frameworks.

This was predicated on the assumption that the AO and the Executive Authority would have the necessary skills and motivation, and are sufficiently ethical to do so. One interviewee reflected:

> *"When we were starting the PFMA, we were, I think, too starry-eyed in throwing out the rule book in the democratic environment, presupposing that the Accounting Officer and the Executive Authority were firstly both persons of integrity, and secondly, both with a fair amount of competence in respect in relation to their respective positions. That unfortunately was not always the case, is still today not always the case."*

When Ministers and MECs are appointed via a democratic process, they may not have sufficient financial and managerial skills to discharge their roles, one interviewee observed:

> *"Ministers when they assume office are not well equipped to understand their PFMA roles, responsibilities and accountability and those of the heads of department to understand how much power they have."*

Mr Trevor Manuel, former Minister of Finance, made the point that when the PFMA requires the AO to submit regular reports to the Executive Authority, it assumes that the Executive Authority would be properly briefed by the Accounting Officer, and assumes that the reports would also be scrutinised by portfolio committees in Parliament and the provincial Legislatures:

> *"I think a system such as that the PFMA sets up, creates, a number of points of accountability. One of these is a particular range of accountability for Ministers and Accounting Officers. It has an interesting crafting, like Ministers are responsible for outcomes and Directors-General for outputs. So it was a very complex and cumbersome formulation. But it presupposed that Ministers would be properly briefed by their departments, they would sit down and say to you the following expenditure items are out of kilter. So even the monthly financials which Ministers get are published as actual expenditures in the Government Gazette. Parliament has the right to question but it doesn't do so. So you have a system that isn't made to work"* (Manuel, pers. comm., 14.09.2014).

A number of interviewees expressed the view that sanctions are seldom applied to AOs even if they are in flagrant breach of the PFMA (for example, for irregular, fruitless or wasteful expenditure). One respondent from the Mpumalanga Treasury explained:

> *"A lot is expected of Accounting Officers by the PFMA. But even if they don't do what they're supposed to do and it leads to poor audit outcomes, people know that there'll be no consequences."*

A respondent from the Gauteng Treasury suggested that the performance agreement of AOs could be used as instruments to increase these officials' focus on PFMA responsibilities and hold them accountable:

> *"The performance contracts of* Accounting *Officers should have at their centre PFMA requirements. Accounting Officers when they come on board should be inducted about the requirements of the PFMA."*

But performance agreements are only likely to be effective if they are rigorously enforced by Executive Authorities. Chapter 10 of the PFMA defines financial misconduct for AOs (and other officials), disciplinary and criminal proceedings and sanctions. However, the PFMA only makes provision that the Executive Authority should institute proceedings against an Accounting Officer – it does provide a mechanism though which the Executive Authority can be compelled to do so. This creates a problem if the Executive Authority does not in fact initiate an investigation, as a respondent who was a former senior official in the National Treasury noted:

> *"In the PFMA it says that if the Accounting Officer is involved in impropriety the Executive Authority must act. But if he fails to act, the PFMA does not say what recourse the National Treasury has. Within the provinces, the National Treasury may pick up [impropriety] and point it out to the provincial treasury, but again the Executive Authority [the MEC] must act. The DPSA [Department of Public Service and Administration] only comes in if the Accounting Officer is implicated. For other officials, the Accounting Officer has the power to act. The DPSA would say that their frustration is that the Accounting Officer does not use that power. The National Treasury must be allowed to act if the Executive Authority won't and to the extent that it is a criminal offence, the justice system must be able to deal with it."*

The *Treasury Regulations* (National Treasury, 2005a), require that the National Treasury and provincial treasuries "must ensure" that the relevant Minister or MEC initiates an investigation, but does not empower the Minister or the MEC to initiate their own investigation against the AO:

> If an AO is alleged to have committed financial misconduct, the relevant treasury, as soon as it becomes aware of the alleged misconduct, must ensure that the relevant executive authority initiates an investigation into the matter and if the allegations are confirmed, holds a disciplinary hearing in accordance with the prescripts applicable and agreements applicable in the public service. (section 4.1.3 of the PFMA)

There tends to be greater turnover in provincial MECs than among their Ministerial counterparts at the national level. A National Treasury official asserted that the simultaneous replacement of all the MECs for Finance and all the Premiers in 2004 was a major set-back for PFM reforms:

> *"If we look at the first two terms after democracy our performance levels increased…. But in the third term at provincial level all the Premiers, all the MECs for Finance, were replaced in one shot. So from an institutional knowledge perspective, that's when we took a big knock and then we had to recover… Using the Eastern Cape which was in overdraft for almost a billion as an example… In leading up to that election the provincial treasury officials lost complete control, partly because they were more interested in protecting their jobs than doing the right thing. In the period thereafter we had to consolidate and take them through an education process again, taking two or three years to start moving in the right direction again."*

New political incumbents in all the provinces disrupted institutional continuity and made acquiring experience as an Executive Authority more difficult. Moreover, the switch frequently had a knock-on effect on the appointments of HoDs and CFOs, since newly appointed MECs tend to want to select their own HoDs and senior management teams. In some provinces, instability in the top management in departments has been more severe than in others. An interviewee from the North West provincial treasury noted:

> *"In this province we have not had very stable HoDs and CFOs. So the issue of capacity in relation to HoDs and CFOs has been an issue."*

By contrast, the Western Cape has had much more stable political-administrative interface, which has contributed to better PFM performance outcomes:

> *"The longer the tenure of your Accounting Officers, the more understanding your political principals have. The less political pressures and the more political stability there is – whether you're talking a municipality or a department – the better the organization will function over time. There's a direct relationship between the two."*

Another National Treasury official acknowledged that more intense induction and capacity-building may need to be done for AOs and their senior management teams, given the short average tenures:

> *"We at Treasury are one of the most stable departments in the administration. But the departments have a high Accounting Officer turnover, and when they come in, I don't think we have a systematic way to bring the HoD and his or her team to talk about their responsibilities in terms of all the laws governing finances. We haven't done enough of that."*

In the long run, greater stability can only be induced by moving towards a professional public service which is less dependent on political patronage, or by at least limiting political appointments to the position of Director-General, and excluding other management appointments. Serious consideration should be given to the National Planning Commission's proposals to strengthen the PSC's role in Director-General recruitment using a hybrid approach to reconcile political and administrative priorities while giving Directors-General full managerial discretion for recruitment decisions below them. To stabilise the political-administrative interface the NPC has also recommended the creation of an administrative head of the public service who can convene recruitment panels to select Directors-General, conduct performance assessments, disciplinary procedures and other career progression events (NPC 2012).

5.5.2 Financial planning: linking plans and budgets

Financial planning encompasses formulating budget policy, identifying long- and short-term priorities, costing of various service delivery outputs, cost-benefit analysis of alternative delivery options, synchronising the planned flow of funds with the anticipated delivery of services (cash management), capital budgeting for infrastructure assets, and reflecting these plans in detailed budgets and revenue and expenditure projections. Planning-related PFMA reforms focus on the content and format of budgets and coordination in the intergovernmental budget process to ensure uniformity across the national and provincial governments, and to move towards greater integration between planning and budgets. This in turn lays the foundation for performance management (both institutional and individual) and effective monitoring and evaluation, and is the point of departure for the accountability cycle.

The PFMA formalises the MTEF (multi-year budgeting) in section 28, and makes obligatory the disclosure of any assumptions on which multi-year budget projections are based. A respondent from the National Treasury succinctly observed:

> *"The core of the PFMA was to modernise our finances to be able to properly link planning, budgeting and financial management controls within a three-year MTEF horizon. That was key to improving planning and in turn improving value-for-money so that we could extend public services in a way that was more cost effective and affordable."*

The *Act* also has implications for capital budgeting (a system should be put in place for properly evaluating all major capital infrastructure projects prior to a final decision on the project). As is noted in the *Explanatory Memorandum* to the Act, the PFMA requires Parliament to appropriate budgets at programme level (the "main division within a vote"), replacing the practice of appropriating votes for an entire department: "This will require further information on outputs per programme, and limit the powers of Accounting Officers to move funds between programmes". Section 43 limits fund-shifting (virement) to 8% of the total allocation of the programme. This limit attempts to strike a balance between affording some flexibility to AOs in budget execution while still respecting the overall tenor of the appropriated budget as an expression of Parliament's legislative intent.

The name "Public Finance Management Act" is in some ways a misnomer, because the Act contains far more than just fiscal and financial management; it also includes strategic planning – providing detailed guidelines and templates for five-year strategic plans and annual performance plans with associated performance measures and indicators. The PFMA fleshes out the requirement for an Executive Authority (Minister or MEC) to prepare a departmental strategic plan which is contained in the *Public Service Regulations*, 2001 (Notice R.441 of 25 May 2001) in terms of the *Public Service Act*.

The *Public Service Regulations*, 2001 on strategic planning require, *inter alia*, that "goals and targets to be attained on the medium term" (sic) be defined as well as a "programme for attaining those goals and targets". This wording has remained consistent up until the latest version of the regulations on 31 July 2012. Note that the term "programme" is not explicitly defined in either the *Public Service Act* or in its regulations. This is pertinent since there is often a fair degree of confusion between implementation programmes and budget programmes, and in South Africa it is not easy to map the one to the other. A single implementation programme may, for instance, be funded from several budget programmes or sub-programmes and conversely, a budget programme or sub-programme may encompass many separate implementation programmes. This disjuncture between budget and implementation programmes attenuates the link between planning, budgeting and monitoring and evaluation in practice.

The PFMA itself does not refer to programmes explicitly but in section 1 defines a "main division wthin a vote" as "one of the main segments into which a vote is divided" and which

(a) "specifies the total amount which is appropriated for the items under that segment, and

(b) is approved by Parliament or a provincial legislature as may be appropriate, as part of the vote."

Performance targets should be determined *ex ante* (before the start of the fiscal year) during the planning process and reflected in Accounting Officer performance agreements. Actual expenditure and service delivery outcomes can therefore be compared to these planned performance targets, forging closer links between the budgeting, planning, monitoring, evaluation and accountability chains.

Section 27(4) requires the AO to table measurable objectives for every main division within a vote. Although the Act itself does not elaborate on the nature of the "measurable objectives" (this is elaborated upon in the *Treasury Regulations*), the *Explanatory Memorandum* of the Act notes the following:

> The Act assumes that the political head of the department (Cabinet Minister or a provincial MEC) is responsible for policy matters and outcomes, this includes seeking Parliamentary approval of the department's budget vote… The head official (the Director-General of a national department or a provincial head of department) is responsible for outputs and implementation….

The introduction of the PFMA thus throws into sharp relief the distinction between political and managerial accountability (in the language of the Act, the accountability of the "Executing Authority" and that of the "Accounting Officer"). The distinction between outputs and outcomes is however not watertight; there are many grey areas in practice. This is a tension which also has to be managed in other countries which have embarked on similar reforms.

Given that the term "programme" never appears in the Act itself, the identification of a budget programme as being identical to the "main division of a vote" is made only in the *Explanatory Memorandum*. Furthermore, it is not clear whether the term "programme" as used in the *Public Service Act* and its *Regulations* are in fact identical to the definition of the "main division of a vote" in the PFMA. In contrast to the PFMA itself which does not specifically mention programmes, the *Treasury Regulations* issued in terms of the PFMA on 31 May 2000 required strategic plans to contain "programme objectives and outcomes identified by the Executive Authority" (section 5). The latest *Treasury Regulations* related to Strategic Planning (published in *Government Gazette* No 29644 dated 20 February 2007) in section 5 refers to "the measurable objectives, expected outcomes, programme outputs, indicators (measures) and targets of the institution's programmes". However, no details are provided on what a programme should be or criteria for good programme design. This is important since in the South African public service, the term "programme" is most commonly used by line managers to refer to implementation programmes, rather than budget programmes (which typically aggregate a number of individual implementation programmes).

In addition, the use of the term "objectives" leaves open to interpretation whether the objectives should be stated in terms of service delivery outputs or outcomes, or some combination thereof. In fact, the terms output and outcome appear only in the *Explanatory Memorandum* and not in the main Act itself. This confusion about nomenclature is by no means confined to South Africa. Robinson and Van Eden (2007) point out that many countries use public sector strategic planning frameworks based on missions, visions, values, goals, objectives, etc. However, terms such as "goals" or "objectives" are much less precise than the logical framework approach of inputs, outputs and outcomes.

Another important implication for strategic management and financial planning is the PFMA's emphasis on risk management. Effectively mitigating risk to a department arising from changes in its external and internal environment, as well as contingency planning, are crucial elements which have historically largely been ignored – to the detriment of service delivery. Furthermore, whereas in the past, adjustment budgets were frequently and arbitrarily introduced, sections 30 and 31 of the PFMA permits such adjustment budgets only to be tabled only under very specific circumstances, for example, in the event of unforeseen and unavoidable expenditure which could not reasonably have been anticipated at the start of the fiscal year. This creates greater pressure for credible budgets since adjustments budgets cannot easily be tabled in event of unrealistic revenue projections which fail to materialise or under-estimation of budgeted costs.

Since 2001, the national and provincial departments have been required (in terms of the *Treasury Regulations*, 2005, and the *Public Service Regulations*, 2001) to prepare five year strategic plans and more detailed three year Annual Performance Plans aligned to their MTEF budget allocations. Departments are not required to prepare separate draft strategic plans, but are expected to integrate their strategic planning procedures and results into their budget submission. After they have received their final allocations, their strategic plans and more detailed Annual Performance Plans had to be tabled before Parliament or the relevant provincial legislature within 15 working days of the tabling of the annual national or provincial budgets. The 2001 PFMA regulations on budget formats required details of output performance measures or service delivery indicators and targets for each expenditure programme (National Treasury 2002:129). The formats were aimed at increasing transparency and accountability through better benchmarking and improved consolidation.

In 2001, the National Treasury began to develop generic strategic plan templates for provincial departments. These were promulgated in terms of PFMA regulations, but tended to stress alignment with the existing budget structure rather than with normative guidelines on appropriate budget structure design *per se*. Treasury's initiative also kick-started programme M&E in South Africa, especially in the provincial governments when sector planning and coordination required consistency between the nine provincial Health or Transport departments, for example. The Treasury initially filled the M&E vacuum in the provincial sphere, but with the creation of the Department of Planning, Monitoring and Evaluation in 2009, the Presidency assumed the leadership role in GWM&E (Engela & Ajam 2010).

Reforms to conditional intergovernmental grants (transfers from the national sphere to provincial governments earmarked for specific purposes), initiated in 2001, aimed to improving their design by clarifying their objectives and associated accountability relationships, streamlining processes to decrease the administrative burden of implementation, and ensuring the regular updating of data on the basis of which allocations were made (National Treasury 2001a:143). A further innovation in 2003/4 was greater sectoral standardisation in concurrent functions such as Health and Basic Education, with the introduction of strategic and performance plans based on the uniform sectoral budget formats, with uniform measurable objectives, performance indicators and targets for each budget programme. To enforce consistency in budget structure, formal requests to effect changes to the programme structure, programme name and/or description had to be made to the National Treasury.

In his doctoral thesis, *A Performance Measurement Approach to Improve Financial Management in Provincial Governments in South Africa*, Van Zyl observes that identifying performance indicators and the credibility of reporting on actual achievement was a serious weakness in 2003:

> Most departments still produce too many [performance indicators] to report on. These indicators are often also a random mix of input, output and outcome indicators. The National Treasury has emphasised the production of output indicators in order to make sure that departmental outputs reflect sectoral policies. The Presidency has put greater emphasis on the monitoring and evaluation of outcome indicators. While it is not clear how this debate is developing; the Treasury is using its influence to promote its position in provinces and national departments. (Van Zyl 2003:17)

This finding by Van Zyl (2003) corroborates that of Fourie (2001), who assessed the annual reports of the national Health department and nine provincial Health departments, based on general information about the relevant department, HR information, programme performance information and the audited financial statements. Fourie (2001) found that the quality varied considerably, with no department at that stage in full compliance with the Treasury requirements. The Gauteng Health Department was the only one that complied with most of the requirements of the National Treasury (Fourie 2001).

Van Zyl (2003) also identified differences in the conceptual approaches to performance measurement adopted by the National Treasury (with mainly an output focus) and the Presidency (with mainly an outcome focus). He also points out that in 2003 in most departments' plans the nexus between service delivery outputs and policy outcomes was weak and not supported by an explicit "theory of change" explaining the anticipated causal links between inputs, outputs and outcomes:

> While departments are asked to draw direct causal links between inputs and outputs, they are only expected to explain how and to which desired outcomes their outputs would contribute. The Treasury in particular places emphasis on the complexity of the linkage between outputs and outcomes and does not intend holding service delivery departments responsible for specific outcome targets. So the key question that is asked is which mix of outputs would best contribute to reaching a specific outcome, but this question is only answered indicatively. There is no direct mapping of outputs to outcomes. (Van Zyl 2003:15)

He further isolates skills deficits in provincial government departments, disjunctures between planning and budgeting systems, and antiquated and ineffective control and reporting systems as the underlying causes of sub-standard performance information management.

Similarly, based on an empirical analysis of performance and budget information of a sample of national and provincial departments, Ajam (2008) found that while there had been significant progress in linking planning and budgeting, further work was needed to foster greater integration between plans and budgets. In practice, a number of operational impediments detracted from alignment between plans and budgets, *inter alia*, dysfunctional departmental planning, budgeting and performance management systems and processes, a dearth of timely and useful performance information, organizational cultures which were not performance-oriented and a lack of leadership (Ajam 2008).

In the early stages of reform, insufficient attention was paid to sound departmental programme budget structures as a key nexus between financial performance (as reflected in budget programmes) and the delivery performance generated by implementation programmes (which often span various budget programmes and vice-versa). Early performance information reforms focused primarily on defining, reporting on and validating performance indicators in a logical framework of resource inputs, activities and service delivery outputs. The National Treasury's 2007 *Framework for Managing Programme Performance Information* reinforced the underlying logical framework of inputs, outputs and outcomes, and advocated a number of criteria for defining and reporting on programme performance information (National Treasury, 2007b). However, it did not define programmes *per se*. This gap – which is conceptual and not just semantic – was only clarified in the 2010 *Guide to Budget Programmes*, where the National Treasury defined a budget programme as

> … a main division within a department's budget that funds a clearly defined set of objectives based on the services or functions within the department's legislative and other mandates. It also constitutes a management unit established within a department responsible for the delivery of that defined set of services and functions. (National Treasury 2010:1)

This essentially restates the definition of the PFMA, but adds the notion that a programme is also a management unit – in other words, the budget structure is organizationally linked. The *Guide to Budget Programmes* advocates the following:

> Budget programme structures and organizational structures should as far as possible be aligned, at least at the higher levels at which programmes and sub-programmes are defined, nonetheless, the two need not be identical but should be very closely related and should converge over time. (National Treasury 2010:4)

Budget structures and organizational structures "should be defined simultaneously as a part of the strategic plan preparation" (National Treasury 2010:8). Where budget programmes and organizational structures diverge (which is more likely at levels in the budget structure below the sub-programme level), the National Treasury recommends that departments have an "internal management budget" to cross-walk between the two. The internal management budget would ideally map the relationship between the budget programme structure and the organizational structure, clearly showing the lines of responsibilities for different outputs and outcomes of the various implementation programmes (National Treasury 2010: 4). In practice, few provincial departments are able to map their budget programme structure onto their organizational structures and individual implementation programmes, which means that it is virtually impossible to extract output cost information from the expenditure information recorded by the Basic Accounting System currently in use, without extensive manipulation and processing of the data.

South Africa has made enormous strides in infusing financial planning and reporting with performance information, but the current practice in the national and provincial departments still falls far short of true performance budgeting. In performance budgeting, strictly defined, a direct link is forged between an increment in budgetary resources and an associated increase in service delivery outputs:

> Although performance targets (outputs) form part of the budget in South Africa, there are no resources directly allocated to these individual performance targets. Instead, resources are allocated at programme level to a basket of outputs for that programme.

> The lack of rigorous resource allocation to individual outputs makes it difficult to calculate unit costs of service delivery outputs. (Nkoana & Bokoda 2007:49)

At one level, the underlying reasons for the inability to link service delivery outputs closely with budgetary allocations (as in performance budgeting strictly defined) revolve around inappropriate budget structures and unclear mapping of outputs in service delivery implementation programmes to budget programmes, as alluded to above. At another more disaggregated level, the absence of activity-based costing to attribute direct and indirect budgetary inputs and costs to specific outputs also precludes true performance budgeting (Mkhize & Ajam 2006; Wildeman & Jogo 2012). The absence of appropriate costing of service delivery outputs dislocates sectoral and departmental planning from aggregate MTEF financial planning, as well as operational plans and budgets at a programme level:

> Many projects and programs of government have their own norms and yardsticks that are not even remotely related to the availability of resources. Once included in the strategic plan, the programs acquire a new legitimacy that keeps contributing to the inexorable growth of expenditures, The estimation of costs of most projects leaves a good deal to be desired as it evident from the fact that the actual outlay of some projects is often double, if not more, than the initial estimate. (Kusi 2006:8)

The budgets of the national and provincial departments have been supplemented with a large amount of non-financial performance information, but the ambitious goal of rigorously linking strategic plans budgets with service delivery outputs and policy outcomes has not yet been achieved. As many other countries have also realised, this is definitely a long-term endeavour. A respondent from the National Treasury assessed the situation as follows:

> *"We have not achieved linkages between planning and budgeting through reforms focusing on outcomes and we have certainly not achieved anything like the kind of link between planning and objective measures of outputs and outcomes we were talking about 15 years ago when the reforms were introduced. We've tried to centralize standards and models of planning in ways that have been counterproductive. I think Finance Ministries should retreat in reform programmes from trying to control the whole planning-to-budgeting cycle, concentrate on public financial management and insist on good planning but not try to shape plans in the detailed way we do through our regulations and guidelines."*

The emphasis in the *Treasury Regulations* on the format and minimum contents of five year strategic plans and Annual Performance Plans may have been attempts to ensure minimum quality standards and uniform standards across provincial departments such as Health or Education. One advantage of detailed planning templates is that they may be useful to less educated or inexperienced officials who lack planning skills. Since these Annual Performance Plans are now annuall audited by the Auditor-General in Audits of Predetermined Objectives, there is, however, some concern that mechanical compliance with the planning formats may have become more important than strategic thinking. There are also concerns that the pressures of audit compliance may create artificial rigidity where plans remain set in stone for audit purposes despite the rapidly changing environment and the need for flexible operational response. This stricture could exacerbate the divergence between planning, budgeting and actual implementation of public services. One National Treasury official articulated his opinion that the *Treasury Regulations* should be less prescriptive about planning formats and should put more emphasis on their strategic substance in a policy context and their quality as follows:

> *"We've got to retreat from telling people what to do. We don't think strategically enough so we talk about strategic plans but we don't ask ourselves what it means to have a strategy. Having a strategy is not the same thing as having a plan. A strategy might well be the three or four plans you need given the three or four contingencies you might have to deal with…. Our fall-back on templates is intellectually lazy. It's easier to fall back to criticizing plans because they don't correspond with the template you've designed as opposed to really getting to grips with the issues."*

A respondent from the Mpumalanga Treasury noted that, despite improvements in the management of performance information in the province, audit trails to validate reported performance are often weak:

> *"The problem with the non-financial information is the supporting documentation. Sometimes you find that the performance target is vague – despite being in the approved APP [Annual Performance Plan] – so you don't know what they were planning to do in the first place, yet you have to judge their performance relative to that target. But over the last five years departments have improved their APPs in term of the measurability of their targets according to the Auditor-General. The smaller departments have improved greatly but the bigger departments have challenges."*

Her colleague at the Mpumalanga Treasury observed that, in addition to challenges with the definition and validation of performance targets, these targets were also often not costed correctly:

> *"Both internal audit and the Auditor-General look at the predetermined objectives to see if they are properly costed and budgeted for. In our own department's operational plan we require that it be costed by activity, and the budget broken down by quarter so that you can monitor it that way. But it's not getting done in all departments. We tried to get departments to give a detailed operational plan by month rather than quarterly, but we met resistance."*

The planning and budgeting regulations seem to have drifted from the PFMA legislation itself over the years, as discussed in Chapter 8. For example, the PFMA talks about "measurable objectives", but the regulation formats talk about "strategic objectives". The terminology needs to be aligned, since variation not only creates confusion, but also makes the Auditor-General the arbiter of what is actually correct when the auditors do their audits of pre-determined objectives. This alignment should be achieved either by amending the Act or by changing the regulations. A National Treasury official said:

> *"I would want to see a comprehensive revision of the way in which planning and budgeting are linked. Planning processes are largely dysfunctional now and it doesn't relate to budgeting very well."*

Divergences between the proliferating PFMA regulations and the Act itself extend beyond mere definitional divergences. As analysed in greater detail in Chapter 8, the underlying philosophy of current PFMA regulations contradict the original intent of the primary legislation. Nowhere is this tension more stark than in recent supply chain management regulations which seem to have relapsed into a greater input orientation with *ex ante* authorisations, in contrast to the "let managers manage" ethos which underpins the Act itself. Public procurement policy has had to respond to a number of pressures such as increased incidence of fraud and corruption exposed by the Auditor-General and other independent constitutional institutions supporting democracy (such as the Public Protector), as well as pressures for preferential procurement in support of black economic empowerment (BEE). These are explored later in section 5.5.4 on page 212.

5.5.3 In-year and annual reporting

Prior to the PFMA, in-year reporting by the national and provincial departments was often irregular, incomplete and often not of acceptable quality. Section 40 of the PFMA requires that the AO provide the Executive Authority (the Minister or provincial MEC), the National Treasury and the provincial treasury (where relevant) with a financial report within 15 days of the month end. In addition, quarterly financial and output performance reports have to be submitted, as well as the financial and delivery performance of conditional grants received in terms of the annual *Division of Revenue Act* (DoRA).

In 2004, in order to align with the IMF's Government Finance Statistics system and to ensure consistent economic classification reporting across all three spheres of government, the standard item classification was replaced by a new economic reporting format. This was accompanied by the introduction of a new chart of accounts, providing a much more streamlined and standardised list of expenditure items to ensure consistency of reporting. This standard chart of accounts was further refined in 2008, adding an asset segment for infrastructure reporting and a regional segment for geographic location (National Treasury 2009a).

The economic classification and the programme structure are two important elements of a budget structure or budget classification. In addition to the programme structure, budget structures typically also include

(i) the fund structure, in other words, the source of funding (for example, appropriation, conditional grants, donors, loans);

(ii) the functional structure for historical analysis and policy analysis, typically based on an international standard such as the Classifications of the Functions of Government (COFOG) formulated by the United Nations, focusing on economic services, social services, defence, etc.;

(iii) economic categories using international standards such as the Government Finance Statistics developed by the IMF (International Monetary Fund 2014) for reporting, national account statistics for economic analysis and line items for compliance controls. The standards provide, inter alia, conceptual descriptions of definitions, classifications, and guidelines for compiling and disseminating government financial statistics,

(iv) the organizational responsibility structure, for legal appropriation, delegation, accountability and budget bidding; and

(v) other classifications, such as geographic location or beneficiary group (Jacobs, Helis & Bouley 2009; Schiavo-Campo & Tommasi 1999).

While functional, economic and geographical classification dimensions are mainly included for analytic and reporting purposes, the organizational responsibility structure, line items and, increasingly programme structure, typically form the basis for appropriation laws and virement (fund shifting) regulations in many countries. As noted earlier, parliamentary appropriations in terms of the PFMA are based on “main division within a vote”, the programme structure. Sometimes there can also be controls on personnel and/or capital expenditure within the programme structure to contain public personnel expenditure growth, or to protect capital expenditure in the event of fiscal stress. PFMA regulations also restrict virement towards personnel expenditure and towards transfer payments without prior treasury approval (National Treasury 2005b).

The budget structure is an important building block for further PFM reforms in that it includes, and should provide for, continuity between the budget format, the fund structure classifications, the revenue classifications, the expenditure classifications and the accounting system. When it is integrated with the chart of accounts, the budget structure becomes the framework within which the expenditure and revenue transactions are classified and flow into the accounting system. Reforms to the budget structure are often seen as a prerequisite for more ambitious budget reforms, such as performance budgeting (Jacobs, et al. 2009; Kraan 2007). The PFMA reforms to the economic classification and the standard chart of accounts helped align budget structures more closely with international good practices to ensure

(i) *Comprehensiveness*: coverage should be complete, encompassing all government entities and institutions performing government operations;

(ii) *Unity*: all revenue and all expenditures should be included, to ensure aggregate and sectoral fiscal discipline, as well efficiency in resource allocation; and

(iii) *Internal consistency*: there should be consistence between different components of the budget, for example, capital expenditure and associated operations and maintenance expenditure in current and future years (International Monetary Fund 2007).

Although departments, since 2001, had begun to produce more performance information, this information has frequently lacked credibility and usefulness:

> Many of the “indicators” specified were not related to clearly measurable objectives of programmes and did not actually relate to the outputs. They have failed to show whether services contribute towards meeting government’s outcomes. These indicators are, therefore, of little value to the public, Parliament, the Executive and even the department itself. Today, attention is focused on improving the quality of the measurable objectives and the indicators. (Folscher & Cole 2006:29)

While the volume of performance information has expanded, this information is often regarded by managers in provincial departments as a solely compliance requirement for reporting to the relevant national sector department or treasury, or as audit evidence for Audits of Predetermined Objectives by the Auditor-General. Accordingly actual usage of performance information in provincial departments for day-to-day management has fallen far short of expectation.

Ill-defined indicators relating to service delivery outputs not only undermine the effective monitoring of delivery implementation but also render accurate costing virtually impossible. Poor understanding of the cost implications of the outputs of existing programmes often contributes to the poor or, frequently, non-existent costing of new programmes introduced. This contributes to inadequate funding (especially when new policies are conceived in the national sphere but must be implemented, and budgeted for, by provincial governments), resulting in partially-funded or unfunded mandates.

Acknowledgement of severe shortcomings in departmental management of performance information prompted growing emphasis on improving the quality of in-year performance reporting, initially by the National Treasury, but later driven by the Presidency with the creation of the Department of Planning, Monitoring and Evaluation. In 2007, the Presidency published the *Government-Wide Monitoring and Evaluation Policy Framework* to provide the overarching policy framework for M&E in the South African government (Presidency 2007c). The GWM&E system draws on three data terrains for the purposes of M&E: (i) socio-economic and demographic survey data, (ii) evaluations and (iii) programme performance information. The National Treasury issued a complementary *Framework for Programme Performance Information* in 2007 in order to formalise the environment in which programme performance information is captured, verified, stored and reported (National Treasury 2007b). The *Framework* aimed to

(i) support regular audits of performance against predetermined objectives through clear definitions and standards for performance information;

(ii) manage performance information through improved and integrated structures, systems and processes;
(iii) define roles and responsibilities clearly; and
(iv) promote accountability and transparency through accessible and accurate performance information.

As discussed in more detail in section 5.5.6 on accountability on page 230, one of the PFM reform's significant achievements has been the generation of credible in-year monthly financial reporting. In the past, budgets for the following year were set without finalising actual spending for the previous year. The virtual vacuum in quarterly and monthly reporting meant that prompt corrective action could not be taken in the event of over or under-spending or revenue under-collection. A National Treasury official stressed the importance of an early warning system:

> *"In 1997/98 provinces overspent by R5.8 billion but nobody in the government knew this at the time. Cabinet then instructed us to develop an early warning system. Since then provinces have reported to us religiously on a monthly basis which we published quarterly, and then it was translated into legislation. The practice was first established and then it was translated into law – that's important. …But the real reforms – in-year reporting, uniform budget and program structure – none of those things were ever regulated. By using persuasion and explaining the benefits, there is a higher probability that you will succeed rather than going the legalistic route. The first IDIP [Infrastructure Delivery Improvement Programme) and housing accreditation were in the law, but because there was no technical consultation it never worked."*

From a change management perspective, his view also emphasises the role of consultation in getting buy-in and ensuring successful reform, rather than compulsion through treasury fiat. Unfortunately, his nuanced understanding of change management of PFM reform is regrettably not always widely shared, either in the rest of the National Treasury or in some of the provincial treasuries.

5.5.4 Financial management reforms

The PFMA contains numerous provisions relating to execution of the budget as appropriated, the strengthening of the internal control environment and the creation of governance structures such as the internal audit function and departmental audit committees. The PFMA emphasises the management of public assets and liabilities, unlike the previous cash accounting mind-set which had focussed exclusively on revenues and expenditures. PFMA regulations cover the areas of asset management (which would be further supplemented by the *Government Immovable Asset Management Act*, 2007 (Act 19 of 2007), revenue management, risk management, internal controls, internal audit, audit committees, debt and liability management and public private partnerships. These contribute indirectly to value-for-money but an exhaustive treatment of these crucial reform areas falls, unfortunately, far beyond the scope of this thesis. There is however a growing literature on these topics (see, for instance, Folscher & Cole 2006; Fourie 2006; Maphiri 2011; Mkhize & Ajam 2006; Nair 2008; Siswana 2007).

A key initiative to combat serial capital budget underspending was the Infrastructure Delivery Improvement Programme (IDIP) which started in 2004 in partnership with the Construction Industry Development Board and the Development Bank of South Africa. The IDIP aimed to build the capacity of infrastructure units in provincial departments such as Education, Health and Public Works to address chronic underspending of capital budgets and shortcomings in planning, management and the delivery of provincial infrastructure (National Treasury 2005a:154). As discussed in Chapters 6 and 7, the IDIP has built the capacity of provincial governments to manage the roll-out of infrastructure projects and has diminished the degree of capital budget underspending.

One area which has far-reaching consequences for value-for-money in public spending as well as for combatting fraud and corruption is the supply chain management (SCM) system. It therefore merits a closer examination. Section 38(3) of the PFMA requires the AO to put in place "an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective". This system has, moreover, to be congruent with both the *Preferential Procurement Policy Framework Act,* 2000 (Act 5 of 2000) and the *Broad Based Black Economic Empowerment Act*, 2003 (Act 53 of 2003). The *Preferential Procurement Policy Framework Act,* 2000 (Act 5 of 2000) requires that when the government evaluates tender bids, a points system is employed which is not only based on meeting tender functionality specifications and price, but also gives preference in awarding tenders to companies of historically disadvantaged individuals (black persons disenfranchised prior to 1994, females and the disabled) or which promote other industrial policy goals such as stimulating local manufacturing or small business development.

For contracts of a value below R1000 000, the first 80 points will be allocated for price and functionality and the remaining 20 points for meeting Reconstruction and Development Programme (RDP) goals (such as promoting businesses of historically disadvantaged individuals, small business or local economic development). For larger contracts above R1 000 000, the first 90 points will be allocated for price and functionality and the remaining 20 points for meeting RDP goals. The *Broad Based Black Economic Empowerment Act*, 2003 (Act 53 of 2003) requires a company electing to do business with government to secure a black economic empowerment (BEE) certificate, based on a scorecard for that specific industry, from an accredited BEE rating agency. This BEE certificate determines the number of "empowerment" points allotted to a bidder in adjudicating a tender bid.

The net effect of 80-20 preferential scoring system is that bids from a company eligible for maximum preferential points may be awarded a tender even if the price offered is 20% more than the firm with the lowest priced bid. Black business groups have claimed that, even with these preferential points concessions, they are unable to complete with large, established firms to do business with the state. They have blamed the South African government for not using its economic muscle to create black industrialists and have lobbied for government contracts to be set aside for black business only (Paton 2013). Some sectors of emerging black business have advocated that "should be no limit to the cost premiums associated with empowerment, i.e price should not be a main criteria when adjudicating bids" (National Treasury 2015b:13), in other words that political considerations should completely over-ride economic efficiency imperatives. Recent suggestions that the preference weighting in favour of small business eligible for preferential points be increased to 50% for tenders up to R10 000 000 has drawn criticism from critics who contend that this large 50% potential BEE premium on market prices will inflate costs, reduce value-for-money, promote inefficiency and exacerbate corruption since potential empowerment beneficiaries may be pressured to pay kickbacks to officials or make forced donations to fund raising efforts by the ruling party fund and their affiliates (Jeffery 2015).

On one hand preferential public procurement – in the interest of redress to groups deliberately prevented from participation in the economy under apartheid – benefits owners of businesses who are historically disadvantaged as well as local manufacturers, small business, and possibly also their employees. On the other hand, preferential procurement imposes a direct additional cost on the taxpayer (to finance the higher prices incurred) as well as an indirect cost on the beneficiaries of public goods and services who have to forgo additional public services because of escalating costs (especially the poor who are typically heavily reliant on public services). The ultimate trade-off between the interests of these various groups cannot emerge from a purely technical economic optimisation exercise but is quintessentially political in nature.

The *Treasury Regulations* (supplemented by various practice notes, guidelines and circulars) require that a separate supply chain unit be established in each department and SCM systems to be established which cover (i) demand management; (ii) acquisition management; (iii) logistics management; (iv) disposal management; (v) risk management; and (vi) regular assessment of procurement performance. The *Regulations* are supplemented by a host of practice notes and guides, which cover tendering and bidding processes, managing conflict of interest, adherence to ethical standards, the training of SCM practitioners, and the prevention of various forms of abuse and corruption (National Treasury 2005b). An SCM Office was also established in the National Treasury to monitor the implementation of departmental SCM systems and provide support and training (National Treasury 2004b), and this would later evolve into the Office of the Chief Procurement Officer, discussed later.

The *Treasury Regulations* gave effect to a new policy on SCM adopted by Cabinet in 2003 to introduce more uniformity in SCM processes and the interpretation of preferential procurement legislation and policy, as well as to respond to shortcomings in existing systems of procurement, contract management, inventory/asset control and obsolescence planning (for the disposal and replacement of assets). These regulations (cited verbatim) identified the following deficiencies in SCM systems at the time:

- "money is almost always equated to the lowest price tendered – the emphasis is on monitoring inputs;
- procurement and provisioning activities are not linked to budgetary planning;
- asset management is limited to control of inventory, rather than on ensuring a satisfactory return to the community for the funds invested;
- bid documentation [is] not uniform, causing uncertainty to bidders and [SCM] practitioners;
- the Preferential Procurement Policy Framework Act, No 5 of 2000 (PPPFA) and its associated Regulations are complex and difficult to implement correctly, and procurement practitioners are not adequately trained in their application;
- the costs and outcomes of the PPPFA are not fully quantified, hence it is impossible to evaluate the merits of the system." (National Treasury 2004b)

On 4 December 2003, the National Treasury (2003b) published a *Framework for Supply Chain Management* accompanied by an amendment to regulations issued in terms of the *State Tender Board* Act, 1968 (Act 86 of 1968). The old regulations had compelled AOs to procure all goods and services only through the State Tender Board; the amended regulations allowed them to either go that route or alternatively procure in terms of the PFMA. In some provinces, the repeal of provincial tender board legislation was already underway and the various provincial tender boards were in the process of being dismantled, and the power devolved to AOs.

The Minister of Finance from 1996 to 2009, Mr Trevor Manuel, notes that SCM used to be centralized in the State Tender Board, an institution inherited from the apartheid regime. His comments suggest that the National Treasury initially anticipated a more differentiated, gradualist approach to decentralizing procurement authority, building on pilot projects in a few departments:

> *"I want to mention procurement, the State Tender Board which was driven by a few officials in the Department of State Expenditure and a couple of people from other departments, including defence, police and some reps of very tame – if you wish – civil service trade unions. And what they tried to do was to modernise the procurement in stages. …And the idea was actually that we'd run a couple of department as pilots, transferring the function to departments. This was a little bit later, '04. And when next we wiped our eyes out – and I'm not sure whether the State Tender Board was miffed and helped this thing along – but we discovered that many of the departments grabbed the right to decide on procurement, supply chain management. And so it wasn't actually a pilot and we didn't actually arrest it. I actually think that too many bad things happened in this period that we didn't seem to arrest. The trend of departments doing*

> *their own procurement was one of those we should have arrested sooner."* (Manuel, pers. comm., 1/09/2014).

The rapid decentralization of SCM to departments meant that many AOs did not have the relevant departmental procurement frameworks, standard operating procedures and risk management procedures, nor specialised supply chain units with appropriately skilled procurement and logistics practitioners and high professional ethical standards.

Value-for-money, rather than merely the lowest price, was seen to be the essential test against which departments would have to justify an SCM outcome: "Best value for money means the best available outcome when all relevant costs and benefits over the procurement cycle are considered" (National Treasury 2004c). The complex preferential procurement system complicates and obscures the determination of "best value-for-money" by being open to different interpretations by officials, conferring on bid adjudication committees considerable discretion to determine BEE cost premiums which depart from the lowest market price in the interests of RDP goals and creating potential for greater political interference in procurement processes. A powerful check on potential abuse would be ensuring greater transparency of SCM processes (that all information in the bid process such as bid committee reports, minutes and contracts awarded be publicly disclosed. National Treasury has identified this an important area of future SCM reform (National Treasury 2015 2015b), although this may expose the state to more litigation from unsuccessful bidders when SCM processes have been violated.

Nair (2008) points out the application of strategic sourcing methodologies in fleet management, for example, led to a saving of R15.4 million per annum. While there has been significant improvement in some procurement practices, there are other areas where SCM regulations are routinely flouted. As the Auditor-General's reports (discussed later in this chapter) attest, there is pervasive non-compliance in the application of SCM regulations (Ngakwe 2012). For example, research by Van Wyk revealed that in provincial departments supply chain regulations

> …. are manipulated by public sector managers and that they often deviate from the prescribed procedures. The negative audit outcomes are evidence of the poor financial control over the supply chain and outsourcing of activities. The reasons for these negative audit outcomes are mostly staff-related. Respondents indicated that staff do not have the necessary skills or qualifications and are sometimes not committed to financial controls as they are not held responsible. The study also revealed that the guideline for acquiring quotations and tenders is not adhered to and that tender prices are sometimes split to avoid the benchmark for more extensive formal procedures. (Van Wyk 2011:1348)

SCM is probably the most controversial and emotive area of contemporary South African PFM reform, because of its high vulnerability to fraud and corruption. In the provincial sphere, most audit opinions are qualified because of the procurement systems and the asset management systems, not because of the expenditure control systems or other PFM dimensions.

Every procurement system has to strike a balance between flexibility in support of service delivery and innovation, on the one hand, and accountability, control and anti-corruption on the other hand. This is a perennial tension between the budget controllers and budget spending agencies, even in the private sector, where control procedures introduced by the finance departments are often resented by other departments, such as production, marketing or research. Budget controllers, whether they be CFOs in line departments or treasury officials, typically set greater store by compliance with controls, accountability, uniformity and fairness in standard operating procedures:

> *"The PFMA does not undermine service delivery but requires that we follow proper procedures and that we are accountable. The Christians have their Bible; as public servants the PFMA is our Bible. The norms and guidance in the PFMA says as a manager you can't just do things in the way you think is right compared to another manager in the same department. If you are all going to procure, you should do it in a certain uniform manner acceptable to government which ensures that everything we do is fair and equitable, and we can account for value-for-money."*

Treasury officials typically refute the contention by line departments that procurement red tape undermines service delivery. For example, an ex-National Treasury senior official rejected the notion that PFMA undermines service delivery vehemently:

> *"That's absolute nonsense! That noise comes from new civil servants who have no idea what we went through when we came in in 1994 and found the old Exchequer Act which was even more prescriptive. You could hardly do anything without permission from the State Expenditure Department. If anyone looks at the Exchequer Act he would realise that the PFMA is a piece of legislation that empowers managers to do their jobs. Without fail, whenever people try to bypass the PFMA to speed up service delivery, they end up taking much longer than they would have and they realise it would have been much quicker if they just followed the process."*

Nevertheless, several respondents admitted that the timeframes in the PFMA are appropriate for goods and services, but not for major capital projects. A respondent from Limpopo Treasury observed:

> *"People can't differentiate between SCM in buying stationery and SCM in the built environment where you have issues of professional services. It takes much longer to build a school rather than just buying a book over the counter. They think that the same people who procure school books can deal with professional services [in construction]. So these skills are not there yet and are hampering PFMA."*

This view was shared by a former academic who had acted as policy advisor during the PFM reform. He endorsed the view that the PFMA's failure to differentiate appropriately between operating and capital expenditure is a major flaw, and points out that what appear ostensibly to be instances of non-compliance or irregular expenditure may simply reflect that the statutory timeframes are infeasible in large, complex infrastructure projects:

> *"To the extent that the PFMA has a fault line, observationally it may appear to be non-compliance but technically it's impossible to comply with. For example, every institution which wants to undertake capex [capital expenditure] has to go through a certain approval process within a certain period of time. Whereas if you want to get the tenders out and you want to adjudicate them and structure a contract with the service provider it takes much longer than what the PFMA requires. So when it comes to capex you can't almost implement some of it except if the capex is on minor things: desks, tables and computers. But if you have a multi-year road to build, or to construct a dam or acquire rolling stock, anything of multi-year feasibility, contracting and implementation – PFMA is not conceptualised like that. I blame the lawyers who drafted it because they didn't consult fiscal specialists…. This created unnecessary resistance to PFMA in state agencies and to some extent, municipalities. State-owned enterprises who have to comply with the PFMA find it incredibly unfriendly and counter-productive."*

The PFMA says very little about SCM, compared to budgeting, governance and reporting reforms. Most SCM requirements are fleshed out in an array of *Treasury Regulations*, treasury instructions, practice notes, guidelines and other circulars which have proliferated over the years. This proliferation of regulation over the last decade has led to some degree of confusion among SCM practitioners. As a result, the Western Cape Treasury has attempted to consolidate them into a single document, as described by one interviewee:

> *"National Treasury issues regulations in supply chain management; they call it practice notes and instruction notes. People are so confused over what is relevant and what is not, what is law and what is not, so what we have tried with the provincial treasury instructions is to bring all those things together so that the supply chain management practitioner can have one set of documents. It should not be too difficult to do that by arrangement between the National and provincial treasuries."*

Ironically, despite the large number of regulations, there is often an absence of written standard operating procedures for day-to-day SCM in departments, since many CFOs and AOs do not ensure that departmental policies are updated (especially in the light of growing case law following legal action against the state as a result of its procurement activities) and written SCM-related business processes. This exposed the departments to litigation as a result of violations of procurement regulations. Another respondent from the Western Cape observed the gap that provincial treasury instructions (PTIs) are trying to fill:

> *"If you look at your supply chain regulations, it's 5 or 6 pages. If you look at court cases around supply chain it runs into a couple of thousand. It's a highly complicated environment. Prior to 2000 there was a thing called the 'Black Book'. You have a high turnover of staff so you need to have a rule book that tells you 'you're a cashier whether you're responsible for putting together the accounts' etc. …The whole supply chain asset management is very woozy. …This has left a gap for the Auditor-General*

> *to come in and give their own interpretation of what the rules should be. That's why we issue PTIs."*

Given that many provincial departments have the high turnover rates in financial staff, the absence of standard operating procedures/written business processes weakens the SCM control environment and also makes training and monitoring more difficult. A respondent from the Western Cape observed:

> *"You have a young person who's never worked in finance before; against what do I train that individual in financial management? There's the [PFMA]* Act *and the* National Treasury Regulations *but nothing that tells him or her how they should function, if a document comes across his table what must he do with it. You need a guide that will tell the individual 'this is the way I will manage my transactions'. Finance is transaction intensive. It's like working in a bank. So you need a rule book. You can only do it one way which is the right way, all other ways are wrong. You apply finances for better impact [in budgeting], that's where your discretion comes in. That distinction was lost in the arguments in 1999."*

The panoply of regulation may in part be prompted by increased non-compliance resulting in irregular expenditure and audit qualifications, tender fraud and corruption. Ironically these regulations may be at odds with the PFMA legislation under the auspices of which they are published;, a respondent from Gauteng Treasury observed:

> *When you look at section 16(a) of the PFMA, it gives guidance on developing processes that are fair, transparent etc. But when we develop policies we often lack intense research. We implement them because we think they'll be a solution for non-compliance or whatever. We have so many of those policies and circulars that it is difficult to implement. The PFMA on its own is a good legislative framework, but the circulars, practice notes and instruction notes sometimes make life difficult for us to effectively and efficiently implement the PFMA itself."*

The *Regulations* themselves may therefore not be based on sufficient research on the underlying causes of non-compliance, such as a lack of accountability of the CFO and/or AO, political interference, skills constraints and/or vacancies etc. Paradoxically, the more regulations there are, the more compliance auditing gets done by the Auditor-General to enforce them, but the less attention the underlying management weaknesses get. So the Auditor-General makes the same remarks for literally decades, but the underlying administrative and political issues never get resolved.

It could be argued that in trying to curb the most unscrupulous or incompetent PFM practitioners, the regulations have hamstrung competent managers and stifled innovation. A respondent who had served as an AO averred:

> *"As corruption has increased, the system has become more complex to deal with that corruption. As the system has gotten more complex, I as a manager have been able to*

> *do less in terms of delivery. The procurement system has become so complex that you can't deliver. The system has become so rigid that any attempt at creativity, to do something different, doesn't work."*

As mentioned before, SCM is not only regulated by the PFMA but also by the *Preferential Procurement Policy Framework Act*, 2000 (Act 5 of 2000) and the *Broad Based Black Economic Empowerment Act*, 2003 (Act 53 of 2003), which aim to advance businesses owned by historically disadvantaged individuals. Moreover, the *Preferential Procurement Policy Framework Act,* 2000 (Act 5 of 2000) regulations also permit the Department of Trade and Industry to purse Industrial Policy Action Plan objectives by imposing local content requirements. The Department of Trade and Industry is able to designate specific industries of critical and/or strategic importance for government tenders for which only locally-manufactured products with a prescribed minimum threshold of local content will be considered.

A respondent from the National Treasury observed that too many conflicting objectives are required of SCM, which ultimately detracts from PFMA objectives:

> *"In the area of procurement and supply chain, the way in which BEE is implemented and the ways in which the tensions between the* Preferential Procurement Framework*, the industrial policy at Department of Trade and Industry and BEE objectives have been implemented have got in the way of PFMA."*

A respondent from the Gauteng Treasury pointed out that large infrastructure projects are often most affected by SCM rigidities:

> *"Especially in relation to capital projects, regulations and policies are rigid and not flexible enough. In infrastructure projects some of the materials or equipment which needs to be procured in order for them to implement may have to be imported because they are not available here, yet there are local content restrictions. I understand the need for controls, but these inflexibilities do hinder the delivery of the service and capital spending."*

A case in point is the solar water geyser industry, which could assist in reducing demands on the power grid. Despite severe load-shedding (power outages), Eskom could not initially roll out its low-pressure solar water heater scheme to low income household, because it was required to comply with the 70% local content restrictions. In July 2013, the Department of Trade and Industry classified the low-pressure solar water geyser as a "designated product" under government procurement rules. It ruled that both the tank and the collector tubes, which absorb the sun's radiation to heat the water, must each have 70% local content. However, it appears that there is not a single manufacturer of tubes in South Africa (Gosling 2015). As a result, in January 2015, Eskom's mass roll-out of solar water heaters ground to a halt, in a period where both the need to reduce pressure on the national grid and to deal with climate change risks was acute (Gosling 2015). Fortunately this SCM issue has since been resolved.

Multiple, often conflicting SCM objectives – no matter how laudable each objective may be individually – placed on a single instrument (procurement) in an environment of poor accountability have compromised value-for-money, and have created loopholes for fraud and corruption. This situation has been exacerbated by a lack of clear public sector guidelines on officials doing business with the state and managing conflicts of interest, and systems for detecting and monitoring disclosure by all relevant parties (National Treasury 2015b).

An official from the Western Cape expressed the view that the PFMA did not adequately balance the need for control and accountability with the need for managerial discretion in procurement, unlike the more recent *Municipal Finance Management Act, 2003*:

> *"The MFMA yielded quite a number of lessons because it was better balanced between regulatory compliance and service delivery. The problem was that the PFMA swung too far to the one side with the emphasis on delivery flexibility, not taking into account that as soon as you start working with finances, procurement and HR, that creates all sorts of opportunities for nefarious behaviour – which has in fact come about."*

The Office of the Chief Procurement Officer (CPO) was created in the National Treasury as a response to the pervasive weakness in SCM systems, with Mr Kenneth Brown being appointed as the first CPO in 2013. Some respondents felt that the creation of this Office did not diminish the managerial discretion of the AO, and was not a form of re-centralization; for example, a respondent from Gauteng asserted:

> *"The fact that the Office of the Chief Procurement Officer was established in the National Treasury tells us that we still have issues with value-for-money, despite all the regulations and frameworks….. They are saying, can we look at the way we procure some of these services to be able to say that we're getting value-for-money. ….The Office of the Chief Procurement Officer – as I understand it – is not saying we should be taking away the responsibilities which are lying somewhere else but it's to say let's look at the common goods government consumes, and to say how best can we come with a unified approach to secure those common goods. Let's say as government we recognize that we all need furniture for schools. It's not centralizing but saying can we at least come with a central contract which can be used at the provincial level, which has been checked that you're not being overcharged."*

Another interviewee who previously served as an official at the National Treasury held a contrary view, and argued that the CPO may be a portent of re-centralization of SCM powers:

> *"The Treasury introduced the Chief Procurement Office. To me it looks like gradually going back to the [State] Tender Board system because you want to manage things at the centre, as some of the provinces are not meeting the expectations envisaged by the PFMA."*

A National Treasury official describes the knee-jerk oscillation between centralization and decentralization as a "fallacy of opposites".

> *"We try one thing, and it's failing. We don't analyse, we just jump to the opposite extreme. So we move from centralization to decentralization and back again. But actually – like the Chief Procurement Officer – we should have from the start that major capital projects are done more centrally. Buying stationery you can afford to decentralize. Even if there is corruption, it's small scale and you can put in control mechanisms so it's more of a risk-based approach. People move from one extreme to another. Even your HR management needs to be decentralized but you need a strong centre monitoring what the regions are doing."*

Another problem is the lack of consequences where there are infractions of the PFMA, whether it be irregular, fruitless and wasteful expenditure or outright fraud and corruption. In some cases, AOs do not initiate the necessary disciplinary procedures and even if anyone is found guilty, sanctions tend to be negligible, such as final written warnings rather than dismissal. This is compounded by Executing Authorities (Ministers or provincial MECs) and Parliament's and the provincial legislature's failure to hold the AO accountable. The inability of the criminal justice system to prosecute white collar crime successfully also contributes to the lack of consequences and accountability. A National Treasury official expressed the following perspective:

> *"Getting value-for-money and cost saving depends on modernising supply chain and putting [in] a system that will inhibit fraud and corruption. You investigate these cases but when you get to the criminal justice system many of them just fall apart. The criminal justice system doesn't deal very well with government-based fraud cases somehow, so people get away scot free. So it's about strengthening the criminal justice system so the people can be brought to book but it's also about setting up your supply chain in such a way that it prohibits people from engaging in fraud. Also moving towards transversal contracts where we negotiate the costs and contracts at national so the provinces know where to buy. The budget sits with the province but the tendering and contracting sits elsewhere."*

The failure of the criminal justice system and parliamentary oversight to ensure accountability *ex post facto* may therefore have also prompted the re-imposition of *ex ante* controls, such as obtaining approval from the CPO for very large tenders.

Some contend that the PFMA has given AOs too much discretion. They may deviate from the prescribed procurement processes (for example, they may disregard the recommendations of bid committees) provided that such deviations are disclosed to the relevant treasury and the Auditor-General. Unfortunately, some departments make SCM deviations the norm rather than the exception, which weakens the SCM control environment. An official from the Mpumalanga Treasury suggests that more *ex ante* controls over deviations may be necessary:

> *"Some departments operate on deviations but the law is on the side of the Accounting Officer. Some Accounting Officers will even to a certain extent undermine the work that's being done by the bid committees that have been established by that institution. These prescripts are saying the Accounting Officer can disagree with the bid committee and report on it. There are some Accounting officers who on a daily basis disagree with*

> *the bid committees after they have evaluated, adjudicated and gone through the entire process and they don't even give reasons, hoping that the Auditor-General won't catch them. The regulations that support the PFMA have weakened us as provincial treasury to a certain extent. I would recommend that any deviation, no matter how small, needs to be approved by the provincial treasury."*

In reviewing SCM systems, and indeed the PFMA as a whole, hard decisions will have to be made in the light of the last decade's experience, which has demonstrated that the PFMA's assumptions of a functioning accountability chain and the pace at which capacity could be generated are not tenable. Trade-offs may have to be made: centralizing SCM may reduce the probability of corruption, but may also attenuate the AOs' influence over, and hence accountability for, service delivery performance and value-for-money. A former National Treasury official articulates this conundrum:

> *"If I'm the chief of police and you ask me to do my job but you don't give me the power to make decisions – to decide how [many] people I need, do I want more police cars or more people, bigger or smaller police stations, specialized units or not – you need to give me some discretion. If you force me to procure a particular car and they give me bad service, you can't hold me accountable for its performance. There is a trade-off between holding the Accounting Officer accountable for performance and reducing corruption. I would rather have a system where you give the police commissioner the discretion he needs but hold him accountable for service and value-for-money. Our procurement system is designed to fight corruption, not to deliver value-for-money. That's a subtle but important difference."*

A respondent from Mpumalanga Treasury articulated the concern that further centralization of SCM may introduce further delays, to the detriment of service delivery:

> *"If you centralize SCM, who is going to have the time to evaluate the bids? It can take weeks or months from the specification to the evaluation and awarding [of bids], and this is going to impact on your service delivery. You might have an instance where you urgently need to get equipment for a hospital. With centralized procurement you'd need to plan 2 to 3 years in advance but at this stage I don't even see people planning even one year in advance."*

Often delays in SCM processes arise due to lack of adequate procurement planning. A National Treasury official pointed out that "*people want to do things in an* ad hoc *manner, crisis management*" then blame the procurement system for their own lack of planning. Despite the fact that the three-year MTEF baselines are stable and predictable, many departments have not used them as a basis for forward planning:

> *"Of course there are elements [of SCM] that need to be modernised and made easier now were are in the electronic age. But if you don't do procurement planning and demand management, you can't align budgets with your plans. Take for instance infrastructure. You know how much money you have over the three-year MTEF so what stops you planning in this year for what you're going to implement in the following three years? So that when the next year comes, you have your projects sorted out,*

designs and locations sorted out, ready to start procurement in that budget year. People don't give themselves enough time to plan. If you don't, it becomes a crisis. If you start planning for procurement in the year you're going to spend, it's going to take six months. But if you know this, nothing stops you from starting earlier."

The other alternative would be to strengthen the original approach of the PFMA by enhancing the effectiveness of bid committees, with regard to conflicts of interest for instance. Provincial governments can use the PERSAL personnel management and payroll system to track whether their own employees are implicated in conflicts of interest, but they do not have access to similar systems for municipalities or public entities. An official from Mpumalanga suggested that the CPO may be able to assist here.

"Instead of centralizing procurement which didn't work under the Exchequer Act, I think we need to strengthen the working of the bid committees in terms of decision-making and appointing the suppliers. Are the people who serve on these committees independent or are there conflicts of interest? We don't have systems to check this and it's not an easy thing to check. National Treasury can help us to come up with systems to do this. The Auditor-General has access to databases which we as provinces don't have. You can also monitor the procurement plan against the budget. I don't see this oversight happening."

A second element of strengthening the existing PFMA approach would be more intensive professionalization, skills and ethical conduct development supply chain and logistics practitioners so that they are not just "glorified purchasing clerks" but can actually assist departments in demand management, procurement planning and strategic sourcing. Low capacity in SCM units, and poor SCM controls in a cash accounting environment which creates an incentive to ignore bills and invoices (leading to a build-up of accruals), have sometimes resulted in dysfunctional control environments, vulnerable to abuse. A National Treasury official described this destructive dynamic:

"When you look at Health in the Free State there's an issue of unpaid bills. The department over the years has always had the problem of unpaid bills. They just stuff them in a bin. Some of the orders were telephonic so there were absolutely no controls. And there was no capacity. The capacity in the SCM units weakened in a big way. That was not wise. Maybe it was deliberate: the weaker the capacity, the greater the chaos, the easier it is for those who want to steal. So that's why you hear there's a crisis in Free State, there's a crisis in Limpopo, but when you look, the systems and capacity to manage their finances are just not there."

A third element would be – as mentioned earlier – streamlining and simplifying treasury guidelines into a single document along with detailed generic standard operating procedures which departments could customise. Finally, document management systems and electronic logistics systems could be improved to strengthen the control environment. A respondent from the North West treasury assessed the systems weaknesses in line departments as follows:

"The supply chain management document system is very poor. Documents go missing. We have litigation after litigation because of the poor process. The system should automatically calculate the points instead of us doing it manually."

It is anticipated that the long-awaited Integrated Financial Management System (discussed further in section 5.5.5 on page 226) will, through the introduction of e-procurement, automate manual SCM processes, facilitating standard operating procedures for the demand management, acquisition, asset management and disposal management functions, and integrate them with other financial systems (National Treasury 2015b).

In February 2015, the National Treasury released the *2015 Public Sector Supply Chain Management Review*, the first such assessment since the promulgation of supply chain regulations in terms of the PFMA in 2004 (National Treasury 2015b) . The *Supply Chain Management Review* announced that all the disparate pieces of legislation dealing with procurement would be streamlined into a single Supply Chain Management Bill which would formally establish the Office of the CPO. The CPO would be empowered to formulate, monitor and enforce SCM policies and regulations, including auditing AOs of departments and Accounting Authorities (boards) of public entities. Importantly, the draft legislation vest the CPO with the powers to sanction both civil servants and private sector violators of SCM regulations (National Treasury 2015b).

The CPO would also prescribe the goods, services and construction works which would be centralized in national SCM processes, in the interest of enhancing government's power as a purchaser. Transversal contracting at a national level is expected to expand over the next three years to encompass banking services, IT equipment, services and infrastructure, security services, hotel accommodation, air travel, professional services such as financial management consulting and auditing, construction services, etc. (National Treasury 2015b).

The CPO would also oversee the use of SCM for socio-economic objectives by setting national targets and would direct provinces and municipalities on the socio-economic goals they should achieve through the procurement system. The CPO would monitor actual progress against these goals, including the extent of cost premiums through socio-economic procurement. The CPO would also establish a mechanism to resolve disputes regarding SCM, including allegations by the public of violations of the regulations (National Treasury 2015b).

Other SCM reforms which were announced by the *2015 Public Sector Supply Chain Management Review* (National Treasury 2015b).are summarised below:

1. Greater standardisation and simplification of tender documents to permit greater standardisation for particular categories of goods and services.
2. Promotion of a strategic sourcing perspective which is "a collaborative and structured process to critically analyse an organization's spending and using the

information to make business decisions about acquiring commodities and services more effectively" (National Treasury 2015b:35).

3. Establishing a national database of suppliers, service providers and contractors, including targeted business enterprises.
4. Standardisation and rationalization of SCM business processes
5. A standardised SCM reporting framework across the public sector in relation to procurement plans, tenders to be advertised, tenders awarded, supplier company information, the value of each award and progress in implementing tenders.
6. A single website hosted by the Office of the CPO containing SCM information for all public sector institutions and suppliers.

5.5.5 Accounting reforms

To give effect to the constitutional requirement of uniform treasury norms and standards, section 8(1)(a) of the PFMA requires the National Treasury to prepare consolidated financial statements for public sector departments and public entities in accordance with Generally Recognised Accounting Practice (GRAP). Section 1 of the PFMA defines the term "financial statements" as comprising a balance sheet, income statement, cashflow statement and any notes to these statements, and any other statement the National Treasury may prescribe. Section 87 of the PFMA also provides for the establishment of an Accounting Standards Board to set GRAP standards. These standards are intended to introduce the accrual basis of accounting into the South African public sector, and are supposed to be based on the best international standards and be more closely aligned private sector accounting practice.

The Accounting Standards Board decided to harmonise with the International Public Sector Accounting Standards (IPSAS), a set of International public sector accounting standards, developed by the International Public Sector Standards Board of the International Federation of Accountants. The IPSAS is also aligned with the International Financial Reporting Standards (IFRS) which are applied in the private sector (Botha 2006; Pioggiolini 2006; Van Wyk 2006, 2007). Although several state owned enterprises (parastatals) moved quickly to accruals, by 2007 provincial departments were still on a modified cash basis (Van Wyk 2007). This hybrid still prevails in 2015, with little discernible further movement towards full accrual accounting (for the reasons explored later in this section).

In the early stages of accounting reform, the benefits of accrual accounting portraying a much more accurate picture of the application of public resources in a particular period were widely recognised, as were the potential implementation challenges such as the requirements for more sophisticated accounting systems and IT, deeper skills sets and a profound re-orientation of the mind-sets of public sector financial and line managers. In the weighing-up of potential costs, benefits and risks, Van Wyk's conclusion is fairly representative of the thinking at that time:

> While it is true that the application of accrual principles presents some challenges, the benefits in terms of improved presentation of financial information of government departments, outweigh any implementation difficulties (Van Wyk 2006:28).

By 2007 Government had already migrated all nine provincial governments to a single system, the Basic Accounting System, in order to enable financial reporting in accordance with GRAP. However, there were doubts as to whether the Basic Accounting System could meet the stringent demands of accrual accounting and about the consistency between the accounting records and the available fixed asset registers (Van Wyk 2007:68). There were also concerns about slow response times and bottlenecks during peak times, such as at the month and year end and about integration with the existing personnel and payroll management system (PERSAL) (Nair 2008).

In 2002, the Budget Council approved the development of a strategy to integrate and modernise the existing stand-alone financial IT systems. In 2005, Cabinet approved the implementation of an integrated financial management system (IFMS) under the auspices of the State Information Technology Agency supported by the Department of Public Administration and the National Treasury. It was a three-phase approach, and it was anticipated that the entire project could be completed by 2013, which in retrospect turned out to be wildly optimistic. The IFMS would encompass SCM, asset and inventory management, payroll and HR management systems, integrated with the financial management and accounting system and a business intelligence module for user-friendly financial and non-financial reporting (Nair 2008).

Primarily because of skills constraints within the State Information Technology Agency, the initial stages of the IFMS project were dogged by prolonged delays (Nair 2008). By May 2013, the National Treasury reported to Parliament that the SCM, asset and HR management modules (for which tenders had been issued for off-the-shelf IT solutions) had been completed. However, the core financial management module, which had been contracted to an IT company, Accenture, for development, was far behind schedule, with only 52% of the required functionality specified and only some of that fully developed and unit tested. Moreover, attempts to source a service provider to develop, maintain and support the payroll module had been unsuccessful, delaying implementation further. A more realistic implementation rollout strategy for the IFMS was therefore required (National Treasury 2013b).

Due to these problems experienced in trying to develop customised software for the financial module, Cabinet in November 2013 approved that the initial hybrid approach to the IFMS (which incorporated specially developed software with commercial off-the-shelf modules) should be replaced by an architecture which consists solely of commercial off-the-shelf modules, with very limited customisation. The advantages of moving towards standard commercial enterprise resource planning solutions are that it could speed up implementation, lower ongoing maintenance costs, and less onerous skills requirements. The envisaged timeframe for the rollout under this new approach is 1 April 2017 (Department of Public Service and Administration 2015). Whether this revised deadline is achievable remains to be seen.

The provincial governments regard the inability of the National Treasury (and its project partners, the State Information Technology Agency and the Department of Public Service and Administration) to deliver the promised IFMS as a major stumbling block to PFM reform in the provincial sphere. A respondent from Mpumalanga Treasury likened the IFMS to a *tokoloshe*, which is a mythical dwarf-like creature of African folklore:

> *"IFMS is like a* tokoloshe*, promised more than 10 years ago. You hear that it's coming at night but you never see it. Even with the Basic Accounting System you can put in controls against generating orders where there are no funds available. But people bypass the system. They use the service and then issue the [purchase] order only after the new financial year. So it becomes an accrual. It's not really related to the [accounting] system itself, it's more lack of consequence management, poor planning and poor costing of plans."*

Another cogent point she makes is that no matter how sophisticated the IT system, it cannot replace sound management systems, controls and oversight. An official at the National Treasury pointed out that the delay in rolling out the IFMS has also adversely affected the ability to do comprehensive costing of new policies and programmes:

> *"It had a big impact. We as the National Treasury took a serious hiding from provinces. Our credibility was also seriously affected because it's one thing to say you're going to do it, it's another thing to actually do it. It also hindered a number of practical things like costing. …Part of the weaknesses is that clause in the PFMA on the costing of policy in section 35. …This costing unit didn't happen which is a weakness. There is also a problem with our Cabinet system. If a proposal goes to Cabinet the treasury should be consulted and the cost implications considered. But if you bypass that process it defeats the system."*

But beyond problems with IT systems and skills, by 2007, Van Wyk expressed concern that the paradigm shift from the cash system mind-set which had been used in South Africa for more than 25 years had not occurred: "The fact that this shift has not yet been achieved is definitely an obstacle in the path toward transforming financial reporting and this problem needs to be addressed urgently by the National Treasury" (Van Wyk 2007:67). Disappointingly, even AOs and the top management in provincial departments did not demonstrate leadership in remedying the financial control shortcomings highlighted by the Auditor-General, resulting in repeat findings: "The chief executive officers of provincial government departments do not seem to assign a high priority to rectifying negative audit outcomes" (Van Wyk 2007:70). Furthermore, the impact of the oversight role of the Public Accounts Committees in provincial Legislatures was perceived to be weak (an issue discussed further in section 5.5.6 on page 230.

The challenges delineated above have led commentators to be much less sanguine about the possibility of implementing full accrual accounting in South Africa. Some are dubious about whether there is indeed a need for South Africa to pursue this arduous objective. Wynne (2009:15) contends that Accounting Standard Board's standards to define GRAP based on the IPSAS are "as yet largely un-implemented". This is borne out by the fact that the financial statements for the national and provincial governments were still prepared on a modified cash basis. Yet, a further 17 accrual-based based standards had been approved for phased implementation in late 2008 by the then Minister of Finance, Mr Trevor Manuel (Wynne 2009).

Recent independent research on international experience of accruals implementation has indicated that, in spite of the substantial costs incurred, far fewer of the potential benefits anticipated have actually been realised (Guthrie et al 2005). Although several years have already been devoted to accruals implementation by the South African government, the main implementation costs are yet to be borne. Given the uncertainties around the actual benefits of accrual accounting relative to its costs, the need for fiscal consolidation in the wake of the global financial crisis and sluggish domestic growth and the gains already achieved by the PFMA, Wynne argues that introducing a further set of major accounting reforms may not be appropriate:

> The financial statements of South African government departments already provide a wide range of information and, importantly, are produced and audited within three months of the year end – a world class standard. Especially in a period of financial austerity, further reforms should concentrate on refining and consolidating these reforms. The question should not be when are we to adopt accrual accounting, but rather, what specific additional refinements and information will actually be used by the users of the government's financial statements. (Wynne 2009:16)

Furthermore, if accrual accounting is introduced, it is not clear whether further reforms such as accruals-based budgets would be required (Van Wyk 2006:21) and what the impact on other PFM reforms, such as the move towards performance budgeting, would be. A National Treasury official notes, however, that reports from existing accounting systems such as the Basic Accounting System reflect only cash expenditure and not the full cost of spending. Therefore it is difficult to link spending with service delivery:

> *"But I would also say let's not forget that we undertook these reforms in order to try to link financial information to plans and to objectives, service delivery indicators, outputs and outcomes and so on, on the presumption that we were going to be moving towards proper resource-based accounting, and proper resource-based measures of expenditure – which we have not done. So yes you can look at the quarterly numbers but if you want to link them to service delivery, they're not the right numbers. They're just the cash spending numbers. And that's not what a proper resource accounting framework would require you to be looking at. Having not made progress with accounting reforms (and there are good reasons for being cautious about what you're*

trying to achieve), one shouldn't expect too much by way of the utilization of financial information for resource management purposes."

The costs and risks of continuing on the route towards accrual accounting may outweigh the potential benefits. But if the current modified cash accounting is retained, better approaches to managing and disclosing commitments, contingent liabilities and other disclosures in the notes to financial statements will have to be developed, as noted by another interviewee:

"Inasmuch as overspending and unauthorised expenditure has decreased, accruals have increased. What we see is boxes and boxes of accruals. So spending has stopped for this financial year but it will be carried over to the next financial year. So the budget allocation for the next year is depleted from day one. We use a modified cash system and so as long as you haven't paid you are not deemed to have incurred unauthorised expenditure. The Auditor-General has assisted us in this regard by introducing the assessment of financial health. If you have indeed overspent your budget but you just stopped paying, that will be picked up."

5.5.6 Accountability cycle and legislative oversight-related reforms

As noted earlier, one of the intentions with the PFMA was to reduce substantially the lead time between the end of the financial year and the compilation of financial statements, the auditing of these statements and their submission to Parliament or the provincial legislatures. Under the old *Exchequer Act*, AOs had four months to submit appropriation accounts to the Auditor-General and the Treasury, in contrast to the PFMA, which permits only two months. Furthermore, no sanctions were applied if delays occurred, whereas under the PFMA, late submissions are regarded as financial misconduct. Furthermore, before the PFMA, the Auditor-General often finalised incomplete financial statements; this practice has been stopped under the PFMA (National Treasury 2000:22).

The PFMA also compels treasuries to deliver regular consolidated reports on actual expenditure during the year. As already noted earlier in section 5.5.2 on page 200, national and provincial departments are also required to report on actual service delivery performance against the targets (or predetermined objectives) set out in their five year strategic and Annual Performance Plans. The Annual Report of a department, for example, must not only disclose audited financial statements, but also reflect actual performance against "predetermined objectives" contained in its Annual Performance Plan. The requirements to report on actual outputs delivered and to verify this performance information has fundamental implications for the design of M&E and other management information systems in many departments which were initially non-compliant with the PFMA. Other combined assurance and accountability mechanisms instituted by the PFMA include internal audit functions, audit committees and external audit, as well as stringent timeframes for reporting to Parliament.

Over time, as performance information management has improved, the links between the planned performance of departments in their strategic and annual performance plans and their actual performance have become stronger:

> Notable improvements are being recorded in the alignment of objectives and performance information in the annual reports of departments with those contained in the Estimates of National Expenditure and their strategic plans. (Nair 2008:7)

This is a clear indicator of improved compliance, but whether the performance information generated is actively used for managing internal delivery operations within departments better is much less obvious. Despite the increasing volume of performance information (albeit often of dubious quality, completeness and usefulness), these documents are often not used effectively by the political Executive or Legislature for oversight purposes (Kusi 2006; Mkhize & Ajam 2006).

The enhanced flows of information between Parliament and the national departments (and between the provincial Legislatures and provincial departments) should greatly improve Parliament's ability to discharge its fiscal oversight role effectively and call the Executive to account. It is therefore imperative that Parliament and the provincial Legislatures play a pivotal role in ensuring that departments adhere to the reporting timeframes stipulated in the PFMA, provide useful output information that will assist their oversight function, and conform to the spirit of the PFMA (Ajam 2009).

Until the enactment of the PFMA, Parliament and the provincial Legislatures engaged mainly with appropriating the budget (planned expenditure). The tighter reporting timeframes on actual expenditure and service delivery have enabled Parliament and the provincial Legislatures to monitor the implementation of the budget during a financial year, detecting possible bottlenecks early rather than after the fact. Another provision in the PFMA is of equal interest to provincial Legislatures, namely the PFMA provision on unfunded mandates (section 35): any piece of national legislation that has financial implications for the provincial sphere of government must be costed. This provision is often ignored by national sector departments when new policies are introduced, and there is a much greater role for the provincial Legislatures and the National Council of Provinces in Parliament to prevent this from occurring.

As noted earlier, the PFMA also permits voting on the basis of programmes ("main divisions within a vote") rather than on a department's budget vote as a whole. This is an important pre-requisite for giving substance to the constitutionally designated right of Parliament and the provincial Legislatures to amend the budget. Finally, the PFMA limits the definition of "over-expenditure" to any over-expenditure or expenditure that is not in line with the purposes of a vote. Infractions of *Treasury Regulations* were classified by the PFMA as irregular expenditure that must be dealt with by the treasuries, and not by the Public Accounts Committees of Parliament and the provincial Legislatures, as was previously the case.

Another important development in the accountability cycle is the auditing of the information on delivery performance provided by departments as part of their Annual Reports, against the planned performance objectives in their strategic and Annual Performance Plans. Section 20(2) of the *Public Audit Act*, 2004 (Act 25 of 2004) requires mandatory audits by the Auditor-General on "the reported information relating to the performance of the auditee against predetermined objectives". Furthermore, section 20(3) of the *Public Audit Act,* 2004 (Act 25 of 2004) empowers the Auditor-General to conduct discretionary performance audits as well: "In addition, the Auditor-General may report on whether the auditee's resources were procured economically and utilised efficiently and effectively."

The aim of an Audit of Predetermined Objectives is to enable the auditor to conclude whether the reported performance against pre-determined objectives is reliable, accurate and complete, in all material respects, based on predetermined criteria. These criteria include:

(i) all relevant laws and regulations;
(ii) the Framework for the *Management of Programme Performance Information* (National Treasury 2007b);
(iii) all frameworks, circulars and guidance issued by the National Treasury and the Presidency regarding the planning, management, monitoring and reporting of performance information; and
(iv) the submission of performance information for auditing, together with the annual financial statements within two months after the end of the financial year.

The procedures for Audits of Predetermined Objectives typically include

(i) obtaining an understanding of the internal controls relating to performance information;
(ii) assessing the relevant systems for the collection, monitoring and reporting of performance information – this would normally include
    (a) reviewing the various interlinked processes that inform the reported performance information in the annual report (the strategic and annual planning, the budget and in-year monitoring processes);
    (b) reviewing the system descriptions for the relevant systems;
    (c) verifying them by means of walk-through tests;
    (d) ensuring that the system as described is being adequately monitored by management (through review, comparison, independent checks, etc.) to ensure that the process/procedure is being carried out as planned;

(iii) evaluating the existence, consistency (for example, as recorded in the strategic plan, budget, quarterly reports and Annual Report), format and quality of performance information; and

(iv) comparing reported performance information to relevant source documentation and conducting limited substantive procedures to ensure valid, accurate and complete performance reporting.

Despite Audits of Predetermined Objectives, M&E systems in large, decentralized departments such as provincial Health and Education departments remain weak, especially in the verification of actual performance relative to reported performance for many thousands of service delivery units, such as clinics or hospitals. Provincial Education departments disburse allocations to several thousands of public schools, according to funding norms, to finance textbooks, municipal services and small capital equipment. Payments are contingent on the submission of financial statements by the recipient schools, however:

> Due to the large number of schools, provincial education departments are unable to verify the veracity and quality of all the financial reports, thus leaving the door open to the inefficient and corrupt use of government resources. Some provincial education departments make use of management consultant companies, but, invariably, even these private service-providers will audit and assess a sample of schools only. One has to assume that departments' inability to verify the veracity and quality of financial reports of extra-budgetary institutions has a negative effect on the resources-outcomes link and, hence, operational efficiency is jeopardised. (Wildeman & Jogo 2012:22)

One of the most remarkable achievements of PFMA reforms was that it reduced the time taken for an accountability cycle from five years or more during the apartheid era to seven months for national and provincial departments. The financial year ends in March, departments submit their financial statements for audit in May, and two months later the Auditor-General produces a consolidated report. This has made up-to-date information available to Parliament and the provincial legislatures for oversight purposes. Many respondents felt that this additional, timely information was not sufficiently exploited by Parliament to improve the quality of oversight. A former National Treasury official expressed this view:

> *"The biggest disappointment for me has been the manner in which Parliament has engaged with those reports from departments, not only the Annual Report but also the monthly reports…. The information about how the department is performing is out there, it's released on a monthly basis. But the manner in which Parliament engages with those reports leaves much to be desired. If we had an activist Parliament to hold the Executive to account, the information to enable them to do so is there."*

Sometimes committees of the legislature such as the Public Accounts Committees do indeed conduct effective oversight and make cogent recommendations. But a respondent from the Mpumalanga Treasury noted that departments often did not act upon these recommendations:

"The Legislature committees make a number of recommendations on sanctions but these are often not implemented. A lot of departments who go there are in conflict with the committees because they haven't implemented their recommendations. The Annual Reports contain a list of the SCOPA [Standing Committee on Public Accounts] recommendations and the extent to which they've been implemented."

The additional fiscal transparency does not appear to have greatly strengthened Legislative accountability. Another former member of the Treasury explores some of the underlying causes of this, such as the party list electoral system, which may have undermined the incentive for parliamentarians and Members of the Provincial Legislatures to hold their political seniors in the Executive to account:

"We've done incredibly well in expanding the information base to MPs [Members of Parliament] and the legislative basis for them to hold the Executive to account and monitoring, assessing and managing performance. But Parliament has been pretty useless at holding departments to account. It's partly because of the partly list system, partly due the high degree of political patronage in the way parliamentary posts are allocated, etc. You get ahead in Parliament by not rocking the boat with Ministers and Directors-General. If you become a chair of a committee and take on the Minister too much, you'll get into trouble with Luthuli House [the head office of the ruling African National Congress party]."

A respondent from the North West Province argues that a lack of financial skills among Members of the Provincial Legislature is a key constraint to effective oversight by committees. This is compounded by the turnover of Members of the Provincial Legislature after elections, which prevents them from accumulating oversight experience:

"The oversight structures of the Legislatures are intact in terms of legislation. There is a Public Accounts Committee and you go there to present. But the difficulty for me is the level of understanding and the quality of people in those committees is lacking. It can only be improved if you put in people who can understand these sometimes very complex issues. The Legislature could do much more, but so long as you don't have quality MPs [Members of Parliament] and MPLs [Members of the Provincial Legislature]…. The legislative framework for oversight is there, but oversight won't add value unless the quality of people improves, and people keep on changing – which undermines knowledge retention."

Another respondent from the Gauteng Treasury pointed out that inadequate research support may also restrict the ability of provincial Legislatures to hold the provincial Executive to account effectively.

"The SCOPA [Standing Committee on Public Accounts] interaction happens after the fact, what matters is what happens during the course of the financial year. Unfortunately things will remain just like that… you go and present, you answer questions and then you leave, and nothing basically happens …until we at least have the right kind of researchers in the Legislatures who understand the business of departments, to support the Legislature in playing a meaningful oversight role, not just

compliance. They should be making recommendations for correction during the course of the financial year and following up on those recommendations."

5.6 2009-2015: consolidating and deepening PFM reforms

After the global financial crisis in 2008, which morphed into a sovereign debt crisis in the Eurozone, global economic growth remained subdued until 2013. This, coupled with domestic shocks such as the Marikana labour conflict in August 2012 and prolonged periods of electricity outages, had an extremely negative impact on the growth and labour absorption capability of the South African economy (FFC 2013). With declining tax revenue in the wake of the 2008 global financial crisis, but government expenditure remaining high, the South African government relied on increased deficits, resulting in a build-up of public debt. The focus shifted to expenditure ceilings and the containment of non-personnel spending. Cost-saving has become a priority objective recently, although it was not an original focus area of the PFM reforms.

As a response to persistently high unemployment levels, the New Growth Path (NGP) released in December 2010 by the Economic Development Minister, Ebrahim Patel, aimed to prioritise job creation, thereby reducing unemployment by 10 percentage points by 2020, down from the prevailing (narrowly defined) rate of 25% (Department of Economic Development 2012). This target is to be achieved by massive public investment in five key areas, namely energy, transport, communication, water and housing. In 2011, as discussed in section 4.6 on page 148, South Africa's first long-term National Development Plan (NDP) was released (NPC 2012).

Since 2009, no major new PFM reforms have been announced except in relation to SCM, described in the previous section. The focus has mainly been (i) consolidating PFMA implementation in national and provincial government departments, especially in areas such as SCM; (ii) institutionalising outcomes-based M&E (as described in the previous chapter) and (iii) achieving more structured legislative fiscal oversight and enabling legislation regulating Parliament's ability to amend budgets.

In his 2012 Budget Speech, the then Minister of Finance, Mr Pravin Gordhan, announced that (i) the National Treasury would table a long-term fiscal sustainability report in Parliament, (ii) implementation of the proposed National Health Insurance would necessitate tax increases in the longer term, (iii) a carbon tax would be introduced in 2015, and (iv) a review of the tax policy framework and its role in supporting the objectives of inclusive growth, employment and fiscal sustainability would be undertaken (Ministry of Finance 2013) by the Davis Tax Committee under the leadership of Judge Dennis Davis.

In May 2014, Mr Nhlanhla Nene, the former Deputy Minister of Finance, was appointed as Minister of Finance. Faced with subdued economic growth, constrained by continuing electricity outages and labour disputes, concerns about the sustainability of public debt and impending credit rating downgrades, Minister Nene tightened the fiscal stance. In the 2015 budget, for the first time since 1994, personal income taxes were raised for taxpayers earning in excess of R181 900 per annum. There was also a renewed focus on cost containment, especially by means of SCM reform (National Treasury 2015a).

The *Money Bills Amendment Procedure and Related Matters Act*, 2009 (Act 9 of 2009) demarcated the budget appropriation process into three clear phases (determining the national fiscal framework, equitable dividing nationally collected revenues among the spheres of government, and allocating individual departmental budgets). The *Money Bills Amendment Procedure and Related Matters Act*, 2009 (Act 9 of 2009) clarified the roles of the Finance Committees and Appropriations Committees in both Houses of Parliament in appropriating and amending the budget. Verwey (2009) and Wehner (2009) assess the implications of this constitutionally mandatory piece of legislation on the engagement of Parliament in the budget process.

An interviewee from the FFC noted that the delay by Parliament in passing the *Money Bills Amendment Procedure and Related Matters Act*, 2009 (Act 9 of 2009) may have undermined Parliament's oversight ability:

> *"Parliament and [provincial] Legislatures have quite a lot to do with negative PFMA outcomes because their oversight role was compromised by their slowness in enacting enabling legislation such as the* Money Bills Amendment and Related Matter Act. *Previously Parliament could question the Executive who would give their answers and that was it. Parliament had no power. That vacuum in legislation became a bane to oversight."*

The 2011 *Budget Review* was the first in which the Minister of Finance formally responded to Parliament's recommendations when tabling the budget. These recommendations included those of the finance and appropriation committees of the two Houses of Parliament in respect of the fiscal framework, the division of revenue among the three spheres, and the budget review and recommendations reports of the National Assembly portfolio committees (National Treasury 2011).

The *Money Bills Amendment Procedure and Related Matters Act*, 2009 (Act 9 of 2009) also created a Parliamentary Budget Office to support fiscal oversight. A former National Treasury official notes that creating a new organization alone may not have the desired effect unless the political will to hold the Executive to account is also present:

> *"The* Money Bills and Related Matters Act *has contributed to politicians' influence over the budgets. The Parliamentary Budget Office will give advice to parliamentarians but will run into the same problems unless people are serious. For me it's almost like creating another [National Treasury] Budget Office. In the past there was the belief that Treasury should support Parliament. Now it's shifting to a new structure [the*

> *Parliamentary Budget Office] which will also render advice to Parliament, but what are those people doing with that advice? There are even more opportunities but it depends on commitment and political buy in from parliamentarians. You can create new structures but it won't, on its own, bring success."*

The emphasis of PFM reform implementation between 2009 and 2015 has shifted from sequencing and coordinating comprehensive and integrated systemic change to a more mature phase of incremental and continuous improvement and institutionalization:

> Quite distinct from the early period of reform which saw the introduction of new laws, changes in institutional arrangements, the introduction of new budget systems; the current phase of reform is characterised by amendments to the law, the improvement (and replacement) of existing computerised systems, [which] continue to improve upon programme structure and descriptions, improving the specification, measurement and monitoring of output targets and continue broadening the scope of the consolidated financial statements. (Quist, Certan & Dendura 2008:26-27)

A review the PFMA has been mooted in order to fine-tune it after more than ten years of implementation experience. However, by 2015, this review had not materialised, as discussed further in section 5.6.3 on page 249.

As part of its strategy to eliminate SCM and tender fraud, in 2013, Mr. Pravin Gordhan, then the Minister of Finance, announced the creation of a CPO within the National Treasury:

> A project team seconded from state agencies and the private sector has identified four main streams of work, involving immediate remedial actions, improving the current system, standardising the procurement of critical items across all government and the long-term modernisation of the entire system. Among the first initiatives of the CPO will be to enhance the existing system of price referencing. This will set fair value prices for certain goods and services. (Ministry of Finance 2013:28-29)

In addition, the CPO will pilot procurement transformation programmes in the Departments of Health and Public Works, nationally and in the provinces, and review contracts awarded to business entities suspected of bypassing procurement regulations, as well as civil servants awarding tenders to companies in which they have a personal business interest. The role of the CPO was introduced earlier in section 5.5.4 on page 212.

The development of the Financial Management Capability Maturity Model by the National Treasury in 2008 based on initial work done by the Auditor-General has been a significant initiative. This model is based on a questionnaire comprising a comprehensive set of 583 questions encompassing a number of PFM functional areas. These include revenue management, asset management, liability management, procurement of goods and services, compensation of employees, transfer payments and general and information technology controls. Based on departments' responses to the survey, they are categorised into one of six progressive levels of maturity:

(i) Level 1: Start-up level – no proper internal controls;
(ii) Level 2: Developmental level – proper internal control framework;
(iii) Level 3: Control level – focus on compliance and control;
(iv) Level 4: Information level – measuring how resources are used;
(v) Level 5: Managed level – use of resources with effective results; and
(vi) Level 6: Optimisation level – continuous learning and improvement.

The average financial management capability maturity scores of national departments has encouragingly increased from 2.75 in 2010, to 2.88 in 2011 and 2.93 in 2012. However, the national average still falls below 3, which is considered to be the minimum acceptable level. Where a department's score falls below 3, the National Treasury assists the department's leadership in developing strategic support and corrective plans and provides technical assistance and financial management skills development (National Treasury 2012). The financial management capability model has been subsumed into the Department of Planning, Monitoring and Evaluation's more comprehensive Management Performance Assessment tool, discussed later in section 5.7 on page 258.

The intergovernmental fiscal system is also still in the process of evolution, but has been hampered both by prolonged policy uncertainty. In 2007, the then Department of Provincial and Local Government initiated a policy process to review the provincial and local government system (which was to culminate in a *White Paper on Provinces* and a revision of the *Local Government White Paper*), calling for public comment on many of the issues raised again by the NPC (Department of Provincial and Local Government 2007).

In 2015, seven years, four ministers and two departmental name changes later (from Department of Provincial and Local Government, to the Department of Cooperative Government and Traditional Affairs, to the Department of Cooperative Government), there is still no resolution to this nebulous policy process, exacerbating the policy vacuum. At the same time, functions which were initially performed by provincial governments have been centralized in national government (for example, social security in 2004 (as alluded to previously in Chapter 4), and Further Education and Training in 2009. Functions which were previously performed by provinces, such as providing Housing and Public Transport, are being decentralized to cities. The proposed National Health Insurance may also mean that functions previously performed by the provincial Health departments may be taken up the national sphere. Serial *ad hoc* sector-based decision-making therefore seems to be taking place, without assessing its cumulative impact on the role of the provincial governments.

5.6.1 Uneven enforcement, consequence management and weak accountability

Section 5.5.1 on page 193 dealt with challenges relating to enforcement and accountability at the political-administrative interface, these challenges are more pervasive, because AOs frequently do not enforce the PFMA in their departments by taking the necessary disciplinary action or, where appropriate, laying criminal charges. An interviewee from the Free State Treasury identified AOs' unwillingness or inability to sanction PFMA violations as a serious shortcoming:

> *"Punishment for violating the PFMA has always been a thorny issue. The PFMA outlines what Accounting Officers are responsible for, but I don't see a strong culture of management when there is non-compliance which amounts to misconduct in terms of the PFMA. This is one area that will assist in improving the prominence of the PFMA. PFMA must be given 'bite' so that it can get the respect it deserves."*

This perspective was also shared by a respondent from the North West Treasury:

> *"If you do something wrong, the public finance management regime should ensure that those who violate the legislation account for it. This is an area where implementation of the PFMA is lacking. In my own experience, I don't think we've enforced the PFMA to the letter. Issues of enforcement require attention. Value-for-money is one of them, in relation to procurement processes, but we have not [yet] reached that stage. When will we get to a stage when we can say someone has been prosecuted for violating the PFMA?"*

He went on to observe that both the political will and managerial will need to be in place to enforce the misconduct provisions which are in the PFMA and its regulations:

> *"Even though the PFMA talks about financial misconduct, that provision has not been exploited. It can only be exploited if we have a strong and supportive leadership across all levels, not just the provincial EXCO [Executive Council] but at the departmental level: HoDs and CFOs. It is also partly due to the unclear process for dealing with financial misconduct."*

An interviewee from Gauteng Treasury concurred with the view that the process for dealing with financial management was unclear. In particular, she noted that the absence of a policy that stipulated which sanction was appropriate for a particular PFMA violation. As a result, public officials are often given token slaps on the wrist (such as final written warnings) even for serious infractions (such as fraud or theft) for which stronger sanction may be appropriate:

> *"Even if you contravene a section of the PFMA we don't have structured consequence management. Even though the PFMA says that if you incur irregular expenditure you are liable to prison, the fact that these things are still happening tells us we still need to see an enforceable consequence management system. There is no policy which says if a person did this and it's more than once or twice, this should be the response. So people get away with murder. If you kill somebody, you go to jail. But there is no sentencing framework. So why hasn't a framework been developed which says if you do this type of financial misconduct, this is what we need to do? The PFMA says you can be liable for jail, but how do we institute that?"*

A former National Treasury official expressed the view that the uneven enforcement of the PFMA across provinces is partially due to the lack of detailed guidance from the National Treasury on processes for misconduct, disciplinary processes and criminal procedures:

> *"In my view it was the lack of detailed guidance from the National Treasury on enforcement. I think it's very obvious in terms of the PFMA what they should enforce. If an Accounting Officer overspends, there should be consequences for that Accounting Officer. It's not completely in the hands of the provincial treasury to sort that out – it's a combination of the provincial treasury and the Legislature. I don't think National Treasury has done well in [its] enforcement responsibility towards national departments. No enforcement gives reason for people not to be serious about the PFMA legislation."*

A respondent at the Mpumalanga Treasury has observed that some CFOs who try to adhere to the PFMA find it extremely career-limiting:

> *"The CFOs are not resigning. The CFOs who want to uphold the PFMA get shifted. They don't leave the system, they just don't become CFOs any more but they are in the department doing other work. But when we have an intervention we fetch them because we know that the only thing they did wrong was to uphold the PFMA. They have not had any disciplinary [proceedings] or anything like that."*

A former official of the Gauteng Treasury has noted that there were instances where the PFMA may even have been abused to get rid of Accounting Officers.

> *"I was appalled when I saw that some Executive Authorities were trying to get rid of accounting officers using the PFMA as a pretext."*

Allegations that the PFMA has been used to get rid of AOs and other senior officials who have fallen out of favour with their political principals have not been confined to provincial governments. One example in the national spere is the well-publicised case of Ms Astrid Ludin, the Accounting Officer of the Companies and Intellectual Property Commission, who had been brought in by the Department of Trade and Industry to turn around this failing and dysfunctional, yet crucially important, organization. Despite making visible progress in turning this ailing institution around using IT to put in "paperless systems", she was served a notice of suspension in April 2015 by the Department of Trade and Industry as a result of a findings in a forensic report by the Auditor-General that she had violated technical PFMA supply chain regulations. The report did not indicate evidence of corruption. Despite this, Ludin resigned (Barron 2015a, 2015b).

She claimed that her attempts to resuscitate the moribund institution had enraged the powerful National Education Health and Allied Workers Union (even though no jobs had been lost in the modernisation process) and that the Minister of Trade and Industry, Mr Rob Davies, who was a member of the Communist Party, had not support her in carrying out her mandate. Ludin asserted that the union had unlawfully bypassed her and the management team, and had engaged with the

Minister directly. She claimed that the technical violation of the PFMA was just a pretext for her suspension. She argued that the onerous SCM conditions in the PFMA were well known to slow down service delivery and that the imperative to bypass the PFMA to speed up service delivery was generally understood and tacitly condoned, and that it “only really becomes an issue when the [A]ct is used as a tool to move against people who have become inconvenient for political or other reasons” (Barron 2015a:9). Her statement suggests that there may be informal conventions about what is administrative acceptable in relation to procurement which may be at odds with the formal content of the PFMA legislation.

Whatever the truth or behind allegations such as these may be, it is indisputable that there is a perception of selective enforcement in the public mind, and that ultimately the credibility of the PFMA has been eroded. It is abundantly clear from the above discussion that any review of the PFMA would have to grapple its uneven enforcement (which is discussed further in Chapter 8). The knee-jerk reaction has been to increase auditing (for example, the scope and depth of compliance auditing), and this has resulted in a string of infractions’ being detected (as meticulously outlined in successive years’ Auditor-General reports), but in too little action in addressing them.

5.6.2 Capacity

The unevenness in the distribution of PFM capacity across provincial governments was to some extent recognised even at the inception of PFM reforms, with capacity defined not only as the skills and experience of individual public servants, but also as broader organizational capacity in terms of management systems, processes and information. The dearth of PFM capacity in some quarters may have been deemed a transient constraint to be assuaged over time, but fifteen years later, crippling capacity constraints still appear to be a structural feature of the PFM landscape.

This situation arose from a number of complex, interlocking causes. On the demand side, there has been a massive scale-up in public spending, driven by the extension of public services to poor, black and rural communities that were severely underserved in the apartheid era. This has increased the general demand for management skills in the public service (for example, programme and project management, monitoring, managing performance of subordinates and discipline), and for PFM skills across a spectrum of finance and related disciplines (such as economics, financial and management accounting, auditing and supply chain management) in particular. The problem is exacerbated by the fact that the PFMA has fostered sub-specialisation within PFM (for example, in procurement, internal audit, performance information management) and a level of sophistication which requires higher order, more advanced skill sets in terms of analytical ability and strategic insight than were needed before. The extension of public services to rural and other underserved communities has also increased the geographical mismatch in PFM skills, as rural provincial governments (such as the Eastern Cape and Limpopo) struggle to attract the requisite skill sets, unlike more urbanised provinces (such as Gauteng and the Western Cape, where there are more and bigger institutions of higher education). The need for representivity across the public service fuelled the demand for black PFM professionals and graduates, who are much sought after in the private sector too.

On the supply side, training and short courses can build PFM skills in incumbent officials in the short term, but in the long term, PFM skills acquisition depends on competence-based recruitment of new officials and a functional education system. The abysmal failure of the South African basic and higher education system to foster high quality mathematics and literacy skills (NPC 2012) is common knowledge, and requires little elaboration. Other factors which have hindered skills acquisition in certain departments and provinces include chronic poor HR management, inadequate professionalization, a lack of insulation from political patronage pressures, and the high turnover of senior management and PFM staff (NPC 2012). These factors are explored in greater detail below.

The National Treasury had put intense effort into capacity-building initiatives in the early years of PFM reform, but in recent years, there has been much less focus on such support despite the high turnover of PFM staff in some provinces. One National Treasury official observed:

> *"In the beginning we did a lot of roadshows but we were not consistent enough to follow through with those initiatives. We've done a lot of training, best practice guides and other materials on our website, but a lot of people change positions consistently in the public sector, and you need to educate them. For instance if you look after this last election when the new national departments were created, there are so few people in the system who understand the frameworks, not only the Constitution but PFMA, MFMA, DoRA. So it seems as if legislation has been side-lined whereas in the past in any government system legislation was one of the key things you needed to understand and be on top of. We have not done refreshers."*

Several respondents noted that induction for new Directors-General and their teams on their PFMA responsibilities was not being performed as regularly and effectively as in the past. This is especially important in the light of the high turnover of AOs in some provinces.

There are also concerns that the capacity-building strategies which have been adopted have not been as effective as anticipated, in relation to the significant amount of financial resources allocated over the years. However, there are pockets of innovation in capacity-building which could be extended more broadly. For instance, one of the reasons for under-spending on capital infrastructure grants in many provincial governments has been poor infrastructure planning and planning for procurement. New approaches to capital grant design not only provide financial resources, but a holistic approach to building delivery capability and incentives for performance. A respondent from the National Treasury explains:

> *"What we've always done is that we give you the capital grant and off you go. Now we are saying, 'We're giving you a grant. We're giving you support. These are the systems of planning and procurement. We've defined the capacity you need to manage your infrastructure programme, these are the competences that you need. We'll give you money for that but only if you show you've adopted the right kind of systems, you're planning properly and your plans are credible.' And we have methods of assessing that. Bringing together the support, the systems and incentives to deliver is something we're playing around with."*

She went on to note that the National Treasury has, by means of technical assistance and training, helped put in place infrastructure systems, linking infrastructure development plans with procurement, project management, and maintenance planning. But they discovered that training was useless if the recipient departments did not have engineers, architects and other skilled people, so that they would be forced to outsource to the private sector. In response, the National Treasury developed a Human Resources Framework which includes blueprints of the organizational structure of the infrastructure units in provincial Education, Health and Public Works departments. This was approved by the national Department of Public Service Administration, which granted a special dispensation to pay slightly higher in order to attract the requisite scarce skills. The same respondent from the National Treasury describes how this initiative was stymied by certain provincial departments, which preferred to promote their existing underqualified staff rather than attract new skills:

> *"You know what happens? Provinces say I need to promote my existing people here. So the HR units became an obstacle. Because this is money for personnel built into the [capital] grant, we said: 'If you are going to hire people with these competences that will be on your own cost and we will withdraw the money.' But then we told the national departments you'd better run a central recruitment process, because otherwise the provinces would say 'we can't find skilled people'. So the national departments advertised for Limpopo, Mpumalanga and North West in Health and Education. And we found skills [skilled people] willing to go into those provinces, but we were told they are not there."*

From the above, it is clear that strictly enforced grant conditionality, based on clear up-front competence criteria for infrastructure specialists, combined with national department support in recruitment, can have a major impact on capacity-building outcomes. This example underscores the lack of HR and general public service management reforms to support PFM (discussed further in section 8.4 on page 378). This gap is a result of poor sector leadership of national sector departments, as well as in the national Department of Public Service and Administration and the provincial Premier's Offices (all of which may themselves lack capacity).

Other innovations which should be considered is the secondment of National Treasury staff to provincial treasuries and provincial departments, as well as greater peer-learning across provinces.

Another avenue is the use of intergovernmental fiscal forums for sharing good practice in the spirit of cooperative government, as noted by one National Treasury official:

> *"In relation to the provincial treasuries' skill in assessing plans and budgets, in determining provincial priorities, to cost and to determine delivery modalities, we want to assist the provincial treasuries through peer-learning and mentoring using IGR [intergovernmental relations] structures. There are pockets of excellence in certain provinces, exercising oversight over local government, for instance. Others are doing well with infrastructure delivery or personnel management. We need to encourage cross-learning. TCF [Technical Committee on Finance] and Budget Council and other IGR structures should be less about us at National talking at them in provinces, but more about us talking to each other and holding each other accountable."*

This makes sense, since most national departments, such as the Department of Health or Basic Education, may have policy and planning skills, but do not have as much implementation capacity as the more capacitated provincial governments have. However, the conventional assumption is that national departments always have more capacity than their provincial counterparts in concurrent functions. A National Treasury official points out that this is not necessarily so:

> *"So in the case of interventions by national [Basic] Education or Health departments, their capacity to provide support has been weak. It's not a surprise that there wasn't good centralized management support because the central departments did not know how to run school systems or clinics or hospitals. They'd never done that – or they hadn't done that for many decades. So providing the kind of management support that was needed would have been better coming from the old provincial departments. That's where the management capacity was."*

A former National Treasury official pointed out that some of the more capacitated provincial treasuries, such as the Western Cape, have established forums for the various PFM specialisations, which seems to have had a positive impact:

> *"In the Western Cape, the provincial treasury has taken the initiative to establish a supply chain management forum, a financial accounting forum, management accounting forum. These can add value if you implement them correctly. The National Treasury has not established a supply chain management forum where they bring departments together. This [initiative by the provincial Treasury] has led to improvement in supply chain management as shown by the Auditor-General's report."*

This sort of specialised good practice sharing forum is something which could be emulated much more widely. The National Treasury did create an organization called the Institute of Public Finance and Auditing, but it was not entirely successful, and is no longer functional, leaving a vacuum for occupation-directed PFM education and training for practitioners. A National Treasury official candidly conceded the following:

> *"We've made a couple of mistakes. We created the IPFA [Institute of Public Finance and Auditing] to professionalize practitioners at national and provincial level. That was a complete failure. It was exciting – I was part of it – but we have not professionalized the finance managers in departments the way we'd intended. We've never set up an*

> *institution. We've never had a pipeline for putting people through a skills development programme. We've failed with career-pathing. Part of that was not Treasury's mandate. It was supposed to be the PALAMAs [Public Administration and Leadership and Management Academies] of the world and other role players. But we didn't give it enough oversight and attention and as a result it didn't translate into anything."*

This highlights the lack of complementary human resources and public management reform required to support PFM reform. The Public Administration and Leadership and Management Academy (PALAMA, formerly known as the South African Management Development Institute, (under the auspices of the Department of Public Service and Administration) did not have a track record of effective skills development. It was recently re-configured as the School of Government. It is too early to ascertain the impact of this change.

For the Western Cape, skills shortages are not as formidable an impediment as in other provinces. Furthermore, as indicated by an official from the Western Cape Treasury, the province has been able to respond to the scarcity of certain skills through long-term structured programmes:

> *"It's a limitation but it's not a binding constraint, not in the departments, not in the municipality, not in Treasury itself. But you deal with the limitations through structured programmes. You need to have your standard operating procedures or guides so that people understand what they're supposed to do and they can be measured. Your nurses, doctors, engineers on the execution side, value-for-money, again there are limitations as in the rest of the country. The engineers are relatively old both in the municipalities and in Public Works, but we began with a process 10 years ago with bursary programmes, also for Health and Education."*

In Gauteng, the country's economic heartland, the financial skills exist, but may not be recruited for a number of reasons, ranging from unattractive public sector remuneration in comparison with the private sector which is competing for the same skillsets, to political cadre deployment of politically connected, but technically incompetent, personnel.

A former Treasury official contends that the remuneration structure for middle and junior levels in the public sector is generous, compared to the private sector, but that top management echelons are not competitively remunerated:

> *"It's a structural problem in the South African public service. There are two or three reasons for that. The first is that most middle managers are overpaid relative to the private sector. Most very senior managers like DGs [Directors-General] are probably underpaid relative to the complexity of the task and relative to the private sector. So you can attract good competent middle managers but you can't attract good competent top managers."*

Although beyond the scope of this study, the appropriateness of public sector remuneration structures for the different levels of management and categories of professionals (such as engineers or chemists) does merit further research.

As noted in section 5.5.1 on page 193, AOs are – for all intents and purposes – political employees. Even CFOs and their subordinates, who are supposed to conform to specific competence requirements, are sometimes underqualified but political connected and politically "deployed" by the ruling party in the province or municipality. A respondent from the Gauteng Treasury explains:

> *"The capability of the people who are in the CFO's Offices is a huge problem. If you do not have the right kind of people occupying key positions, you'll not achieve what you had intended to achieve. If you want to deploy people without skills to a department, do it. But not in the CFO's Office which should at all costs be filled with people with the requisite skills. Where there are challenges there are people who are in the CFO's Office and who are not the people with the right skills. I'm not talking about the CFO as an individual."*

Another factor is that the negative perceptions about working in a highly politicised environment has contributed to the public sector's inability to position itself as an employer of choice for financial management practitioners:

> *"In Gauteng we have an abundance of people with skills in the finance stream. But there are also bad perceptions of the public sector – some people think 'I'd rather stay at home than work in a government environment'. It's because of what they've heard about how politicized the system is. If we are not honest and deal with professionalizing the public sector, skilled people will shy away. For us the struggle is: how do you position yourself such that if people want to further their careers they will also choose the public sector over the private sector? The issue of professionalizing this sector is very important. When we recruit people can we look beyond 'it's your cousin that you know, it's your neighbour that you know' but get people who can do the job?"*

Besides issues of uncompetitive remuneration for top management, the fact that top management is often not supported by a competent team can sabotage even the most skilled and committed individuals, who end up "firefighting" rather than providing strategic direction, as one respondent pointed out:

> *"Capacity is having a critical mass of competent people who can solve problems. You need at least five, six or seven people who are smart, hardworking, at the top of each government department, preferably more. Often you only have one or two which means that they have to work so hard that they get burnt out after two or three years, and there aren't enough of them to generate the intellectual energy to improve things, take time to sit back and review the way things work."*

An interviewee who had worked in the National Treasury expressed the opinion that while the top levels of South African treasuries are at least as good as their international counterparts, the capability of middle management in South Africa is vastly inferior, once again a function of an education system with poor teaching and learning outcomes, particularly in quantitative fields:

> *"I worked in the UK Treasury and the people in the South African Treasury are equally competent. But the difference is the depth. [In the UK] I get a new person straight out of*

university recruited by the Government Economic Services. I hold their hands for two or three weeks then I can give them work to do independently. In South Africa if I get somebody straight from university it takes me 12 to 18 months before I can give them independent work. They can't write, their spreadsheet skills are limited, their policy analysis skills are limited. How … do they pass? The bottom level of the UK Treasury is infinitely better than the middle level in the South African public service."

The reputation of a particular department also has an important influence on its ability to attract skilled personnel:

"Capacity is still a big impediment. If the Treasury is to say it needs a CFO, it will get one. ….Now think of being the Department of Public Works – is there any right-thinking CA [Chartered Accountant] out there that would want to become the CFO of Public Works? The reputation of a department in itself determines whether that department is capable of attracting the requisite skills it needs."

More rural provinces also tend to experience more difficulty in attracting financial skills. As a former National Treasury official noted, this problem has been worsened by an unstable political-administrative interface.

"It also varies across provinces. If there have been assassinations in Mpumalanga, who would want to go to Mpumalanga to be a CFO? Would a high flying CA [Chartered Accountant] want to be posted in Kimberley or Mafikeng? There is a difference in the ability of provinces to attract capacity. Of course it doesn't help that we have the same government in national and eight of the provinces, yet every time there is a change of Minister, that Minister wants to change the Accounting Officer, senior management and so forth. And then we complain about capacity."

It should be noted that the choice of provincial capital affects a province's ability to attract skills. For example, KwaZulu-Natal Provincial Government had two administrative capitals, Ulundi (a small rural town, with around 20 000 inhabitants) and Pietermaritzburg (a larger university town of closer to 250 000 inhabitants). Consolidated its administration in Pietermaritzburg increased the province's ability to attract financial skills. Similarly, it could be argued that the Eastern Cape Provincial Government's decision to operate from Bhisho (a small rural town of under 12 000 inhabitants which was the capital of the old Ciskei homeland) rather than Mthatha (97 000 inhabitants) or the large coastal cities of East London (217 000 inhabitants) or Port Elizabeth (312 000 inhabitants) has also compromised its recruitment prospects. A former National Treasury official describes his experiences in Bhisho:

"When I first went to Bhisho after 1994 it was a hell hole. It was terrible. After lunch you'd get these Kentucky Chicken boxes … people would eat Kentucky [Fried Chicken] in their offices and leave the boxes in the corridor. It was never cleaned so the entire place smelt like old Kentucky Fried Chicken. I wouldn't want to work there even if you paid me a lot of money. So the culture of the old Ciskei bureaucracy persisted – even though you had new people coming in from the ANC and you'd merged Transkei, Ciskei and the old Cape Provincial Administration. Because Bhisho was chosen as the capital, the prevailing culture in Bhisho dominated. Everybody was "Bhisho-ified" in

> *other words. ….And the cultural assimilation of the people was quite dramatic, even of the people who had had no previous exposure to Bhisho before."*

In retrospect, it could be argued – as a former academic and policy advisor contends – that the capacity requirement of the PFMA was hugely under-estimated initially, and that the capacity-building response did not respond adequately to these initial conditions, including the ravages of the apartheid education system:

> *"National Treasury did not fully understand the capacity required to implement the spirit rather than just the letter of the Act. The second thing they misunderstood was that the PFMA does not only require capacity in the treasuries, national or provincial. It demands equal capacity in every department, or at least the CFO Offices in each department. They took their eye off the ball by misinterpreting the nature of capacity, the depth and spread of capacity. National Treasury almost just paid lip-service to the notion of the capacity required to make PFMA a success. So if you don't know, you just comply with the letter of the PFMA, you don't know what the spirit of it is."*

Through implementation experience, the need for more skills with line departments and provincial treasuries has become painfully clear. A National Treasury official's comments reflect her awareness of the problem:

> *"We need to do a capacity audit because it doesn't matter how much you refine the Act but if you don't systematically build capacity both within the departments' CFO Offices and the provincial treasuries. Capacity is a major determinant of whether a department may perform or not, no matter how onerous the rules may seem to be. In the big provincial departments we need to do an audit of the CFO and CFO's Office to see what capacity there is. Maybe have very proactive support for the recruitment process for appointment people in those offices, first of all through the treasuries. We are busy reviewing the functions of provincial Treasuries and the competences they need. Limpopo Provincial Treasury is the largest in terms of numbers but does not have the required skills."*

The fact that she too highlights shortcomings in recruitment processes again emphasises how the lack of complementary civil service reforms has undermined PFM reforms. Another commentator posits that the huge shortfall in capacity in seven of the nine provinces in respect of the PFMA requirements has bred a compliance culture, which conforms to the letter of the PFMA but undermines its substance:

> *"Because the PFMA had a capacity requirement which was out of sync with seven of the nine provinces, it created a compliance mentality, concerned more with the letter of the law than its spirit. And that is where the boundary between the fault lines of the Act as opposed to the fault lines of political enforcement comes in. But nonetheless PFMA 15 years later has created some gap between compliance with the letter and the spirit of the law."*

Furthermore, the gap between the existing capacity and the PFMA capacity requirements undermines accountability, since any failure can always be blamed on capacity deficits:

> *"The provincial treasury keeps communicating legislative issues to departments. But sometimes non-implementation of the PFMA is not as a result often of capacity, but the receiving department may regard the process as an unnecessary bottleneck which will defeat their purpose at the end of the day should they follow it, or they may think that it's just making things difficult. There may be other reasons, including political ones, that undermine the strict implementation of the PFMA."*

It is clear from the preceding exposition that tackling the issue of PFM skills and broader organizational capacity requires a multi-facetted approach which responds to the need for political commitment to a professional public service, stabilising the political-administrative interface, funding holistic capacity building that will combine training and technical support, as well as support in recruitment, and ultimately improvements in the education system in the long term.

5.6.3 Deferral of the PFMA Review

After a decade of experiential learning from PFM implementation, there has been no formal review of PFMA legislation and associated regulations, instructions, practice notes and circulars, despite the overwhelming sentiment among interviewees that such a review is long overdue. Furthermore, the implementation of the MFMA in 2003 has also yielded valuable lessons which could also enrich the PFMA – for example, the MFMA intervention procedures are much clearer, and the MFMA permits multi-year capital appropriations.

A respondent from the Free State treasury noted that the government and the way it "does business" have changed markedly. The PFMA has not responded to these changes, and is therefore out of sync with the current environment, especially in the areas of SCM and capital construction procurement. One independent commentator outside of the treasuries critically attributed the missed opportunity to review the PFMA after more than a decade to intellectual stagnation at the National Treasury:

> *"National Treasury has a responsibility to monitor the operability of legislation over which it has control. And if you audit that and see that certain parts are inoperable, it's part of your fiscal responsibility to amend it. But the Treasury has stagnated intellectually. They've moved on to see the PFMA as the be all and end all of injunctions. They don't see the dynamics of fiscal evolution as entailing ongoing evaluation of the performance of the legislation itself, not just compliance with the legislation. So they've moved from policy-making and formulation to policy enforcement at all costs, and they don't want to be confused by the facts."*

There appear to have been a number of technical attempts to review the PFMA, however, which did not pass political muster. The National Treasury has attempted to respond to changing circumstances and key learning through regulations issued in terms of the Act, rather than reviewing the Act itself. Unfortunately, these regulations have created unintended consequences, as a respondent from the Western Cape Treasury pointed out:

"There have been a number of attempts to review the PFMA but each and every time the respective minister … Minister Trevor Manuel baulked at it and Minister Gordhan did likewise …didn't feel – that's my own deduction – that they would get sufficient buy-in to send through Cabinet and Parliament a significantly amended PFMA. So what they've tried to do is via the regulations, as well as practice notes, circulars and so on. There's a new regulations draft out which hasn't been published yet, more than a year in arrears. This has unfortunately created more problems because they're contradictory, leave gaps etc. And there are varying interpretations between the National Treasury and the Auditor-General on the validity of all these different things."

At least part of the political backlash may have been because of perceptions that the National Treasury was becoming too powerful, a "super-department". A former National Treasury official explained this perspective:

"Despite the view within the Treasury that we could have given Treasury more power to do particular things, out there in government people felt that Treasury had too much power. Treasury officials always had this thing that our strength lies in the power of our argument. But there are those who – when they can't get their argument across – will say "In terms of the PFMA I have the power, and you shall do it". So there started to be a push-back against the PFMA. In 2007 we attempted to close the gaps in the PFMA. That reform programme got defeated in Cabinet. By 2009 with the new administration, a decision was taken in the Treasury: we would rather live with the PFMA and its deficiencies rather than attempt to introduce further reforms, because some of the people calling for reforms want to water down the PFMA rather than to strengthen it."

Another official in the National Treasury confirmed that political risks associated with diluting the PFMA are a major impediment to a comprehensive PFMA review:

"Remember in our transition leading to the last election Treasury was seen as this powerful institution with all the powers in the world, and the notion of clipping their wings came into the discussion. Treasury told political institutions in every way to stuff off. So I'm saying that – reading the politics – he [Trevor Manuel] was not prepared at that point to take that risk because the probability that the PFMA would be watered down was higher than dealing with the shortfalls in the legislation. That in my opinion was the real reason. There was a sequencing issue as well, but the main reason was the risk was just too high. Changing the regulations is easy. But if we review the PFMA today the probability that we will have a worse outcome is 100%."

An interviewee outside of the treasuries intimated that politicians engaged in corruption may find it expedient to emasculate the PFMA:

"There is a serious risk of that; high profile instances of abuses of resources have definitely created the prospect that any form of revision might end up in serious dilution – especially with the current configuration of the Cabinet. With another configuration it may not be a risk, but certainly now I wouldn't venture it."

What is clear from the above discussion is that any review and re-launch of the PFMA can only be successful if there is the requisite top-level political support of continued PFM reforms. It is by no means clear that there is still sufficiently strong political commitment to PFM reform. The thorny issue of political will and future PFMA reform in South Africa is addressed further in Chapter 8.

5.6.4 Regulatory compliance

Section 5.5.4 on page 212 examined the proliferation of regulation in relation to SCM, one of the more problematic areas of the PFMA. In analysing the PFMA's compliance burden, it may be useful to distinguish between the actual legislation and the regulations issued in terms of the Act, as one National Treasury official noted:

> *"I don't think the Act counts there, it is more the regulations, how they are interpreted and the procedures put in place to implement, like planning requirements are where the regulatory burden has increased. It is not the PFMA [itself] but its implementation that had, in a sense, unintended consequences of increasing regulatory burdens."*

It should be much easier to review and streamline the *Treasury Regulations*, because as secondary legislation, they do not require tabling in Parliament, but can be gazetted by the Minister of Finance. Amending the Act itself would, of course, require an extended parliamentary process.

Given the political constraints on reviewing the Act itself, as explored in section 5.6.3 on page 249, the National Treasury's only instrument to respond to emerging issues appears to be the regulations. However, the piecemeal nature of regulation development appears to have undermined the initial conceptual coherence of the PFMA and in some instances to be at odds with the PFMA's primary philosophy, as a respondent from the FFC observed:

> *"The pace of developing regulations was slow. It was often reactive instead of proactive. Because they were reactive, many of the regulations and circulars have tended to come in as measures of control, rather than measures actually allowing managers to do their work properly. When they end up like that, they also tend to be very limiting in the sense that people become almost scared to take decisions because of what the consequences might be."*

This dilutes accountability, and may compromise innovation. This respondent cited as an example the National Treasury's recent regulations on cost containment which apply uniformly across all provinces. In his opinion, the regulations can "stop people from thinking for themselves" about how to control costs under vastly different provincial circumstances and prevent the allocative efficiencies which are supposed to be a potential benefit of fiscal decentralization from actually being realised:

> *"Provinces like the Western Cape, KZN [KwaZulu-Natal] and Gauteng had actually moved quite far in designing their own fiscal prudence measures that they were putting in place. When you then come in with the cost containment measures now prescribed by the National Treasury, gazetted into law and audited by the Auditor-General, you create a problem. Because people have to conform, you've limited the room to take decisions when you have to deal with different situations. If you believe people are not doing the right thing, you do have the right to intervene. But if some people are doing*

> *the right things, why must you, sitting where you are sitting in the treasuries, think you know better? Unless you can prove that these people are actually wasting money and you make them save the money. But if you are sitting somewhere and you decide you need to do this to everybody, you are killing the whole system. In fact the whole intention of decentralization becomes compromised because we now all have to be the same. It squeezes out innovation."*

In sum, it can be cogently argued that the proliferation of regulations can in part be attributed to a strategy to reintroduce *ex ante* controls to compensate for a broken accountability chain which vitiates the effect of the *ex post* controls originally envisaged in the PFMA (such as robust oversight by the Executive Authority and the Legislatures). The immediate, reflex response to non-compliance with regulations is often to generate yet more regulations, which perversely increases non-compliance. Finally, more detailed regulations are also sometimes deemed necessary to compensate for inability of AOs and/or their CFOs in departments to put into place their own detailed departmental frameworks. Chapter 8 explores the proliferation of *Treasury Regulations*, instructions, guidelines and circulars in greater detail.

5.6.5 Relationship between treasuries and line departments

The nine provincial treasuries vary markedly in respect of their effectiveness and capability. Only the Free State, Gauteng, KwaZulu-Natal, Northern Cape and Western Cape provincial treasuries could provide the levels of assurance expected by the Auditor-General in 2013/14. The provincial treasuries in the Eastern Cape, Mpumalanga and North West could provide some assurance, but with areas for improvement. The Limpopo Treasury's functioning was severely compromised by high vacancy rates within the Department, including that of the provincial Accountant-General (Auditor-General 2014a: 95).

The national government's intervention into several departments in the Limpopo Provincial Government, including the Provincial Treasury, illustrated the stark deterioration of relationships between the National Treasury and some of the provincial treasuries (Ajam & Fourie, 2014). This is a far cry from the cordial and collaborative "Team Finance" approach under Minister Trevor Manuel in the early days of PFM reform.

The political position of the National Treasury and some of the provincial treasuries is far less unassailable than in the previous decade of reform, as the National Treasury intervention into Limpopo Treasury in 2012 saliently demonstrates. The media and the Limpopo branches of the ANC Youth League and the ANC Women's League intimated that the National Treasury's intervention in the Limpopo Provincial Government had been motivated by political reasons. They claimed that other provincial governments were in a worse financial position in respect of overdrafts, but that the National Treasury had not acted against them because they supported President Zuma's faction of the governing party. Mr Pravin Gordhan, then the Minister of Finance, released a press statement responding to the article in the media and refuting this assertion (Ajam & Fourie 2014). The unfortunate incident plainly demonstrates the weakening political relationship between the National Treasury and some of the provincial structures of the governing party, the ANC.

The relationship between the treasuries as budget controllers and line departments as budget spenders will always be somewhat fraught with tension, but a former National Treasury respondent observed that relationships between departments and treasuries appears to have deteriorated:

> *"In all the provinces the relationships between treasury and the departments are not good. There was a stage when people were afraid to ask the treasury for some advice because it might be an indication that they are failing, but there was huge respect towards the treasuries which is absent nowadays. It is very obvious at the national level – you can speak to the [National] Treasury people about that. I understand that in the provinces it is the same. The way departments support each other these days – it's almost absent. It's almost as if government institutions are operating on their own. Nowadays it looks as if departments are working against one another. Institutions need to support one another and between treasuries and departments that is really failing."*

5.6.6 Anti-corruption focus

Most respondents interviewed agree that while instituting anti-corruption measures may have been an implicit objective of the PFMA, it was not a primary focus in the initial decade of reforms after 1994. As evidence of uneven enforcement of the PFMA, poor control environments, weak accountability and the sheer scale of graft came to light (repeatedly in Auditor-General's reports for instance), the focus on opposing corruption was considerably strengthened.

The apartheid regime was riddled with corruption, as were the "black homelands" which supplied most of the civil servants (for example, teachers and nurses) in the newly created provincial governments in 1994. A respondent from the FFC noted that corruption was not only confined to the National Party public sector in the apartheid era, but endemic to the private sector as well, which had frequently colluded with the state in uncompetitive practices. He arrived at the conclusion therefore that the PFMA can only be a single pillar in a holistic anti-corruption strategy:

> *"The baseline here is a bit of a problem because we come from the corrupt apartheid system which had institutionalized corruption. With the sanctions busting it was a corrupt public sector and a complicit private sector. And the unfortunate part is when we look at the matter of corruption, we only focus on the state whereas we have a very rotten private sector which has taken advantage of the weaknesses in the [mechanisms] of the state to drive through these corrupt practices. For me anti-corruption was not a PFMA issue but a separate thing to be dealt with. If you look at what happened when you brought in the homelands administrations and mixed them with the apartheid administration, what do you get when you also brought in managers that were totally inexperienced from exile and wherever. The PFMA on its own would*

not have been appropriate to deal with these issues. It's bigger than the PFMA. You need to look at competitive practices, the Competition Commission, etc."

There was consensus among interviewees was that the incidence of fraud and corruption had initially declined as the PFMA strengthened internal controls and accountability. However, there seems to have been resurgence of fraud and corruption in recent years. A former National Treasury official described the initial PFMA innovations which reduced corruption:

"In the first 10 years of democracy we made considerable progress in reducing corruption. We imposed controls on the homelands which were just not there before. We used technology such as getting rid of cheque payments and only using electronic transfers. We put in place audit trails and proper accounting systems and there was generally a much more honest bunch of public servants after 1994 than there were before 1994. So there was a significant reduction in corruption but after 10 years corruption started to rise again. It's not clear whether the new guys left and those that remained went back to old practices, or the new people who had come into government with good intentions had been assimilated into the system and became corrupt themselves. The two biggest area of corruption has been the procurement system and the HR system – a combination of nepotism, hiring friends, etc."

A respondent from the Mpumalanga Treasury speculated that the devolution of greater decision-making powers to AOs coupled with weak accountability could have created an environment conducive to fraudulent and corrupt activities:

"I don't think the emphasis on anti-corruption was initially very strong, only recently you see the anti-corruption and fraud prevention legislation coming out a few years ago. At the time they didn't think that there'd be so many cases of fraud and corruption. Once we started to be more flexible and give managers discretion, that's when the corruption started creeping in."

The justice system is seen as being a major stumbling block in combating corruption, as a National Treasury official noted:

"Lots more cases are being investigated than ever before. The problem is that I don't think that those cases get taken to their logical conclusion because of influence and probably linked to our political principals. In most cases you just give up because the justice system is so inefficient."

Another respondent who is a former National Treasury official noted that the Treasury investigates reports of corruption and then refers cases to the Public Protector, the criminal justice system, etc. However, the limited capacity of the National Prosecuting Authority (NPA) in prosecuting white collar crime often results in charges' being dropped:

"We established a small forensic investigation unit in the Treasury doing a lot of desktop investigation work, e.g. mining the CIPC (Companies and Intellectual Property Commission) data base for who was a director of what company. The problem came when some cases were investigated to the point where the Treasury with its team of forensic auditors and lawyers laid charges with the police. We said to the police, this is

the investigation we have done, you can take it from here. The matter had to go to the courts, and the NPA (National Prosecution Authority) put on a prosecutor with absolutely no experience in prosecuting white collar crime. In the process, the inexperienced prosecutor was facing one or two silks [senior advocates] per person prosecuted. It cut through three provinces which turned out to be politically important provinces. So the thing was dropped, not because Treasury did not do the work but because somewhere in the justice system it fell through and the charges were dropped."

Another Treasury official noted that the PFMA really did not make provision for political corruption where the Executive Authority (the national Minister or provincial MEC) actively colludes with the Accounting Officer:

"There was less corruption then – it'd not yet taken root. In fact that's one of the weaknesses of the PFMA. We knew that there would be corruption and fraud but we didn't know the scale. If I look back I think we weren't brutal enough in the first 10 years. The first 10 years laid the foundation, and the things we didn't succeed in then become harder to do, [once] you had vested interests. We never foresaw, for example, if there were collusion between the Minister and the Director-General in being corrupt, only the Minister at that stage could take action against the Director-General."

A National Treasury official noted the importance of introducing stronger PFMA provisions but also noted that this may occasion political resistance.

"Although the issue of dealing with corruption is left with the Minister of Public Service and Administration, most of the corruption relates to public finances, so we need to strengthen the anti-corruption provisions in the PFMA with all the concomitant dangers. Because when you take these steps it does draw political fire. But the National Treasury is the custodian of public finances and it must understand that in that custodianship process it will draw political fire."

The real danger is that the political resistance may be so intense that the PFMA is diluted altogether. Another respondent who is a former academic and was a policy advisor in the early stage of reforms noted a large reduction in political support for reforms in the second decade:

"And suddenly politicians realised that accountability is not a good thing for the shenanigans they wanted to get up [to]. They realised that transparency may sound good but they don't like it for themselves. It was good for the apartheid government to have transparency but for the new revolutionaries, transparency became an embarrassing platform. The political ethos shifted from strong support for accountability and transparency to a more relative morality of transparency, especially when transparency was interpreted as questioning their revolutionary credentials. When transparency and accountability required the big political players to sit and answer questions. it was seen as unbecoming. "

He observed that powerful informal practices and conventions have begun to clash with and displace formal laws and legislation such as the PFMA:

> *"There emerged a clash between formal legislation and formal culture and the informal culture and political norms. You had social and informal codes beginning to encroach on the [operational] efficacy of legislated norms. The dominance of the ANC enforced the dominance of the informal norms under formal laws. This was done for the political leaders but it cascaded to lower levels over time."*

So, for example, section 195(1)(1) prescribes "employment and personnel management practices based on ability, objectivity, fairness, and the need to redress the imbalances of the past to achieve broad representation", but in practice, the political deployment of grossly underqualified and inexperienced political cadres (thinly veiled by going through the motions of formal recruitment processes) means that only lip service is often paid to the actual ability or potential to do the job.

Twala, after analysing the ANC's post-apartheid cadre deployment policy, expressed the view that criticism of cadre deployment was often racially biased: "attempts to stigmatise cadre deployment are sometimes informed by mistrust of the expertise possessed by Black professionals" (2014:164). He concludes however that cadre deployment has fostered cronyism and corrupt activities, and "a paralysis of authority, with cadres inevitably torn between the needs of their jobs and the dictates of the party." (2014:165). Alternatively, social and familial connections may take precedence over formal recruitment procedures, resulting in nepotistic appointments. Similarly, formal bid committees and procurement regulations often lend apparent legitimacy to the awarding of bids to politically connected "tenderpreneurs", as is noted in every year's Auditor-General reports.

Much more intangible is the opinion voiced by many respondents that there appears to have been a marked shift in the mind-sets of Directors-General and a decrease in their calibre in the second decade of reform. One respondent articulated this concern as follows:

> *"So Directors'-Generals and CFOs' internal perception of compliance in the first 10 years was: 'We are here to set a new regime in place, a new culture in place, and tough as it may be, we'll make it happen!' The second decade of Accounting Officers and top executives may be as qualified from a degree point of view but not nearly as committed to doing the right thing. The definition of 'right' changed. The definition of the ethics of fiscal management in the first decade was 'the right thing is to give effect to our government's legislation and ideals'. The definition of 'right' in the second decade is 'do what our political leaders want us to do because they are the ones who know better and there are objectives with which we have to comply'. So it became an interpretation of the ethics of management. Both wanted to do the right thing, but their interpretation of what is 'right' changed dramatically, not only with regard to fiscal management but broader issues of resource allocation.'*

As with the conundrum of capacity, it is clear that a holistic anti-corruption response depends as much on political commitment (for example, to an independent and well capacitated judiciary) as on technical PFM factors, such as building forensic investigation skills. The assumption behind the

PFMA was that the political Executive would relinquish control over resource inputs to AOs, in order to for them to be held accountable for service delivery outputs. In practice, in many cases, certain national Ministers, provincial MECs and their AOs seem more inclined to spread patronage through the input side of the budget (tenders, political cadre deployment), even if service delivery is severely compromised, rather than by improving the effectiveness of service delivery to the electorate, and thereby gaining political and electoral support.

5.6.7 Public entities

Section 1 of the PFMA defines public entities as government business enterprises, or a board, commission, fund, company, corporation or other entity which is established in terms of national legislation, receives part or all of its revenue from the national or provincial revenue funds or raises its own revenues through taxes or levies authorised by national legislation, and is accountable to Parliament or the Provincial Legislature. Public entities generally have Boards as controlling bodies, and these act as AOs and the relevant Minister/MEC playing the role of the Executive Authority. There are national and provincial public entities. Large national public entities in Schedule 2 of the Act include: Telkom SA (the state telecommunications company), the Airports Company, ESKCOM (the electricity provision entity). Smaller national entities include: agricultural, tourism, legal aid and parks boards, research councils, national road fund , road accident fund and unemployment insurance funds. Each provincial government also has government business enterprises, boards and agencies.

A National Treasury official noted that at the time when the PFMA was drafted, the National Treasury had no idea of how many public entities there were within the national and provincial spheres of government. The first requirement for public entities of the PFMA was therefore that each public entity should be registered with the National Treasury. Because the fiscal regulation of public entities was a new area in South Africa, heavy reliance was placed on the Australian model:

> *"What influenced us a lot was the Australian approach. We had looked at the Australian Public Finance Act and took the chapter on entities. More than the other chapters of the PFMA, we took their legislation, adjusted it to our context and added our own provisions. We copied it more, because it was unknown territory. That's why if you look at the public entity listing requirement it's a once off. It basically said you must list by this date. ….We categorise them – [Schedule] 2A, 2B, 3A, 3B."*

The larger public entities were initially resistant to falling under the aegis of the PFMA. The National Treasury official interviewed pointed out that it was originally thought that these sections would be revisited, something which the political environment has precluded, as discussed in section 5.6.3 on page 249:

> *"The other abuse that you've seen is how people abuse entities that fall under the PFMA. That was the weakest section in the PFMA. The reason for that was we didn't*

even know then how many entities there were. There was a lot of lobbying from Eskom, Telkom to say that they were better than BAS (the Basic Accounting System); [that] they were fantastic; they didn't need the PFMA because they had world class standards. Even today I feel that the salaries in public entities are quite inflated and many are useless organizations. So we had to force them, it was a great victory that despite their lobbying the PFMA applied to them. ….I thought that once we knew what there is we'd develop it a bit more. For the past few years we don't even want to touch this in the PFMA because it will get 'watered down', which is why you make changes within the framework."

Another former National Treasury respondent noted that public entities are plagued not only by financial challenges, but also by broader challenges in respect of their governance and their management systems:

"The public entities in government are often a law unto themselves with unclear accountability as to their roles. In some ways everybody wanted to replicate the success of SARS. Everyone thought 'if only we can pay what we feel like paying outside the public service personnel rules, we can be as efficient as SARS'. Now I think we have the worst of both worlds: overpaid officials who are completely unaccountable. Because if there is a Board, who appoints the Board? Are the officials accountable to the Board or to the Department? Public entity governance is a complete mess and the PFMA has not attempted to try and fix that. I'm not just talking about your big public entities but the hundreds of small public entities, agencies and state owned enterprises."

A different National Treasury official acknowledged the shortcoming of the PFMA with regard to public entities, but also pointed out that the dynamics of these industries' structures and competitive conduct should also be considered.

"I think that on balance the PFMA as it's now structured relies too much on controlling borrowing [by public entities], and does not create enough oversight over spending and operational management of public entities. But the problems with the big public entities are not with the PFMA, the big problems are the industry structure and their competition effects."

A respondent in the Eastern Cape confirmed the poor performance of provincial public entities:

"There's a whole section on public entities but entities are running amok in this province. You won't believe it. You'll cry if you see their loan books and what they're doing with those monies. And I know we're not the only province because I've seen it in other provinces too. The law is there, but how it's applied needs to be looked at."

It is clearly evident that a review of public entities' governance is long overdue. The problem lies with the fact that the National Treasury would need to arrive at a common vision with the Department of Public Enterprises, as well as the relevant national sector departments (for example, the Department of Water or Energy).

5.7 Assessments of PFM reform implementation to date

There appears to be a strong degree of consensus among analysts that PFMA reform outcomes reflect significant achievement in creating macro-economic stability, aggregate fiscal discipline, and allocative efficiency through improved macro-prioritisation and one of the highest levels of transparency in the world. South Africa was rated out of 100 countries in the transparency of its budget processes, achieving a score of 90 points out of a possible 100 points in the Open Budget Index report of 2012 (International Budget Partnership 2012).

However, PFMA reforms to date have only, at best, been partially successful in increasing operational efficiency and value-for-money, curbing fraud and corruption, and enhancing allocative efficiency at a micro-level (for example, sectoral prioritisation of personnel expenditure versus spending on other essential inputs such as textbooks or medicines, underspending on capital investment and maintenance and overspending on current expenditure). These trends are particularly pronounced in the provincial sphere, as discussed further in Chapters 6 and 7.

There is strong agreement from commentators that the key challenge for further PFM reforms is to increase the quality and efficiency of public spending and achieve greater value-for-money. They concur that the underlying causes for disappointing PFM outcomes in South Africa typically lie outside the domain of fiscal policy and PFM *per se* (Abedian & Ajam 2009; Ajam & Aron 2007; Folscher & Cole 2006; Quist et al. 2008; Wildeman & Jogo 2012).

A Public Expenditure and Financial Accountability (PEFA) assessment of the South African PFM system at a national level was conducted by a set of international experts in 2008 (section 3.13 on page 117 provides an introductory discussion on the PEFA methodology). A summary of the scores in relation to 31 indicators which cover six key areas of performance of the PFM system is provided in Table 13 overleaf.

Table 13: Summary of South African Public Expenditure and Financial Accountability (PEFA) assessment scores

PFM Performance Indicator		Dimension Ratings				Overall Rating
		i.	ii.	iii.	iv.	
A. PFM-OUT-TURNS: Credibility of the budget						
PI-1	Aggregate expenditure out-turn compared to original approved budget	A				A
PI-2	Composition of expenditure out-turn compared to original approved budget	A				A
PI-3	Aggregate revenue out-turn compared to original approved budget	A				A
PI-4	Stock and monitoring of expenditure payment arrears	A	A			A
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and transparency						
PI-5	Classification of the budget	A				A
PI-6	Comprehensiveness of information included in budget documentation	A				A
PI-7	Extent of unreported government operations	A	A			A
PI-8	Transparency of inter-governmental fiscal relations	A	A	B		A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	B	A			B+
PI-10	Public access to key fiscal information	A				A
C. BUDGET CYCLE						
	C (i) Policy-based budgeting					
PI-11	Orderliness and participation in the annual budget process	A	A	D		B
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	A	A	D	A	B
	C (ii) Predictability and control in budget execution					
PI-13	Transparency of taxpayer obligations and liabilities	A	A	A		A
PI-14	Effectiveness of measure for taxpayer registration and tax assessment	A	A	A		A
PI-15	Effectiveness in collection of tax payments	D	A	A		D+
PI-16	Predictability in the availability of funds for commitment of expenditures	A	A	A		A
PI-17	Recording and management of cash balances, debt and guarantees	A	B	A		A
PI-18	Effectiveness of payroll controls	A	A	A	A	A
PI-19	Competition, value-for-money and controls in procurement	D	D	B		D+
PI-20	Effectiveness of internal controls and non-salary expenditure	A	A	C		C+
PI-21	Effectiveness of internal audit	A	A	A		A
	C (iii) Accounting, Recording and Reporting					
PI-22	Timeliness and regularity of accounts reconciliation	B	A			B+
PI-23	Availability of information on resources received by service delivery units	A				A
PI-24	Quality and timeliness on in-year budget reports	C	A	A		C+
PI-25	Quality and timeliness of annual financial statements	A	A	A		A
	C (iv) External Scrutiny and Audit					
PI-26	Scope, nature and follow-up of external audit	A	B	B		B+
PI-27	Legislative scrutiny of the annual budget law	A	A	A	A	A
PI-28	Legislative scrutiny of external audit reports	A	A	B		B+
D. DONOR PRACTICES						
D-1	Predictability of direct budget support	D	D			D
D-2	Financial info provided by donors for budgeting/reporting on project/program aid	D	D			D
D-3	Proportion of aid that is managed by use of national procedures	D				D

Source: Quist et al. (2008:29)

The six key areas were (i) the credibility of the budget, (ii) its comprehensiveness and transparency, (iii) policy-based budgeting (i.e. the degree of articulation with the government's policies and plans), (iv) predictability and control in budget execution, (v) accounting, recording and reporting, (vi) external scrutiny and audit, and (vii) donor practices.. A major limitation of the PEFA study was that its scope was confined solely to the national sphere and did not extend to PFM in the nine provincial governments.

As can be seen from the PEFA indicator scores, the PFM outcomes in the national sphere were assessed as performing well in terms of aggregate fiscal discipline and a stable and predictable fiscal framework, debt management and revenue collection performance. However, fiscal risk emanating from state-owned enterprises and other public entities was still identified as an area of weakness. The level of transparency and comprehensiveness of the budget were rated as excellent. In respect of operational efficiency, significant control weaknesses were noted in procurement and expenditure management (as evidenced, for example, by increasing arrears and accelerated expenditure in the last quarter, the so-called "March spike", to avoid reported under-expenditure and returning unspent funds to Treasury).

Progress in increasing allocative efficiency was acknowledged, but a key shortcoming was the failure to cost sector strategies, and the lack of close articulation between the MTEF, sector strategies and annual budgets. As noted earlier, national and provincial government departments are obliged by the PFMA to produce five-year sector strategic plans and more detailed three-year annual performance plans. However, planning horizons are often too short, and there are marked disjunctures between national plans, sectoral plans, MTEFs and annual budgets

> …are not developed within a fiscal frame nor are they always costed. Even when costed this is not done with recurrent cost implications taken into account. Links between the sector development plans and the budget occur mainly on a qualitative basis. …. In the absence of these [links between plans and budgets], programmes and projects may reduce to a wish list. Indeed, officials indicated some concern that the inclusion of Departmental programmes and priorities into the MTEF may sometimes be somewhat *ad hoc*. (Quist et al. 2008:19)

Although the proportion of donor funds in proportion to total revenues in South Africa is miniscule, as the country is reliant mainly on its own domestic tax base, the PEFA assessment highlighted the need to improve the management of donor funds.

A more recent study by Wildeman and Jogo (2012) includes the provincial governments, and comes to broadly similar conclusions as the 2008 PEFA assessment. Their key findings are summarised Table 14, overleaf.

Table 14: Summary of implementation factors and their impact on PFM reform outcomes

Budget outcomes	Implementation factors	Impact of implementation factors
Aggregate fiscal discipline	Introduction of the MTEF budget framework	Hard ceilings discipline spending claims on the fiscus; top-down nature of the budget process reduces departmental "budget games", discussion of "options" during budget process focuses departmental thinking on available resources
	Consensus-building in intergovernmental fora	Domination of African National Congress (ANC) provincial governments eases target-setting and agreeing to fiscal targets; finance MINMEC (Budget Council) is an influential body driven by consensus-building and fiscal results
	Political backing provided to finance ministry	Internal and external pressures to increase spending beyond targets successfully resisted through the backing of National Treasury by political leadership in government
Allocative efficiency	Poor level of planning and strategic skills at provincial level	Spending on unplanned shortfalls; hastily put-together political priorities that add further pressure on spending, moving around of resources to fill unplanned gaps reduce departmental effectiveness in moving resources to where they are needed
	Revenue allocation process that hamstrings provincial discretionary spending	Limited fiscal space and poor planning skills make it less likely that provincial departments develop medium- and long-term plans that address provincial needs and priorities
	Importance of intergovernmental fora	Politicians have used such fora to great effect for their respective sectors, especially those that include sector and finance politicians; policies that are considered important, but are poorly funded, can be discussed and guarantees provided for better funding.
Operational efficiency	Dedicated and thoughtful capacity building and support by the National Treasury	Given the low levels of skills in public service, National Treasury involvement in financial management is pivotal for the earlier successes around compliance, especially their template-driven interventions
	Human resources capacity constraints	The financial capability instrument confirms that we are at the compliance stage and that existing personnel place limitations on how fast the system can progress to advanced financial management for outcomes
	Insular departments at national and provincial levels	Inability of departments to use external data ([Auditor-General's] reports, the public, portfolio committees) means they are unable to change the service delivery mechanism to make them more efficient and results-driven
	Lack of measurement of efficiency	Prior to the introduction of the financial capability framework, departments had no target or benchmark to strive for and [Auditor-General's] audits are insufficient to determine the financial management level of departments

Source: Wildeman and Jogo (2012:29)

Table 15, overleaf, compares the average level of compliance by national departments in 2011 and 2012, as measured by the Financial Management Capability Maturity model. As reflected in the table, there have been discernible improvements. However, the weaknesses which remain, cutting across all PFM functions, are cause for concern

1. There are high vacancy rates in the finance sections of departments, compromising the segregation of duties, year-end procedures and other dimensions of PFM quality.
2. Even when posts are not vacant, incumbents may lack the necessary skills and the training provided may be inadequate.
3. There is excessive dependency on private contractors and consultants for routine PFM activities because of the high vacancy rates and uneven quality of internal skills.
4. PFM processes and procedures are not adequately documented, communicated or supported by structured training programmes, resulting in errors and non-compliance, as well as a lack of institutional memory, given the high management turnover in the public sector.
5. Strategies and plans (such as asset management plans and fraud prevention plans) are not implemented, or are not aligned with the department's strategic objectives. This results in a failure to prevent and detect unauthorised, irregular and fruitless and wasteful expenditures.
6. There is inadequate understanding of risks and controls, a culture of a risk-based approach to planning is absent, and there is a poor compliance environment and culture.
7. There is a lack of systems to improve processes – there is often a strong reliance on poor manual systems reliant on human intervention, and low IT capability and security, undermining the credibility and timeliness of information (National Treasury, 2012b).

Since 2011, the Department of Planning, Monitoring and Evaluation in the Presidency has used the Management Performance Assessment Tool (MPAT) to monitor management practices, including PFM, in the national and provincial departments. Heads of national and provincial departments conduct self-assessments using 31 management standards which cover four Key Performance Areas: strategic management, governance and accountability, HR and financial management. They provide evidence to support their self-assessments, which are then peer moderated by senior public managers in other departments.

Unlike the external audit process by the Auditor-General, where accountability is the prime focus, the MPAT aims to build capability for internal monitoring, improvement and critical self-reflection within the management teams themselves. An MPAT Level 1 score indicates that a particular department is not complying with legislative or statutory requirements, Level 2 indicates partial compliance, and Level 3 denotes full compliance. A Level 4 rating indicates not only that a department has achieved full compliance, but that it is also "doing things smartly". Smart management practices are identified and shared with other departments

Table 15: Average compliance of national departments to PFMA as measured by the Financial Management Capability Maturity Model, 2011 and 2012

Needs more attention	Some challenges remain	Close to full compliance		
TRANSVERSAL ISSUES		**2011**	**2012**	**PROGRESS**
ASSET MANAGEMENT				
Organizational structure well resourced		50%	57%	+7%
Existence of asset strategy that links to departments' service delivery objectives		59%	63%	+4%
Effective period-end procedures		64%	75%	**+11%**
Performed asset maintenance in line with the approved maintenance plan		65%	73%	**+8%**
COMPENSATION OF EMPLOYEES				
Vacancy rate less than 5%		43%	50%	**+7%**
Organizational structure well resourced		50%	68%	**+18%**
Minimal use of contractors for recurring functions		70%	78%	**+8%**
Provision of training on risks and controls		82%	89%	**+7%**
Policies and processes documented		82%	89%	**+7%**
GENERAL (IT CONTROLS AND BUDGETING)				
Developed inventory spreadsheets and implemented input controls over key data		55%	59%	**+4%**
Assessment of business processes to identify possible automation		58%	69%	**+11%**
Implemented and communicated IT policies and procedures relating to IT security, disaster recovery and business continuity		70%	70%	**+0%**
GOODS AND SERVICES				
Monitored performance of all suppliers and recorded it on the supplier database		61%	71%	**+10%**
Organizational structure well resourced		50%	64%	**+14%**
No incidents of fruitless and wasteful expenditure related to late payments of invoices		75%	75%	**0%**
LIABILITY MANAGEMENT				
Fully complies with the requirement to pay suppliers within 30 days of receipt of invoices		54%	57%	**+3%**
Organizational structure well resourced		43%	54%	**+11%**
Effective period-end procedures		82%	86%	**+4%**
Officials adequately skilled		75%	86%	**+11%**
Policies and procedures documented		86%	89%	**+3%**
TRANSFER PAYMENTS				
Organizational structure well resourced		62%	71%	**+9%**
Culture of active risk management		88%	88%	**0%**
Provision of training on risks and controls		68%	80%	**+12%**
Awareness of approved policies and procedures		96%	96%	**0%**

Source: National Treasury (2012b:11)

In the 2013/14 fiscal year, two provincial governments – Limpopo and the Western Cape – scored Level 3 or 4 in more than 50% of the 31 management standards across the 4 Key Performance Areas. The Western Cape achieved the highest score of 78% on the management standards. The Eastern Cape, Northern Cape, and Mpumalanga Provincial Governments scored Level 3 or 4 in between 45% and 49% of the management standards. Gauteng, the Free State, KwaZulu-Natal and the North West Provincial Governments achieved only 37% to 44% of the management standards (Department of Planning, Monitoring and Evaluation 2014:21).

Another crucial indicator of the impact of the PFMA is, of course, audit outcomes. In line with international practice, the Auditor-General of South Africa can issue an unqualified opinion on the financial affairs of a public institution; it can also emphasise particular matters that are not serious enough to qualify the opinion, but that should nevertheless be brought to the attention of management and Parliament. A qualified opinion is more serious. An adverse opinion is worse, and finally, there may be a disclaimer. A disclaimer of opinion means that, because of the incompleteness or inadequacy of information available to it, the Auditor-General cannot attest to the accuracy of the financial statements submitted to it.

Between 2009/10 and 2011/12 audit outcomes appeared to have regressed, but since then there has been some improvement, as audit outcomes had improved by 2013/14. In assessing the audit outcomes for the 2011/12 year of all 671 national and provincial departments and public entities, the Auditor-General found that overall they had regressed, especially in the provincial sphere. Despite intensive support and the focus on clean audits (audits with no financial, performance information or regulatory compliance findings), the number of clean audits across all auditees had declined, from 152 in 2009/10, to 132 in 2010/11, to 117 in 2011/12 (Auditor-General 2012a).

In the national sphere, however, there was evidence of a noticeable improvement in 2011/12, as 82% of the 38 national departments audited by the Auditor-General received financially unqualified audits (up from 73% the previous year). The number of outstanding and financially qualified audits in national departments declined from 27% to 18% in 2011/12. Unfortunately, similar improvements did not materialise in the provincial sphere. Progress in achieving clean audits for the 2011/12 fiscal year was characterised as slow and “stagnant”, “with more regressions than improvement” (Auditor-General 2012a:25). Only 61% of the provincial departments achieved financially unqualified audits in 2011/12, down from 63% in 2010/11 and 66% in 2009/11. There was, however, marginal improvement in the usefulness and reliability of performance information, with 61% of provincial departments obtaining findings on audits of predetermined objectives in 2011/12, down slightly from 62% in 2010/11 and 80% in 2009/10. In respect of compliance with regulations, provincial departments deteriorated significantly, with 97% of them obtaining compliance findings in 2011/12, up from 91% in 2010/11 and 78% the previous year (Auditor-General 2012a).

A disconcerting feature is that a large number of material misstatements had been corrected in the process of the Auditor-General’s audit. In 2011/12, as many as 82% of all national departments obtained financially unqualified audits, but 56% of all national departments submitted financial statements to the Auditor-General with material misstatements, which were subsequently corrected in the course of the audit. This is concerning, because it suggests that even if audit outcomes improve, this may be as a result of the effective audit process at the end of the financial year, rather than improved day-to-day financial management by auditees all year round. Compliance may therefore be achieved, but the application of financial resources may not be more effective or efficient. The tendency towards material misstatements was even more pronounced in the provincial sphere in 2011/12.

The most common qualifications for national and provincial departments in 2011/12 related to ineffective asset management (property, plant, infrastructure and equipment), poor management of financial commitments and contingent liabilities, as well as irregular expenditure related to poor SCM. The root causes of qualified options were identified by the Auditor-general as the following:

> …ineffective controls as checks and balances for all key processes are not in place, monthly reporting does not take place and validation processes to ensure the credibility of financial reporting are inadequate. The Chief Financial Officer, the Accounting Officer, internal audit and/or the audit committee did not always fulfil their internal controls responsibilities. At some auditees vacancies in key positions and leadership instability affect the quality of financial reporting and the attention given to addressing prior year financial statement qualifications. (Auditor-General 2012a:31)

From a total public service perspective across both the national and provincial spheres, unauthorised expenditure arising from overspending of the total budget or an individual budget programme decreased from R6.605 billion in 2009/10 (incurred in aggregate by 34 national and provincial department auditees) to R2.978 billion in 2011/12 (incurred by 26 auditees). Irregular expenditure, for example, through non-compliance with supply chain or expenditure regulations, increased from R11.009 billion in 2009/10 to R28.378 billion in 2011/12 in aggregate for the national and provincial departments and entities (Auditor-General 2012a). Fruitless and wasteful expenditure escalated more than fourfold from R437 million (incurred by 153 national and provincial departments and entity auditees) in 2009/10, to R1.793 billion in 2011/12 (incurred by 226 auditees). Here again the national government departments fared slightly better than their provincial counterparts: 5% of national departments in 2011/12 incurred unauthorised expenditure, in comparison to 24% of provincial departments, and 66% of national departments incurred fruitless and wasteful expenditure, in comparison to 71% of provincial departments. An alarming 92% of national departments incurred irregular expenditure in 2011/12, compared to 87% of provincial departments (Auditor-General 2012a), indicating pervasive control weaknesses in the high risk procurement environments and in relation to payroll management of compensation to employees.

Between 2011/12 and 2013/14, there was a slight improvement in audit outcomes, as reflected in Table 16, overleaf.

Table 16: Summary of national, provincial and public entity outcomes, 2011/12 to 2013/14

Audit opinion	2011/12		2012/13		2013/14	
	No of auditees	%	No of auditees	%	No of auditees	%
Unqualified no findings	70	16	96	22	119	25
Unqualified with findings	260	61	242	56	238	51
Qualified with findings	72	17	71	16	73	16
Adverse/Disclaimer	22	5	21	5	18	4
Outstanding audits	5	1	5	1	21	4
Total	**429**	**100**	**435**	**100**	**469**	**100**

Source: Auditor-General (2014a:6)

The proportion of clean audits (financially unqualified with no findings in respect of audits of predetermined objectives or compliance with key legislation) increased from 16% of auditees in 2011/12 to 25% of auditees in 2013/14. For the same period, the number of adverse and disclaimer opinions declined marginally from 5% to 4% of auditees over the same period. While the outcomes of national government regressed slightly, eight of the nine provinces improved their audit outcomes in 2013/14, except for KwaZulu-Natal, which stagnated. Provincial audit outcomes are analysed in greater detail in section 7.3.3 on page 327.

The quality of financial statements remains a concern, given that the level of material misstatements corrected in the course of the audit remains unacceptably high: 37% of auditees with financially unqualified opinions only received this opinion after correcting material misstatements identified in the course of the audit (Auditor-General 2014a:46). The substantial variation in Table 17 between the proportion of auditees in the national sphere and each of the nine provinces with unqualified audit opinions before the corrections to material misstatements and after corrections suggests that day-to-day PFM practice across government remains poor, and that compliance drives improvements in the quality of financial statements.

Table 17: Material misstatements corrected during the 2013/14 audit

	Financially unqualified auditees before correction of material misstatements	**Financially unqualified auditees after correction of material misstatements**
National departments	45%	83%
Eastern Cape	38%	73%
Free State	33%	78%
Gauteng	63%	91%
KwaZulu-Natal	42%	83%
Limpopo	13%	43%
Mpumalanga	35%	76%
Northern Cape	32%	74%
North West	17%	59%
Western Cape	78%	100%

Source: South Africa. Auditor-general (2014a:46)

The Auditor-General (2014a:46) cautioned that "the continued reliance on auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion" is unsustainable, and "places undue pressure on legislated deadlines and audit fees". This suggests that instead of dealing with the underlying issues of the competence and motivation of public managers, South Africa has invested in increasing resources in a array of layers of ever-more comprehensive audits, in "checking" rather than "doing". The extent to which auditors are compelled to increase their audit fees in order to correct poor quality financial statements is another cost of incompetent, unmotivated financial managers or vacant posts.

The areas in which the financial statements of the national and provincial departments received the most qualifications were non-current assets (property, plant and equipment), irregular expenditure and commitments (Auditor-General 2014a)

In 2013/14, performance information improved, as only 38% of all auditees (national, provincial and public entities) received findings on their audits of predetermined objectives. However, the level of material misstatements remained very high. Only 42% of auditees submitted performance information to the Auditor-General without any material misstatements. A further 20% of auditees submitted performance information to the Auditor-General with material misstatements which were corrected during the 2013/14 audit. Qualifications in respect of the usefulness of performance information related mostly to ill-defined performance measures and targets which were not specific or measurable enough to track actual performance. Qualifications in respect of the reliability of performance information related mainly to systems for collating, processing and validating performance audit evidence (Auditor-General 2014a).

As many as 72% of auditees did not comply with key pieces of legislation regarding SCM and incurred unauthorised, irregular and fruitless and wasteful spending (Auditor-General 2014a).

The total unauthorised expenditure in 2013/14 was R2.6 billion (incurred by 30 auditees), down only slightly from R2.9 billion in 2011/12. Irregular expenditure was R62.billion in 2013/14 (incurred by 309 auditees), of which R29.1 billion (47%) was incurred in prior years, but was only identified and disclosed in 2013/14 for the first time. This was a substantial increase from the R28.278 billion irregular expenditure incurred in 2011/12 (Auditor-General 2014a). In 2013/14, 245 auditees incurred R1.1 billion of fruitless and wasteful expenditure, which was slightly less than the R1.792 billion incurred in 2011/12 – a marginal improvement despite the post-2008 global financial crisis emphasis on cost reduction (Auditor-General 2014a).

Regrettably, there has been a distinct reluctance to ensure that there are harsh consequences for material and serial violation of the PFMA, for blatant fraud and corruption, and for egregious poor performance, although such remedies are available in the legal framework. Perceived impunity severely undermines accountability and is inimical to a culture of performance (Folscher & Cole 2006; Wildeman & Jogo 2012).

The PSC requires departments to report on financial misconduct, providing details on the amounts involved, the salary level of the employee and his/her job description, the outcomes of the case, sanctions, recoveries in respect of losses, etc. The PSC has maintained a database of financial misconduct, and publishes summary statistics on its website. Trends in financial misconduct are summarised in Figure 9 below. The low reported numbers and values of cases create concern that there appear to be ineffective sanctions for financial misconduct, with insufficient recovery of misappropriated funds, and officials' evading accountability by resigning. Furthermore, even where officials have been found guilty of misconduct, the sanctions varied considerably across departments, with many officials receiving only final written warnings, rather than being fired (PSC 2008b).

Figure 9: Trends in the number and value of financial misconduct cases in R millions, 2006/07 to 2011/12

Source: PSC (2013, n.p.)

The National Treasury has been very successful in exercising reform leadership and capacity-building through detailed templates, training and best practice guides. However, concerns have been raised as to the limits of the current capacity-building approaches in building higher order skills:

> … it is worrying that success in the implementation of the PFMA can only be claimed when there is direct intervention by the National Treasury. Complicated tasks such as designing service delivery interventions that are effective, efficient, economical and transparent cannot be managed as per the template capacity-building approach. (Wildeman & Jogo 2013:35)

Despite high levels of transparency, public participation in the budget process remains limited. Although formal regulations mandate consultation, Wildeman and Jogo (2012:4) note that, in practice, participation is a challenge, given

… the reality where citizens and civil society as a whole are not involved in allocation decisions or consulted on operational matters. The overall picture that emerges is one of insular departments that are closed off from reality, thus making the task of redesigning service delivery mechanisms that much harder, if not impossible.

5.8 Perceptions of PFM progress to date

Respondents were asked whether they agreed or disagreed that the initial objectives of the PFMA reform programme in 1999 had been achieved by 2014. Table 18 overleaf shows the percentage of respondents who strongly disagreed, disagreed, agreed or strongly agreed that each of the objectives of the PFMA had been achieved. The second column from the right shows the cumulative percentage of those respondents who either disagreed or strongly disagreed. The last column shows the cumulative percentage of those who either agreed or disagreed. The objectives are arranged in descending order of achievement, as rated by the respondents.

Table 18: Respondents' perceptions of PFMA progress (%)

3. In your opinion, which objectives of the PFM reforms in South Africa have been achieved?	1 Strongly disagree	2 Disagree	3 Agree	4 Strongly Agree	5 Don't know	Disagree or strongly disagree	Agree or strongly agree
Uniform treasury norms and standards	0	0	61	39	0	**0**	**100**
Regulatory compliance and control	0	4	74	17	4	**4**	**91**
Effective management of revenues, expenditures, assets and liabilities	0	13	57	22	9	**13**	**78**
Enhanced accountability	4	22	43	30	0	**26**	**74**
Improved service delivery	0	22	65	4	9	**22**	**70**
Cost saving and expenditure reduction	0	27	59	5	9	**27**	**64**
Improved value-for-money	0	52	43	0	4	**52**	**43**
Anti-corruption and fraud	9	43	30	9	9	**52**	**39**

Note: Sample size = 23

Source: Own calculations

The vast majority of the respondents felt that the objectives of uniformity of treasury norms and standards across the nine provinces (100% of respondents) and regulatory compliance and control (91% of respondents) had been achieved.

Of the respondents, 78% felt that the objective of improved management of revenues, expenditures, assets and liabilities had been achieved. Other respondents indicated that while considerable progress had been made with regard to expenditure and liability management, much work still needed to be done on asset management and revenue management in the provincial sphere.

Of the respondents, 74% expressed the opinion that fiscal accountability had improved compared to the apartheid era, but many respondents felt that this was still work-in-progress. Of the respondents, 70% agreed that public service delivery had improved, compared to the pre-PFMA period, especially with regard to access extended to previously unserved communities.

Of the respondents, 64% believed that cost-saving and expenditure reduction objectives had been achieved, especially after the global financial crisis in 2008, even though this may not initially have been an important PFM reform objective. However, the majority of respondents felt that the objectives of improved value-for-money (52%) and of opposing corruption and fraud (52%) had not been achieved by the PFMA. A respondent who was once a senior official at the National Treasury affirms the weaker PFM performance in respect of value-for-money compared to other fiscal performance dimensions:

> *"If I take Allen Schick's three functions of a treasury: hit your macro targets, allocative efficiency and technical efficiency, from a budget perspective I would give South Africa 7 or 8 out of 10 for aggregate fiscal discipline, 8 for 9 for allocative efficiency relative to other countries, but only 3 or 4 for technical efficiency. We have not been able to use the budget as an instrument of service delivery and better value-for-money."*

A subset of 16 respondents were able and willing to answer more detailed questions about specific PFM outcomes in their respective provinces over the last five years (2009 to 2014) as reflected in Table 19, overleaf . More than 80% of these respondents stated that the transparency of provincial budgets and financial statements have increased, that programme budgets are more closely aligned with planning priorities, that overspending and unauthorised expenditure have decreased substantially, and that financial accountability has been substantially enhanced.

Of the respondents, 69% agreed or strongly agreed that fruitless and wasteful expenditure has declined in their province over the last five years. Of the respondents, 63% reported that their province has been able to control its personnel expenditure budget over the past five years. A lower proportion of respondents (56%) were of the opinion that capital budget underspending has decreased and that value-for-money is being obtained. Only half of the respondents agreed or strongly agreed that managers in their province have become more value-for-money conscious in their decisions.

Of the respondents, 44% felt that corruption and fraud has not decreased, in contrast to 31% who were of the opinion that it has. A quarter of all respondents reported that they did not know whether corruption and fraud has declined or not (this question elicited the highest level of non-response in the entire questionnaire). This may be due to the furtive nature of these illicit activities which makes their detection difficult, or to the sensitive nature of the topic. Be that as it may, it can safely be concluded that respondents felt that this was an area where PFM reforms have been less successful, and further attention is required.

Table 19: Respondents' perceptions of provincial PFM outcomes (%)

4. In relation to your department /provinces over the last five years, which of the following statements are true?	1 Strongly disagree	2 Dis-agree	3 Agree	4 Strongly Agree	5 Don't know	Disagree or strongly disagree	Agree or strongly agree
Transparency of budgets and financial statements has increased.	0	0	6	88	6	**0**	**94**
Programme and sub-programme budgets are closely aligned with planning priorities.	0	6	75	13	6	**6**	**88**
Overspending and unauthorised expenditure have substantially decreased.	0	13	44	38	6	**13**	**81**
Financial accountability has improved substantially.	0	13	44	38	6	**13**	**81**
Fruitless and wasteful expenditure has decreased.	6	13	56	13	13	**19**	**69**
The Dept/Province controls its personnel spending within budgeted limits.	6	13	50	13	19	**19**	**63**
Underspending, especially of capital budgets, has decreased.	6	25	31	25	13	**31**	**56**
Increased value-for-money is being obtained.	6	25	50	6	13	**31**	**56**
Managers have become more value-for-money conscious in their decisions.	6	31	31	19	13	**38**	**50**
The incidence of corruption and fraud has decreased.	19	25	19	13	25	**44**	**31**

Note: Sample size = 16

Source: Own calculations

5.9 Summary and concluding remarks

Reviewing the PFM reform process over the last two decades, the sheer volume, intensity and continuity of reform is striking, guided by the fiscal constitution, the principles embodied in the PFMA and an institutionally stable and capable National Treasury. The preceding analysis makes it absolutely clear, however, that, while there have been admirable gains over the last two decades since the transition to democracy, PFM reforms in South Africa are still very much under construction. Unlike many other NPM-inspired experiments, South African PFM reforms were not aimed primarily at marketization and privatisation, and public-private partnerships initiatives have been limited (in large part due to the strong potential for political opposition, for example, from the strong trade union movement, which is influential in the governing alliance). Instead, the PFM reforms focused much more on modernisation and managerial reform, in fulfilment of the broader constitutional transformation project.

The sequencing of the reforms was largely dictated by contextual exigencies. Initially, the reform was pre-occupied with fiscal stabilisation in the wake of the apartheid legacy, the mounting fiscal costs of transition, and the need to set in place a new macro-organization of the state consistent with the fiscal constitution. Here, instruments for creating a stable and predictable fiscal framework included enhancing tax policy and revenue collection by SARS, active debt and cash management, and the MTEF. Without a stable and predictable fiscal framework, successful fiscal decentralization would not have been possible.

PFM reforms in South Africa have been crucially linked to, and to some extent even overshadowed by, intergovernmental fiscal relations and other reforms. Immediately after the democratically elected government took office, speedy expenditure decentralization to the newly established provincial governments occurred, largely in a management system vacuum. This situation was exacerbated by the huge variation in the administrative skills, capacity, formal control systems, levels informality and corruption across those provinces which had inherited the black homelands and those comprised largely of the four former provincial administrations of white South Africa. In retrospect, a more differentiated, asymmetrical approach to different degrees of capacity and other circumstances in different provincial governments would have been more productive than a generic “one size fits all” approach, but would not have been politically tenable at the time. For completely new provincial governments, and for those which had merged with homelands, inculcating the PFM basics first might have initially been more appropriate than more sophisticated objectives.

Provincial fiscal pressures were also fuelled by burgeoning personnel costs as a result of political compromises regarding the retention of white civil servants from the old apartheid regime and those from the homelands, and the need to eliminate apartheid race-based and gender-based public servant salary discrimination. There is an inherent tension between the determination of salaries and other conditions of service in the national sphere through central bargaining and the fact that provincial governments have budget for compensation of employees, fuelling provincial government deficits.

The initial provincial fiscal stabilisation and the enforcement of hard sub-national budget constraints was complemented by a focus on macro-reprioritisation, away from areas such as defence, to social services such as Health, Basic Education and Social Welfare.

A major achievement is that PFM reforms have yielded a decentralized budget system in which allocations are largely pro-poor, equitable and are not systematically biased on the basis of race as in the past. Equity in budget allocations, however, have not always translated into equity in service delivery. These inequalities in actual service delivery remain as a result of the different levels of ability of provincial governments to convert these allocations into high quality inputs (such as doctors and classrooms) and systems to deliver high quality service outputs (Presidency 2009). Accordingly, value-for-money, operational efficiency and expenditure impact are more recent reform focus areas to ensure the realisation of policy objectives. To this end, there is a need for greater emphasis on SCM, ethics and risk management and other anti-corruption efforts but these are unlikely to improve significantly unless accountability is enhanced.

Improvements in the day-to-day PFM practice of provincial departments (as proxied by clean audits, for instance) have been bitterly disappointing. This suggests that changes in the behaviours and mind-sets of financial and line managers may not yet have taken place sufficiently, either in terms of a mere compliance orientation, or in terms of embedding a performance orientation. While in principle provincial departments operate within a three-year MTEF, in practice, periodic over-spending episodes and the cut-backs which follow mean that individual service delivery units (such as hospitals and schools) often face extreme budget uncertainty regarding in-year funds , as funds which should have been transferred to them are vired (shifted) in order to pay salaries, etc. The findings of many successive Auditor-Generals' reports over successive years indicate that the shortcomings do not occur only in the technical realm, but also in leadership and governance at the level of the AOs and CFOs. Root causes for poor leadership and governance include instability in the political-administrative interface, as the high turn-over of AOs creates institutional discontinuity and compromises accountability. Moreover, political deployment processes fail to give due importance to competence. Poorly performing and under-capacitated provincial treasuries, in combination with inadequate oversight by the provincial legislatures, exacerbate this dynamic.

There is also increasingly a debate on whether full accrual accounting is an achievable (or indeed desirable objective). Accrual accounting calls for much better management of both current and fixed assets, and liabilities. Importantly, accrual accounting also requires an integrated financial management system, an area in which the PFM reforms have been singularly unsuccessful to date. Over time, efforts to generate better performance data to supplement financial reporting have improved their quality, timeliness and usefulness, but fall far short of true performance budgeting. In particular, costing of service delivery outputs is extremely weak. The outcomes-based approach to GWM&E, driven by the Department of Planning, Monitoring and Evaluation in the Presidency, could stimulate greater progress in this direction, but it is too early to assess their impact, and it is not clear how the outcomes-based approach articulates with the current PFM system and with the National Development Plan to 2030.

While PFM reforms seem to have entered a more mature consolidation phase, further progress depends largely on responses to the non-fiscal dimensions of public sector performance. These fundamental challenges include a lack of capacity (both in terms of vacancies and the level of skills required), stabilising the political-administrative interface, effective leadership and governance, fostering accountability, managing poor performance, putting in place documented and optimised financial management processes and controls, and creating a culture of performance and stewardship of public resources. Most of these challenges lie outside of the fiscal and PFM domain itself, and are heavily conditioned by the interactions between the state, the economy and broader South African society.

CHAPTER 6:
AN OVERVIEW OF PROVINCIAL GOVERNMENT FISCAL PERFORMANCE

6.1 Introduction

The previous chapter analysed the PFM reform trajectory in South Africa and some of its outcomes. This chapter extends this analysis of the impact of the PFMA reforms by means of a quantitative analysis of fiscal outcomes across provincial governments from 2000/1 to 2013/14 – the period in which the PFMA has been in force. This analysis is complemented by an analysis of sectoral fiscal trends in the provincial Basic Education and Health sectors, which provides a backdrop for the departmental level financial management outcomes analysis of individual Basic Education and Health departments in the next chapter.

6.2 Aggregate provincial government fiscal trends

This section outlines the major trends in the aggregate revenue, expenditure and budget balances across the nine provinces for the period under review. The section sets the scene for sectoral analyses of Basic Education and Health spending patterns in the next two sections of this chapter.

6.2.1 Provincial revenue trends

Table 20 below shows the revenue raised by provincial governments (receipts) from the 1997/98 fiscal year to the 2013/14 fiscal year.

Table 20: Provincial receipts by province in R billions, 1997/98 to 2013/14

Rbn	Eastern Cape	Free State	Gaut-eng	KwaZulu-Natal	Lim-popo	Mpuma-langa	Northern Cape	North West	Western Cape	Total receipts
1997/98	15.5	6.2	15.2	18.7	11.3	5.5	2.2	7.5	10.2	92.3
1998/99	16.3	6.6	16.2	19.3	12.0	6.0	2.3	8.0	10.7	97.4
1999/00	17.1	7.0	17.4	21.1	13.1	6.7	2.7	8.5	11.3	104.8
2000/01	18.7	8.0	18.8	22.6	14.1	6.9	2.6	9.2	11.9	112.9
2001/02	19.6	8.5	21.1	25.0	15.4	8.7	2.9	9.7	13.0	124.0
2002/03	24.7	9.8	25.0	28.6	18.5	9.7	3.4	11.3	14.4	145.5
2003/04	19.4	9.3	23.7	25.2	17.0	9.3	3.0	10.3	13.6	130.7
2004/05	21.8	10.3	25.6	27.7	19.1	10.3	3.6	11.7	15.1	145.2
2005/06	25.4	11.0	27.2	33.1	20.7	11.7	3.8	13.1	16.8	162.8
2006/07	28.2	12.0	34.3	37.5	23.0	12.7	4.5	15.1	18.4	185.8
2007/08	31.4	13.6	41.3	44.1	25.5	16.4	6.0	15.0	21.6	214.9
2008/09	36.9	16.2	47.8	53.2	30.4	19.8	7.1	17.9	25.0	254.3
2009/10	42.8	19.0	56.8	62.7	35.8	23.9	8.4	20.2	30.0	299.5
2010/11	49.2	21.2	62.3	72.0	40.3	26.5	9.8	21.9	34.6	337.7
2011/12	54.3	23.8	69.3	79.7	44.4	29.3	10.7	24.4	37.6	373.5
2012/13	57.9	25.2	74.6	86.0	48.0	31.8	11.5	27.0	40.0	402.0
2013/14	60.5	26.9	80.8	90.6	49.2	33.7	12.5	28.6	43.8	426.6

Note: Due to the shift of the Social Security function to the national sphere in 2003/04, revenue data have been made comparable by deducting Social Security conditional grants from receipts.

Source: National Treasury Provincial Database

Section 5.3 on page 160 notes that provincial governments are assigned negligible own revenue sources and thus rely heavily on the intergovernmental grants they receive from the national government. These trends are clearly illustrated in Table 21 below.

Table 21: Provincial sources of revenue as an average share of total provincial receipts, 1997/98 to 2013/14

Percentage of total receipts		1997/98 - 2002/03	2003/4 - 2007/08	2008/9 -2013/14
Eastern Cape	Equitable share	90.5	86.3	84.3
	Conditional grants	7.2	11.1	13.8
	Own revenue	2.3	2.6	1.9
Free State	Equitable share	86.3	76.1	78.2
	Conditional grants	9.6	19.8	18.0
	Own revenue	4.1	4.1	3.8
Gauteng	Equitable share	81.1	76.1	70.9
	Conditional grants	12.5	16.6	23.7
	Own revenue	6.4	7.3	5.4
KwaZulu-Natal	Equitable share	86.8	86.2	82.8
	Conditional grants	9.2	9.8	13.9
	Own revenue	4.0	4.0	3.3
Limpopo	Equitable share	90.5	89.5	86.5
	Conditional grants	6.5	8.6	11.9
	Own revenue	3.0	2.0	1.6
Mpumalanga	Equitable share	90.1	87.9	84.6
	Conditional grants	6.4	8.6	13.0
	Own revenue	3.5	3.5	2.4
Northern Cape	Equitable share	88.6	84.2	75.7
	Conditional grants	7.7	12.4	22.0
	Own revenue	3.7	3.4	2.4
North West	Equitable share	87.9	79.6	81.0
	Conditional grants	6.9	17.3	15.8
	Own revenue	5.2	3.1	3.2
Western Cape	Equitable share	82.7	75.1	72.3
	Conditional grants	11.5	16.0	20.2
	Own revenue	5.8	8.9	7.5
All Provinces	**Equitable share**	***86.8***	***82.9***	***79.9***
	Conditional grants	***9.0***	***12.7***	***16.4***
	Own revenue	***4.2***	***4.5***	***3.7***

Source: Own calculations based on data from the National Treasury Provincial Database

Between 1997/98 and 2002/3, provincial own revenues comprised on average only 4.2% of the total provincial revenues. The unconditional Equitable Share intergovernmental grant from the national government constituted an average share of 86.8% of the provincial revenues. Over the same period, an average of 9% of the total provincial revenues consisted of conditional grants from the national government (grants earmarked for a specific purpose by the national government, such as building hospitals, schools or roads). For the period from 2008/09 to 2013/14, the average share of provincial own revenues as a proportion of the total provincial revenue declined further to 3.7%. Over the same period, the average proportion of the unconditional equitable share grant also decreased to 80.2%, while the average share of conditional grants increased substantially to 16%.

Provincial governments have the discretion to channel their unconditional Equitable Share grant allocations and own revenues (such as vehicle licences, horse racing and casino taxes and hospital patient fees) towards province-specific priorities. They have very little discretion, by contrast, over conditional grants, since these grants may only be spent on the purposes for which they were ring-fenced by the transferring national department. The increase in conditional grants as an average proportion of provincial revenues between 2008/09 to 2013/14, accompanied by declines in the own revenue resources, means that provincial budgets have become more rigid on the revenue side, with less provincial discretion over resource allocation and greater dependence on conditional grants from national government.

Table 21 also illustrates that there is significant variation in the sources of revenue across provinces. Own revenues in the Western Cape constituted 7.5% of the province's total revenues, on average, between 2008/9 and 2013/14. Own revenues in Gauteng comprised 5.4% over the same period. Both the Western Cape's and Gauteng's own revenues were higher than the average for all provinces of 5.2%. The average share of conditional grants of total provincial revenue during the same period for Gauteng (23.7 %), the Northern Cape (22.0%) and the Western Cape (20.2%) was considerably higher than the 16.4% national average share, mainly due to more conditional grants received relating to infrastructure in the Health, Basic Education, Roads sectors.

Table 22: Nominal and real average annual growth rates in revenue by province, 1997/98 to 2013/14

Province	Nominal annual average growth			Real annual average growth		
	1997/98 - 2002/3	2002/3 - 2007/8	2007/8 - 2012/13	1997/98 - 2002/03	2002/3 - 2007/8	2007/8 - 2013/14
Eastern Cape	9.7%	5.0%	11.5%	3.1%	0.5%	4.8%
Free State	9.7%	6.7%	10.5%	3.1%	2.2%	5.4%
Gauteng	10.4%	10.6%	20.5%	3.8%	5.9%	5.3%
KwaZulu-Natal	8.8%	9.1%	4.1%	8.4%	4.4%	6.0%
Limpopo	10.5%	6.6%	12.2%	3.8%	2.1%	4.3%
Mpumalanga	12.2%	11.0%	10.6%	5.4%	6.3%	6.1%
Northern Cape	8.8%	12.2%	19.6%	2.2%	7.4%	6.5%
North West	8.5%	5.7%	8.3%	1.9%	1.2%	5.5%
Western Cape	7.2%	8.4%	12.1%	0.8%	3.7%	5.6%
Total all provinces	**9.5%**	**8.1%**	**13.8%**	**2.9%**	**3.5%**	**5.4%**

Source: Own calculations based on data from the National Treasury Provincial Database

Provincial revenue has consistently grown at annual average growth rates above inflation since 1997/98 (see Table 22 above). The strong real average annual growth rate of 5.4% across all provinces since 2007/8 was driven by two factors. The first was increased conditional grant funding for the 2010 World Cup and the national government's infrastructure-led growth stimulus in the wake of the 2008 global economic crisis. The second was the national government's prioritisation of Basic Education and Health, which is reflected in sustained real Equitable share grant allocation increases.

6.2.2 Provincial expenditure trends

Table 23 below reflects provincial spending outcomes in the nine provinces since 1997/98. It should be noted that there is a structural break in the data after 2003/04 when the social security function (the payment of social grants, such as the old age pension and child support grant) was shifted to a national government agency. After 2003/04 only social development services spending remained with provinces (for example, child welfare services, services to the disabled, and victim empowerment).

Table 23: Total expenditure (payments) by province in R billions (actual audited), 1997/98 to 2013/14

Year	Eastern Cape	Free State	Gau-teng	KwaZulu -Natal	Lim-popo	Mpuma-langa	Northern Cape	North West	Western Cape	Total payments
1997/98	16.49	6.95	15.74	19.95	11.70	6.11	2.40	7.85	10.79	97.97
1998/99	15.62	7.08	16.26	19.11	12.16	6.11	2.39	7.85	10.55	97.13
1999/00	16.19	6.69	16.77	19.39	12.58	6.34	2.49	8.24	10.40	99.08
2000/01	18.16	7.43	18.11	21.80	14.49	6.86	2.62	9.22	11.51	110.19
2001/02	19.60	8.23	20.30	25.06	15.66	8.51	2.89	9.91	12.52	122.67
2002/03	24.72	9.71	24.47	28.77	18.78	9.86	3.47	11.54	14.51	145.82
2003/04	21.71	8.92	23.65	25.48	16.50	9.05	3.14	10.19	13.11	131.74
2004/05	21.59	9.70	24.57	28.01	18.72	10.05	3.33	11.11	14.59	141.68
2005/06	23.73	10.68	27.06	33.31	20.70	11.69	3.95	13.14	16.75	160.99
2006/07	26.89	12.30	34.70	36.88	23.85	12.68	4.57	15.14	18.85	185.86
2007/08	30.21	13.27	41.74	44.48	24.69	16.27	5.93	15.35	21.52	213.47
2008/09	39.07	16.08	51.88	55.53	30.56	19.85	7.09	17.69	25.61	263.37
2009/10	45.65	18.77	59.05	63.81	35.53	23.66	8.18	20.36	30.11	305.12
2010/11	48.33	20.97	61.45	67.39	41.32	26.21	9.30	21.87	34.06	330.92
2011/12	52.73	23.31	66.23	77.65	42.38	28.93	10.74	24.04	36.38	362.39
2012/13	55.12	25.20	72.16	84.61	44.81	30.85	11.13	25.10	39.35	388.32
2013/14	60.07	27.01	76.11	91.61	45.86	33.41	13.06	29.90	43.28	420.31

Note: Due to the shift of the social security function to the national sphere in 2003/4, expenditure data from 2004/5 does not include social security spending but only social development services which remained within the provincial sphere

Source: National Treasury provincial database, National Treasury Provincial Budget and Expenditure Reviews (various issues)

The Provincial Executive Councils (the Premier and the Members of the Executive Council) receive their unconditional Equitable Share allocation from the national government as part of the annual *DoRA Act*. Then they decide how much of that global allocation will be appropriated to Health, Education, Social Development and other provincial functions. Similarly, once the provincial Department of Education gets its allocation, it makes micro-prioritisation decisions on the number of educators to employ, how many schools to build, and so on, within national norms and standards.

Basic Education spending constituted the single largest functional area in eight provincial governments, averaging 40.9% of the aggregate provincial spending between 2008/9 and 2013/14 (see Table 24 below). The Western Cape Provincial Government was the exception – its Health spending (35.9% of provincial spending) narrowly exceeded the spending on Basic Education (35.2%) over the same period. Basic Education and Health collectively account for an average share of just over 70% of total provincial spending. The remaining provincial functions (such as Provincial Roads, Public Works, Agriculture and Human Settlements) account for roughly a quarter of the aggregate provincial spending.

Before the social security function shifted to the national government's South African Social Security Agency, social development spending on average for all provinces between 1997/98 and 2002/3 comprised 19.5% of the total provincial expenditure. After the function shift, Social Development's average share of the total expenditure declined markedly, to 2.6% between 2003/4 and 2007/8 (see Table 24 below).

Table 24: Spending by functional area as an average share of total provincial expenditure (payments), 1997/98 to 2013/14

Percentage		1997/98 - 2002/3	2003/4 - 2007/8	2008/9 -2013/14
Eastern Cape	Education	40.4	48.1	45.7
	Health	19.7	25.5	27.6
	Social Development	23.7	2.4	3.2
	Other functions	16.2	39.3	23.5
Free State	Education	38.4	44.8	40.4
	Health	23.6	28.7	28.7
	Social Development	17.8	3.3	3.5
	Other functions	20.3	23.2	27.4
Gauteng	Education	36.4	37.0	35.8
	Health	33.1	34.0	33.9
	Social Development	14.7	3.0	3.4
	Other functions	15.7	41.6	26.8
KwaZulu-Natal	Education	36.9	44.7	40.1
	Health	26.1	32.3	31.7
	Social Development	20.7	2.2	2.3
	Other functions	16.3	20.9	26.0
Limpopo	Education	44.6	49.4	48.6
	Health	17.1	23.3	26.8
	Social Development	18.4	1.6	2.5
	Other functions	19.9	25.7	22.1
Mpumalanga	Education	41.8	49.1	44.9
	Health	17.2	22.6	23.7
	Social Development	18.4	2.3	3.2
	Other functions	22.7	26.0	28.2
Northern Cape	Education	35.7	39.4	37.1
	Health	17.1	27.3	26.9
	Social Development	26.4	4.6	4.9
	Other functions	20.8	28.7	31.1

Percentage		1997/98 - 2002/3	2003/4 - 2007/8	2008/9 -2013/14
North West	Education	40.3	44.8	40.8
	Health	17.2	23.2	26.6
	Social Development	18.5	2.5	3.4
	Other functions	24.1	29.5	29.2
Western Cape	Education	35.3	38.1	35.2
	Health	28.6	34.6	35.9
	Social Development	20.4	4.0	3.8
	Other functions	15.6	23.2	25.1
ALL	***Education***	***38.8***	***43.9***	***40.9***
	Health	***23.7***	***28.9***	***30.1***
	Social Development	***19.5***	***2.6***	***3.1***
	Other functions	***18.0***	***29.4***	***25.9***

Source: Own calculations based on data from the National Treasury Provincial Database

Once again there are substantial variations in functional spending shares across provincial governments. The average shares of total provincial expenditure on Basic Education between 2008/9 and 2013/4 in Mpumalanga (44.9%), the Eastern Cape (45.7%) and Limpopo (48.6%) are much greater than the average of 40.9% across all nine provinces. Gauteng's (35.8%) and the Western Cape's shares (35.2%) are much lower than the average share. Provincial governments with academic hospitals tend to devote a greater proportion of their provincial budgets to Health spending than the national average of 30.1% between 2008/9 and 2013/14. These provinces are KwaZulu-Natal (31.7%), Gauteng (35.8%) and the Western Cape (35.9%).

6.2.3 Provincial budget balances

Table 25 overleaf shows provincial deficits and surpluses (before financing) in billions of Rand. As noted in section 5.4.3 on page 175, overspending in the Eastern Cape and KwaZulu-Natal triggered national government interventions in early 1998, in accordance with section 100 of the Constitution. These interventions included financial bailouts which had to be paid back by the recipient provinces (as discussed previously in section 5.4.3 on page 175). This is evident in Table 25, which shows that the Eastern Cape ran a deficit of just under a billion rand (R970 million) and KwaZulu-Natal ran a deficit of R1.2 billion in 1997/98. Table 25 also shows that these deficits were converted to surpluses in both provinces over the next three to four years in order to pay back the bailout advanced. This suggests that the National Treasury was able to enforce provincial budget constraints successfully and maintain aggregate fiscal discipline in the provincial sphere.

A matter for concern is the recurrent pattern in the Eastern Cape and KwaZulu-Natal of overspending, followed by forced subsequent surpluses. In 2003/4, the Eastern Cape again had a deficit of R2.32 billion, followed by four years of budget surpluses. This was repeated in 2008/9 and 2009/10, when the Eastern Cape gain ran deficits of R2.12 billion and R2.82 billion respectively, followed by four years of surpluses.

Table 25: Budget balance by province in R billions, 1997/98 to 2013/14

Year	Eastern Cape	Free State	Gaut-eng	KwaZulu-Natal	Lim-popo	Mpuma-langa	Northern Cape	North West	Western Cape	Total
1997/98	-0.97	-0.76	-0.53	-1.22	-0.43	-0.62	-0.17	-0.31	-0.62	**-5.63**
1998/99	0.66	-0.46	-0.08	0.17	-0.11	-0.09	-0.12	0.17	0.18	**0.31**
1999/00	0.90	0.34	0.62	1.67	0.48	0.35	0.19	0.24	0.88	**5.68**
2000/01	0.55	0.56	0.71	0.83	-0.43	0.03	0.03	0.01	0.40	**2.67**
2001/02	0.05	0.26	0.79	-0.06	-0.24	0.21	0.03	-0.21	0.52	**1.36**
2002/03	-0.06	0.13	0.49	-0.19	-0.24	-0.11	-0.07	-0.21	-0.08	**-0.34**
2003/04	-2.32	0.42	0.00	-0.29	0.48	0.21	-0.12	0.12	0.48	**-1.03**
2004/05	0.22	0.56	0.98	-0.34	0.39	0.25	0.26	0.62	0.53	**3.48**
2005/06	1.71	0.36	0.15	-0.25	-0.04	-0.01	-0.13	-0.01	0.01	**1.79**
2006/07	1.29	-0.27	-0.44	0.60	-0.83	0.04	-0.06	0.00	-0.42	**-0.10**
2007/08	1.19	0.34	-0.48	-0.38	0.83	0.14	0.10	-0.38	0.03	**1.40**
2008/09	-2.12	0.16	-4.08	-2.34	-0.21	-0.02	-0.03	0.16	-0.63	**-9.10**
2009/10	-2.82	0.20	-2.23	-1.13	0.27	0.20	0.19	-0.15	-0.10	**-5.57**
2010/11	0.88	0.19	1.52	4.64	-1.07	0.65	0.46	0.01	0.54	**7.81**
2011/12	0.64	0.12	3.09	1.31	1.04	0.61	-0.08	0.13	0.63	**7.49**
2012/13	1.90	-0.22	2.69	0.62	2.00	0.34	0.43	0.39	0.25	**8.41**
2013/14	0.43	0.17	5.69	-0.61	1.95	0.72	-0.23	0.14	0.14	**8.40**

Note: negative budget balances denote deficits, positive balances denote surpluses. These are budget balances before financing, i.e. drawdowns from provincial reserves and rollovers are excluded.

Source: Own calculations based on data from the National Treasury Provincial Database

A similar pattern is discernible in KwaZulu-Natal, which ran deficits of R4.08 billion and R2.23 billion in 2008/9 and 2009/10 respectively. The national government also initiated section 100 interventions in the Free State, Gauteng and Limpopo Provincial Governments in December 2011. Gauteng ran deficits before financing of R4.08 billion and R2.23 billion in 2008/09 and 2009/10, followed by four years of surpluses. Limpopo ran a deficit of R1.07 billion in 2010/11, which was converted to a surplus in the three subsequent years.

This kind of volatility in spending undermines service delivery, as is discussed in greater detail in the analysis of the Basic Education and Health sectors which follows. To comprehend the degree of volatility in provincial spending patterns fully, it is useful to consider the size of deficits or surpluses not only in absolute terms, but also as a share of the total expenditure of the province concerned. Table 26 overleaf shows provincial budget balances as a percentage of the total provincial spending in a given fiscal year. The dark grey shaded blocks highlight deficits greater than 5% of the total expenditure, and the light grey blocks indicate surpluses greater than 5% of the total expenditure.

Table 26: Budget balance as a percentage of the total expenditure by province, 1997/98 to 2013/14

Year	Eastern Cape	Free State	Gaut-eng	KwaZulu -Natal	Lim-popo	Mpuma -langa	Northern Cape	North West	Western Cape	Total
1997/98	-5.9	-11.0	-3.4	-6.1	-3.7	-10.2	-7.0	-4.0	-5.7	**-5.8**
1998/99	4.2	-6.4	-0.5	0.9	-0.9	-1.4	-5.1	2.1	1.7	**0.3**
1999/00	5.5	5.2	3.7	8.6	3.8	5.6	7.6	2.9	8.5	**5.7**
2000/01	3.0	7.6	3.9	3.8	-3.0	0.4	1.0	0.1	3.4	**2.4**
2001/02	0.3	3.1	3.9	-0.3	-1.5	2.5	1.1	-2.1	4.2	**1.1**
2002/03	-0.2	1.3	2.0	-0.7	-1.3	-1.2	-2.0	-1.8	-0.6	**-0.2**
2003/04	-10.7	4.7	0.0	-1.2	2.9	2.3	-3.7	1.1	3.6	**-0.8**
2004/05	1.0	5.8	4.0	-1.2	2.1	2.5	7.8	5.6	3.7	**2.5**
2005/06	7.2	3.4	0.6	-0.7	-0.2	-0.1	-3.3	-0.0	0.1	**1.1**
2006/07	4.8	-2.2	-1.3	1.6	-3.5	0.3	-1.4	0.0	-2.2	**-0.1**
2007/08	3.9	2.6	-1.1	-0.9	3.4	0.8	1.7	-2.5	0.2	**0.7**
2008/09	-5.4	1.0	-7.9	-4.2	-0.7	-0.1	-0.4	0.9	-2.4	**-3.5**
2009/10	-6.2	1.1	-3.8	-1.8	0.8	0.8	2.3	-0.7	-0.3	**-1.8**
2010/11	1.8	0.9	2.5	6.9	-2.6	2.5	4.9	0.0	1.6	**2.4**
2011/12	1.2	0.5	4.7	1.7	2.5	2.1	-0.7	0.5	1.7	**2.1**
2012/13	3.5	-0.9	4.9	0.7	4.5	1.1	3.8	1.6	0.6	**2.2**
2013/14	0.7	0.6	1.9	-0.7	4.2	2.2	-1.8	0.5	0.3	**2.0**

Note: Darker grey shading show deficits before financing more than 5% of total payments. Lighter grey shading show surpluses more than 5% of total payments

Source: Own calculations based on data from the National Treasury Provincial Database

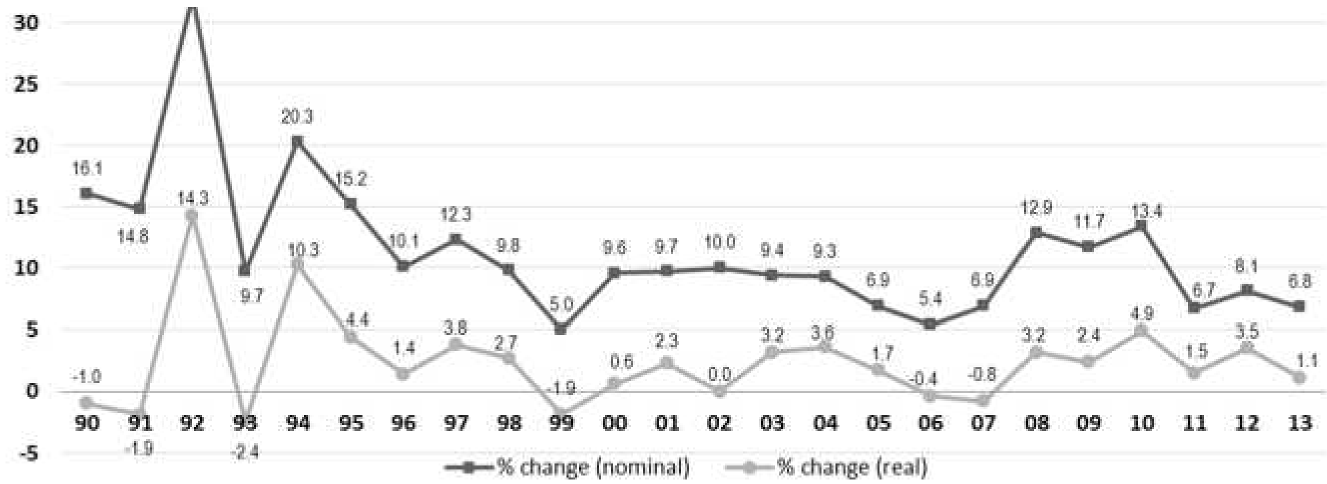
Between 2011/12 and 2013/14, the Eastern Cape, Gauteng and Limpopo Provincial Governments continued to run deficits, but these were less than 5% of the province's total expenditure. By contrast, the other six provincial governments fared reasonably well, with relatively few deficits or surpluses more than 5% of provincial spending over the same period. It is therefore clear that while there has been considerable variation in the ability of provincial governments to exercise aggregate fiscal discipline over the last 16 years, the situation seems to have improved over markedly over time.

One of the major spending and deficit drivers at the provincial level is personnel spending pressures (especially in the provincial Education and Health departments, which are highly labour intensive). Because the compensation of employees (CoE) constitutes such a dominant share of total provincial spending, relatively small changes in personnel spending can have very large impacts on the rest of a province's budget. Personnel budgets are driven primarily by changes in salaries and other conditions of services, which are negotiated through central bargaining with public sector unions in the national sphere and headcount (the number of personnel in employment). The total number of personnel employed collectively by the nine provincial Education departments increased from 368 540 (of whom 92% were permanently employed) in 2004/5 to 497 807 (of whom 88% were permanently employed) in 2011/12. The annual average growth rate of permanent staff in provincial Education Departments was 5% compared to an increase in contract staff of 51% over the same period (Dawood & Madubula 2013). In provincial

Health departments, total personnel numbers increased from 231 683 (of whom 93% were permanent) in 2004/05 to 329 253 (of whom 87% were permanent) in 2011. The annual average growth rate of permanent staff in the provincial Health sector was 5%, in contrast to 38% for contract staff, over the same period (Dawood & Madubula 2013). Dawood and Madubula (2013:103) observe that the decline in the share of permanent staff coupled with substantial increases in employment of contract staff and other non-permanent staff "suggests that Education and Health departments are adopting a strategy to expad the skill sets of its workforce in the short to medium term by using the flexible and less onerous provisions that govern these positions".

Increases in personnel numbers in both the Basic Education and Health sector are clearly an important driver of the escalating provincial wage bill. Moreover, remuneration of public sector workers has also increased substantially, *inter alia* due to strong and politically influential public sector unions. Figure 10 below illustrates that, under the National Party government at the end of the apartheid era, the average remuneration rate per worker increased substantially in 1992/1993. Furthermore, as discussed in section 4.3 on page 125, the sunset clauses in the Interim Constitution of 1993 restricted the new ANC government's ability to reduce the number of white civil servants inherited from the previous regime but also encouraged the employment of additional black civil servants in the interests of creating a racially representative public service. Furthermore, in 1994 and 1995, the incoming democratic government immediately eliminated racially discriminatory disparities in civil servant salaries. This move, coupled with poor personnel controls on PERSAL and poor personnel management information, fuelled provincial overspending in 1997/98.

Figure 10: Percentage change in average remuneration per public sector worker, 1990 to 2013 (nominal and constant 2000 prices)



Note: Remuneration per worker in the non-agricultural sector: Public sector index, 2000 = 100

Source: South African Reserve Bank Quarterly Bulletin (various editions)

From 1996 to 1999, wage restraint in the public sector was more evident, influenced by the GEAR macro-economic strategy. Remuneration per public sector work grew moderately, at above inflation rates, from 2000 to 2005, and then accelerated sharply in real terms from 2008 to 2010 as the Occupation Specific Dispensation (OSD) was implemented in 2007. The OSD aimed to provide differentiated salary structures in specific occupations with scarce skills in order to enhance public sector recruitment and retention. The objective was to implement OSD for educators, doctors, nurses, and other categories of professionals. However, different provinces applied different criteria for implementing the OSD, often not as originally intended, but more as an across-the-board increase, also fuelling personnel spending pressures (Madabula & Dawood 2013).

The problem with OSD lay in poor provincial implementation and in poor intervention design by the relevant national departments in the first place. For instance, it was only after its implementation had commenced in 1 July 2007 that it became apparent that the original cost estimates were hopelessly inadequate. In a presentation by the National Department of Health to the Parliamentary Portfolio Committee, the following statement was made:

> The data used showed that there were more than 96 800 nurses, but because OSD evaluations were done on an individual basis, the Department then found, when doing the translations, that in the public service there were actually 105 000 nurses. The OSD was therefore under-budgeted by about 10 000 nurses, which was the reason why the Department was showing over-expenditure. The data had been incorrect, with some people listed as clerks or porters, although they were actually employed as nurses. (Parliamentary Monitoring Group, 2013:n.p.)

The fact that the national Department was unable to estimate the number of nurses accurately is a gross indictment of their ability to discharge their sectoral leadership and provincial monitoring role. It is an unfortunate indication of the parlous state of HR management in provincial departments and the poor payroll internal control environment vulnerable to fraud and corruption. If a provincial department cannot even *count* its employees, it is singularly unlikely that it will even *manage* attendance, much less performance (a sad refrain resumed later in Chapter 7).

The following sections probe the underlying drivers of these aggregate outcomes within the Basic Education and Health sectors.

6.3 Provincial Basic Education fiscal trends

Under apartheid, the education system was racially segregated in respect of schooling of learners, with poor, black learners largely excluded or offered vastly inferior educational opportunities relative to their more affluent white counterparts (in under-resourced black township schools in the cities or rural schools on farms). Teacher training was also segregated with few black teachers being trained in mathematics and science, for example, mainly in teacher training colleges rather than university, unlike their white counterparts and with much lower educational entry standards into the profession. Systems for school administration in the Education departments in the black homelands were typical dysfunctional and governance of individual schools was weak (Department of Basic Education 2011b).

Between 1994 and 2003, to ensure racial parity in access to education, not only did the aggregate amount of funds devoted to the Basic Education sector increase substantially, but there was also a massive redistribution of public funding from historically white schools to historically black schools. Despite this, educational quality in black schools continued to be marred by the legacies of the apartheid education system: poor subject matter skills of black teachers (especially in mathematics and sciences), huge backlogs in physical classroom infrastructure, textbooks, stationery and equipment for teaching and learning, long distances to travel to schools because of apartheid spatial divides, and little safety from crime in urban townships schools (Department of Basic Education 2011b).

To progressively promote the realisation of the constitutional right to Education, Basic Education spending across the nine provincial Education departments grew from a collective R38.49 billion in 1997/98 to R172.27 billion in 2013/14 (see Table 27 below).

Table 27: Basic Education expenditure (payments) by province in R billions (actual audited), 1997/98 to 2013/14

R billion	Eastern Cape	Free State	Gaut-eng	KwaZulu-Natal	Lim-popo	Mpuma-langa	Northern Cape	North West	Western Cape	Total
1997/98	6.76	2.54	5.87	7.28	5.55	2.51	0.84	3.24	3.91	**38.49**
1998/99	6.59	2.61	6.06	7.13	5.80	2.62	0.90	3.20	3.82	**38.72**
1999/00	6.84	2.79	6.31	7.29	5.85	2.81	0.88	3.41	3.81	**39.99**
2000/01	7.19	2.99	6.81	8.17	6.37	3.00	0.97	3.70	4.00	**43.20**
2001/02	7.86	3.17	7.27	9.17	6.67	3.33	1.02	3.97	4.39	**46.86**
2002/03	9.15	3.52	8.07	10.29	7.35	3.89	1.17	4.38	4.80	**52.61**
2003/04	10.16	4.05	9.47	11.82	8.26	4.53	1.29	4.84	5.30	**59.72**
2004/05	10.65	4.40	9.83	13.03	9.61	4.87	1.40	5.18	5.69	**64.67**
2005/06	11.52	4.92	10.41	15.03	10.36	5.78	1.56	5.95	6.45	**71.98**
2006/07	12.87	5.35	11.62	16.22	11.37	6.27	1.64	6.69	6.92	**78.95**
2007/08	14.49	5.80	13.83	18.41	11.81	7.82	2.29	6.21	7.74	**88.39**
2008/09	17.52	6.71	16.69	22.99	14.70	9.31	2.79	7.18	9.19	**107.08**
2009/10	21.16	7.85	20.05	26.23	17.86	10.93	3.10	8.39	10.61	**126.19**
2010/11	22.58	8.46	22.25	28.75	20.20	11.60	3.42	9.10	11.96	**138.31**
2011/12	24.17	9.26	24.60	32.81	20.31	12.56	3.97	9.88	12.79	**150.36**
2012/13	25.19	10.06	26.73	34.56	21.01	13.86	4.13	10.42	13.65	**159.60**
2013/14	26.78	10.56	29.21	37.16	22.65	14.65	4.49	11.67	15.11	**172.27**

Source: National Treasury provincial database, National Treasury Provincial Budget and Expenditure Reviews (various issues)

Table 28, overleaf, reflects that aggregate provincial Basic Education spending did not grow in real terms between 1997/98 and 2002/3 because the provincial governments were forced to reign in expenditure to pay back section 100 bailouts (as discussed previously in section 5.4.3 on page 175). Basic Education spending declined in real terms over that period by an annual average rate of -0.2% in the Eastern Cape, -0.6% in Limpopo and -2.1% in the Western Cape. The Western Cape's fiscal consolidation was particularly marked, accompanied by the retrenchment of large numbers of teachers and other civil servants. Between 2002/3 and 2007/8, and between 2007/8 and 2013/14, real average annual growth rates on aggregate for all nine provinces rose to 6.2% and 5% respectively. This sustained strong growth of real Basic Education spending is reflective of the high policy priority accorded to this sector in both the national and the provincial spheres.

Table 28: Nominal and real average annual growth rates in Basic Education expenditure by province, 1997/98 to 2013/14

	Nominal annual average growth			Real annual average growth		
Province	1997/98 - 2002/3	2002/3 - 2007/8	2007/8 - 2013/14	1997/98 - 2002/3	2002/3 - 2007/8	2007/8 - 2013/14
Eastern Cape	6.2%	9.6%	10.8%	-0.2%	5.0%	4.1%
Free State	6.8%	10.5%	10.6%	0.3%	5.8%	3.8%
Gauteng	6.6%	11.4%	28.4%	0.1%	6.6%	6.4%
KwaZulu-Natal	7.2%	12.3%	19.7%	0.7%	7.6%	5.6%
Limpopo	5.8%	10.0%	-0.7%	-0.6%	5.3%	4.7%
Mpumalanga	9.2%	15.0%	10.5%	2.6%	10.1%	4.3%
Northern Cape	6.9%	14.3%	10.9%	0.4%	9.5%	5.1%
North West	6.2%	7.2%	15.0%	-0.2%	2.7%	4.4%
Western Cape	4.2%	10.0%	6.2%	-2.1%	5.3%	5.0%
All provinces	**6.4%**	**10.9%**	**11.8%**	**0.0%**	**6.2%**	**5.0%**

Source: Own calculations based on data from the National Treasury Provincial Database

The Basic Education sector is highly labour intensive. Not surprisingly, therefore, spending on compensation for employees constitutes the lion's share of the provincial Basic Education department budgets. As can be seen in Table 29 overleaf, expenditure on the CoE in the period from 1997/98 to 2002/03 was 89.6% of the total Education spending on average across all provinces. This raised concern because personnel expenditure was "crowding out" other forms of non-personnel non-capital spending, such as textbooks, stationery, etc. which only amounted to an average of 6.5% of the total Education spending for that period.

Capital spending was extremely low, averaging only 1.6% between 1997/98 and 2002/3. This was extremely worrying, given the persistent backlogs in school infrastructure in many of the provinces, which were struggling to spend their capital budgets effectively. It is noteworthy that, over the same period, the proportion of the total Education spending devoted to the CoE was higher than the national average in the Eastern Cape (91%), in KwaZulu-Natal (91.1%), Limpopo (91.9%) and the North West (91.2%), indicating more intense "crowding-out" effects in these rural provinces with budgets for school infrastructure and other equipment supporting teaching and learning such as desks and textbooks decreased in order to accommodate increased CoE expenditure.

Table 29: Expenditure by economic classification as an average share of total basic Education spending, 1997/98 to 2013/14 (%)

Percentage		1997/98 - 2002/3	2003/4 - 2007/8	2008/9 -2013/14
Eastern Cape	Compensation of employees	91.0	84.7	80.9
	Transfers and subsidies	2.1	3.9	7.9
	Capital payments	0.5	2.9	4.0
	Other	6.4	8.5	7.2
Free State	Compensation of employees	88.6	80.1	77.8
	Transfers and subsidies	2.2	9.2	11.5
	Capital payments	1.4	3.1	4.2
	Other	7.8	9.8	6.4
Gauteng	Compensation of employees	85.8	77.5	75.5
	Transfers and subsidies	4.6	8.1	9.6
	Capital payments	2.6	5.6	4.4
	Other	7.0	8.8	10.5
KwaZulu-Natal	Compensation of employees	91.1	81.4	79.1
	Transfers and subsidies	1.4	5.0	5.9
	Capital payments	2.0	4.6	6.2
	Other	5.5	9.0	8.8
Limpopo	Compensation of employees	91.9	83.0	80.9
	Transfers and subsidies	0.7	3.1	5.1
	Capital payments	1.1	4.0	4.8
	Other	6.3	9.8	9.3
Mpumalanga	Compensation of employees	90.3	77.1	78.3
	Transfers and subsidies	0.9	3.6	5.9
	Capital payments	2.2	3.9	4.2
	Other	6.7	15.4	12.1
Northern Cape	Compensation of employees	84.3	79.7	77.3
	Transfers and subsidies	5.8	8.7	9.9
	Capital payments	1.3	2.1	5.0
	Other	8.6	9.5	7.9
North West	Compensation of employees	91.2	83.0	77.9
	Transfers and subsidies	1.7	3.5	9.2
	Capital payments	2.1	3.6	3.9
	Other	5.0	9.9	9.0
Western Cape	Compensation of employees	86.7	78.2	75.9
	Transfers and subsidies	4.4	9.8	11.0
	Capital payments	1.3	3.0	4.0
	Other	7.5	9.0	7.4
All provinces	***Compensation of employees***	***89.6***	***80.9***	***78.5***
	Transfers and subsidies	***2.3***	***5.6***	***7.8***
	Capital payments	***1.6***	***4.0***	***4.7***
	Other	***6.5***	***9.7***	***8.9***

Source: Own calculations based on data from the National Treasury Provincial Database

To validate whether personnel spending did indeed “crowd out” other expenditure categories such as goods and services and/or transfers, it is also necessary to compare the actual spending outcomes with the budgeted allocation at the start of a financial year. If there were material underspending on goods and services and transfer spending outcomes relative to the budgets in a particular year, but at the same time CoE spending outcomes significantly exceeded their budgeted allocations, this would be compelling confirmation of the existence of crowding-out effects. This analysis is conducted in section 7.3.1 on page 319 in the next chapter.

By the 2008/9 to 2013/14 period, personnel spending as a share of the total provincial Basic Education expenditure had been managed down to an average of 78.5%, with commensurate increases in the shares of other complementary (non-personnel non-capital) inputs to an average of 7.8% of the total Basic Education spending, and an increase in capital spending to an average of 4.7% of the total Education spending. Table 26 on page 282 demonstrates that provincial governments ran surpluses between 1998/99 and 2002/3 to compensate for their overspending in 1997/98, illustrating the ability of National Treasury and the provincial treasuries to enforce “hard” provincial budget constraints. Table 27 on page 285 reveals that provincial Education departments bore the brunt of that contraction, with annual average increases of 0% in real terms between 1998/99 and 2002/3.

Table 30 overleaf shows that the CoE across all provinces declined in real terms at an annual average rate of -6.5% per annum between 1997/98 and 2002/3. Spending on transfers and subsidies and on capital payments however increased in real terms by 3.4% and 7.6% respectively per annum during the same period. Provincial Education departments were also able to contain the real growth of their wage bill in the periods from 2002/3 to 2007/8 and from 2007/8 to 2013/14, when real the growth rate of spending on CoE slowed further to -6% and -5.2% respectively. Because salaries and other conditions of service are negotiated at the national sphere, labour laws are rigid and educators and other public servants are highly unionised, personnel spending is relatively inflexible in the short term. As a result, other complementary inputs (non-personnel non-capital) and capital spending on school infrastructure bore most of the burden of fiscal consolidation, thus undermining the effective delivery of Basic Education services and the rollout of school infrastructure.

It is particularly worrying that the average annual increases in capital spending on school infrastructure amounted to only 7.6% in real terms between 1997/98 and 2002/3, despite backlogs in many of the poorer provinces. This has had deleterious consequences for the eradication of school infrastructure backlogs, particularly in rural and township schools, as well as the progressive realisation of the constitutional socio-economic right to education (Auditor-General 2011k). The substantial variation in capital budget implementation and performance across the various Education departments is discussed in more detail in section 7.3.1 on page 319.

Table 30, overleaf, also illustrates that between 2002/3 and 2007/8, the average annual rate of capital expenditure actually declined in real terms by -0.1% in aggregate across all provincial governments. The slowdown in school infrastructure delivery was most acute in Gauteng (-5.5%), the Western Cape (-6%) and the North West Province (-7.3%). By contrast, in the Northern Cape, capital spending grew at 4.5%, and in the Eastern Cape at 13.3%, albeit from a very low base in the previous period.

Table 30: Nominal and real average annual growth rates in Basic Education expenditure by economic classification and province, 1997/98 to 2013/14

Province		Nominal annual average growth			Real annual average growth		
		1997/98 - 2002/3	2002/3 - 2007/8	2007/8 - 2012/14	1997/98 - 2002/3	2002/3 - 2007/8	2007/8 - 2013/14
Eastern Cape	Compensation of employees	0.3%	-1.6%	-0.2%	-7.3%	-5.8%	-5.4%
	Transfers and subsidies	-1.5%	-1.8%	15.9%	-7.4%	-5.9%	9.9%
	Capital payments	–	18.3%	8.0%	–	13.3%	2.4%
	Other	-5.8%	12.4%	-10.3%	-11.5%	7.6%	-15.0%
Free State	Compensation of employees	-0.8%	-1.9%	0.4%	-6.8%	-6.1%	-4.8%
	Transfers and subsidies	32.6%	18.3%	4.1%	24.6%	13.3%	-1.3%
	Capital payments	–	2.7%	-3.9%	–	-1.6%	-8.8%
	Other	-7.8%	5.2%	-8.6%	-13.3%	0.7%	-13.3%
Gauteng	Compensation of employees	-1.2%	-1.6%	-0.3%	-7.2%	-5.8%	-5.5%
	Transfers and subsidies	11.4%	10.6%	-1.0%	4.7%	5.9%	-6.2%
	Capital payments	22.4%	-1.3%	-0.8%	15.0%	-5.5%	-6.0%
	Other	0.1%	6.0%	3.8%	-5.9%	1.5%	-1.6%
KwaZulu-Natal	Compensation of employees	-0.1%	-2.2%	0.2%	-6.2%	-6.4%	-5.0%
	Transfers and subsidies	5.3%	33.6%	-6.1%	-1.0%	27.9%	-11.0%
	Capital payments	11.7%	6.2%	3.7%	5.0%	1.7%	-1.6%
	Other	-4.2%	9.2%	-0.2%	-10.0%	4.6%	-5.4%
Limpopo	Compensation of employees	0.0%	-1.9%	0.2%	-6.0%	-6.1%	-5.0%
	Transfers and subsidies	5.1%	56.9%	-4.7%	-1.3%	50.2%	-9.6%
	Capital payments	59.3%	4.7%	5.9%	49.6%	0.3%	0.4%
	Other	-6.7%	5.1%	-1.7%	-12.3%	0.6%	-6.7%
Mpumalanga	Compensation of employees	-1.8%	-1.7%	0.6%	-7.7%	-5.9%	-4.6%
	Transfers and subsidies	8.7%	26.3%	2.2%	2.1%	20.9%	-3.1%
	Capital payments	4.4%	2.3%	5.6%	-1.9%	-2.1%	0.1%
	Other	18.0%	5.1%	-5.6%	10.9%	0.6%	-10.5%
Northern Cape	Compensation of employees	-2.2%	0.1%	-0.4%	-8.1%	-4.2%	-5.6%
	Transfers and subsidies	30.7%	-3.7%	0.2%	22.8%	-7.8%	-5.0%
	Capital payments	13.3%	9.2%	19.6%	6.4%	4.5%	13.4%
	Other	1.7%	0.9%	-5.8%	-4.5%	-3.4%	-10.7%
North West	Compensation of employees	0.2%	-2.3%	-0.5%	-5.8%	-6.5%	-5.7%
	Transfers and subsidies	8.8%	25.6%	7.0%	2.2%	20.2%	1.5%
	Capital payments	-9.2%	-3.1%	14.0%	-14.7%	-7.3%	8.1%
	Other	1.5%	17.2%	-5.7%	-4.6%	12.2%	-10.6%
Western Cape	Compensation of employees	-1.1%	-1.5%	-0.4%	-7.1%	-5.7%	-5.5%
	Transfers and subsidies	25.1%	13.2%	-2.0%	17.6%	8.3%	-7.1%
	Capital payments	0.5%	-1.8%	16.3%	-5.6%	-6.0%	10.3%
	Other	0.9%	1.9%	0.3%	-5.2%	-2.5%	-4.9%
ALL	***Compensation of employees***	-0.5%	-1.8%	0.0%	-6.5%	-6.0%	-5.2%
	Transfers and subsidies	10.1%	16.0%	0.9%	3.4%	11.0%	-4.3%
	Capital payments	14.6%	4.4%	5.6%	7.6%	-0.1%	0.1%
	Other	-1.9%	7.8%	-2.8%	-7.8%	3.2%	-7.9%

Source: Own calculations based on data from the National Treasury Provincial Database

Over the following period from 2007/8 and 2013/14, the growth rate of aggregate provincial capital spending remained disturbingly low, at 0.1% in real terms. The crowding-out pressures emanating from CoE seems to have subsided in aggregate across provincial Education Departments since 2007/8, but capital spending and infrastructure delivery did not accelerate in most of provinces (except the North Cape, North West and Western Cape). This suggests that infrastructure backlogs may not be abating in these provinces despite the availability of funds, and the inability of provincial Education Departments spend capital budgets effectively may compromise their ability to meet the recent school infrastructure minimum norms and standards (Department of Basic Education 2013).

As can be seen in Table 31 below, of the 391 829 educators in public ordinary schools in 2013, the bulk 91 285 (23.3%) were located in KwaZulu-Natal. This is greater than the number of teachers in the Free State, Northern Cape, North West and Western Cape put together. The Eastern Cape, Gauteng, and Limpopo had 16.1%, 15.1% and 14% of educators respectively in 2013. Where teaching posts are filled, but there is a problem with absenteeism, the impact on teaching and learning outcomes (such as curriculum coverage) is negative. The Minister of Basic Education, Ms Angie Motshega, reported to Parliament in 2013 that the average South African teacher was absent 19 days a year, which was much higher than the Southern African Development Community average of 10 days (Absenteeism record 2013). Research conducted in the North West Province in 2012 revealed that in this province teachers only taught 52 of the 140 daily lessons scheduled for the year, roughly 40% of the lessons (Carnoy, Chisholm & Bangele 2012). However, it is not only the number of teachers and the extent of their contact time with the learners which have an impact on teaching and learning outcomes: teacher qualifications, especially their subject matter expertise, is critical too (Carnoy, Chisholm & Bangele 2012).

Table 31: Number of educators by province, 1999-2013

Year	Eastern Cape	Free State	Gaut-eng	KwaZulu-Natal	Lim-popo	Mpuma-langa	Northern Cape	North West	Western Cape	Total
1999	64 080	25 940	53 739	74 719	53 712	25 856	6 773	31 376	29 252	**365 447**
2000	66 361	22 834	43 254	71 748	54 456	26 080	6 399	29 516	27 714	**348 362**
2001	60 882	22 403	43 761	71 628	56 491	24 245	6 183	28 743	25 008	**339 344**
2002	64 974	21 947	44 651	71 624	55 155	24 870	6 334	29 451	25 225	**344 231**
2003	63 899	21 955	45 437	68 760	53 382	24 793	6 068	29 693	25 192	**339 179**
2004	63 498	22 451	45 621	73 637	52 571	25 631	6 067	29 752	25 180	**344 408**
2005	66 083	22 745	50 592	77 889	55 236	26 573	6 513	26 920	30 119	**362 670**
2006	62 328	22 688	50 375	82 429	52 074	31 112	8 569	25 552	30 440	**365 567**
2007	64 463	22 879	52 480	84 364	53 262	31 412	8 427	24 888	30 167	**372 342**
2008	64 371	22 696	53 017	83 760	55 647	32 784	8 835	25 736	31 214	**378 060**
2009	67 420	22 960	54 586	86 142	56 766	33 984	8 888	25 762	31 329	**387 837**
2010	66 626	23 016	57 463	87 466	55 992	33 245	8 617	25 074	31 870	**389 369**
2011	65 861	23 203	57 836	88 710	55 672	33 126	8 664	24 965	32 037	**390 074**
2012	65 104	23 854	59 175	90 251	55 277	33 059	8 632	24 881	32 439	**392 672**
2013	63 137	23 721	59 357	91 285	54 708	33 380	8 725	25 169	32 347	**391 829**

Source: South Africa. Department of Basic Education (2013c, 2014)

Despite the national government requirement that educators possess at least a three-year qualification, and although 97% of educators do, the quality of teaching and learning has not improved, as South Africa's country report on the Millennium Development Goals shows:

> However the optimal utilisation of the teacher labour force across provinces is problematic. This is evident in the performance of learners in national and international assessments which indicate that the high percentage of qualified teachers in South Africa does not significantly impact on learner performance. This is verified by the National Education Evaluation and Development Unit (NEEDU) report (NEEDU, 2011), which found that teaching of Grades 1,2 and 3 is so poor, and the learners' ability to read so weak, that they are likely to struggle for the rest of their school years. (Presidency 2013:45)

Table 32 below evinces that the ability of provincial Education departments collectively to reduce their personnel budgets in real terms at an average annual rate of 7.6% per annum between 1997/98 and 2002/3 (as illustrated earlier in Table 30 on page 289) depended largely on their ability to reduce educator headcounts, given that salaries and other conditions of services are determined through national collective bargaining structures.

Table 32: Average annual growth rates in educators by province, 1999 to 2013

Province	Annual average growth in educator numbers		
	1999-2002	2002-2007	2007-2013
Eastern Cape	0.5%	-0.2%	-0.4%
Free State	-5.4%	0.8%	0.9%
Gauteng	-6.0%	3.3%	2.3%
KwaZulu/Natal	-1.4%	3.3%	1.7%
Limpopo	0.9%	-0.7%	-0.3%
Mpumalanga	-1.3%	4.8%	0.4%
Northern Cape	-2.2%	5.9%	-0.3%
North West	-2.1%	-3.3%	-0.4%
Western Cape	-4.8%	3.6%	0.7%
All provinces	**-2.0%**	**1.6%**	**0.7%**

Source: Own calculations based on data from the National Treasury Provincial Database

Between 199 and 2002, the Free State (-5.4%), Gauteng (-6%) and the Western Cape (-4.8%) reduced educator numbers more than the average annual headcount reduction for all provinces of -2%. By contrast, the North West Province only decreased its educator headcount at a rate slightly above the national average (an average annual reduction of -2.1% between 1999 and 2002), although this province continued to reduce its teaching complement at an annual average rate of -3.3% between 2002 and 2007, and by -0.4%% between then and 2013.

In contrast to the early and marked fiscal consolidation of these four provincial Education departments, educator numbers grew marginally between 1999 and 2000 in both the Eastern Cape and Limpopo at annual average rates of 0.5% and 0.9% respectively. These two provincial Education departments deferred their fiscal adjustment, but when they did eventually make the adjustments in 2002 to 2007, and 2007 to 2013, the adjustments in educator headcount were much smaller than in the four provinces discussed above (-0.2% and -0.4% for the Eastern Cape between 2002 and 2007, and between 2007 and 2013 respectively; -0.7% and -0.3% for Limpopo during those same periods respectively).

As is evident from Table 33 below, there were just under 12 million learners in 2013, of which 23.4% (2.8 million) lived in KwaZulu-Natal, 15.9% in Gauteng (1.9 million) and 15.7% (1.88 million) in the Eastern Cape.

Table 33: Number of learners by province in millions, 1999 to 2013

Year	Eastern Cape	Free State	Gaut-eng	KwaZulu-Natal	Lim popo	Mpuma-langa	Northern Cape	North West	Western Cape	Total
1999	2.32	0.78	1.57	2.77	1.82	0.93	0.20	0.95	0.96	12.31
2000	2.13	0.74	1.44	2.62	1.83	0.90	0.20	0.90	0.89	11.65
2001	2.03	0.70	1.44	2.66	1.79	0.89	0.19	0.88	0.89	11.49
2002	2.06	0.69	1.48	2.68	1.82	0.90	0.19	0.89	0.92	11.64
2003	2.10	0.68	1.52	2.73	1.80	0.90	0.20	0.88	0.93	11.74
2004	2.13	0.68	1.56	2.67	1.87	0.91	0.21	0.89	0.95	11.88
2005	2.18	0.68	1.60	2.68	1.89	0.89	0.21	0.84	0.95	11.90
2006	2.07	0.67	1.70	2.72	1.74	1.07	0.26	0.76	0.95	11.94
2007	2.10	0.67	1.71	2.80	1.79	1.04	0.26	0.74	0.95	12.05
2008	2.04	0.66	1.72	2.73	1.74	1.03	0.26	0.77	0.94	11.87
2009	2.03	0.64	1.72	2.78	1.67	1.02	0.26	0.76	0.94	11.83
2010	2.00	0.64	1.78	2.74	1.66	1.01	0.27	0.75	0.96	11.81
2011	1.91	0.64	1.81	2.78	1.65	1.02	0.27	0.75	0.97	11.81
2012	1.90	0.65	1.86	2.81	1.67	1.03	0.27	0.76	0.99	11.93
2013	1.88	0.65	1.90	2.80	1.66	1.03	0.28	0.77	1.01	11.98

Source: Source: South Africa. Department of Basic Education (2013c, 2014)

Learner numbers in KwaZulu-Natal have remained more or less stable, at about 2.8 million learners, but it is clear from Table 34 below that learner enrolment has been declining in the Eastern Cape, Free State, Limpopo and the North West. It has been increasing in provinces such as Gauteng, Mpumalanga, Northern Cape and the Western Cape. This is broadly reflective of a number of variables including inter-provincial population migration rates, drop-out and repetition rates.

Table 34: Average annual growth rate in learner numbers by province (percentage), 1999 to 2013

Province	Annual average growth in learner numbers		
	1999-2002	2002-2007	2007-2013
Eastern Cape	-3.9%	0.4%	-1.8%
Free State	-3.9%	-0.8%	-0.4%
Gauteng	-1.9%	2.9%	1.8%
KwaZulu-Natal	-1.1%	0.9%	0.0%
Limpopo	-0.1%	-0.3%	-1.2%
Mpumalanga	-1.0%	2.9%	-0.2%
Northern Cape	-1.7%	6.3%	1.0%
North West	-2.1%	-3.7%	0.8%
Western Cape	-1.7%	0.7%	1.0%
All provinces	**-1.9%**	**0.7%**	**-0.1%**

Source: Own calculations based on data from the National Treasury Provincial Database

Learner-educator (L:E) ratios, on average, for all of the provinces, declined from 33.7 in 1999 to 30.6 in 2013. In KwaZulu-Natal and the Eastern Cape, L:E ratios declined from 37.1 and 36.3 respectively in 1999, to 30.7 and 29.8 respectively in 2013. In Gauteng, the L:E ratio rose from 29.2 to 32 over the same period.

Table 35: Learner-educator ratios by province, 1999 to 2013

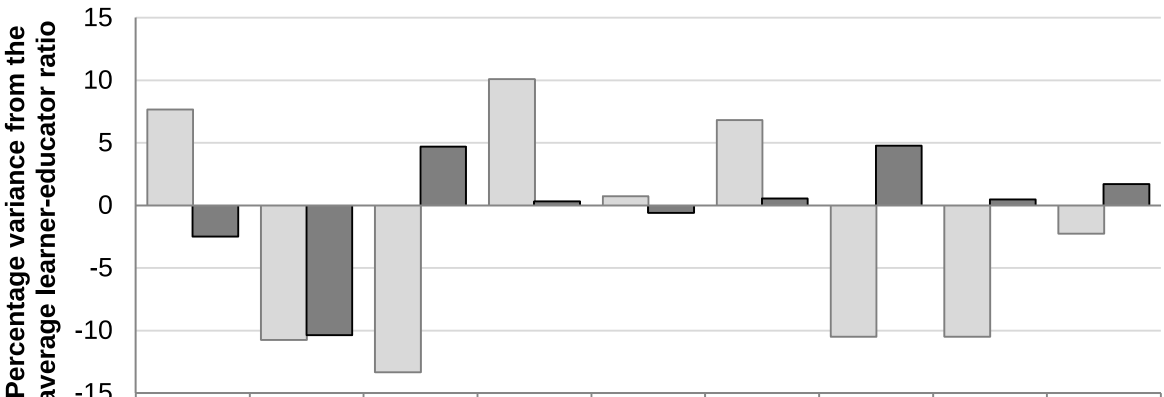
Year	Eastern Cape	Free State	Gaut-eng	KwaZulu -Natal	Lim-popo	Mpuma-langa	Northern Cape	North West	Western Cape	Total
1999	36.3	30.1	29.2	37.1	33.9	36.0	30.2	30.2	32.9	33.7
2000	32.1	32.6	33.2	36.5	33.6	34.5	30.7	30.6	32.1	33.4
2001	33.3	31.4	33.0	37.2	31.8	36.9	31.4	30.7	35.5	33.9
2002	31.8	31.6	33.2	37.4	32.9	36.3	30.6	30.1	36.3	33.8
2003	32.9	31.2	33.6	39.6	33.7	36.4	32.8	29.7	36.9	34.6
2004	33.6	30.2	34.2	36.3	35.6	35.7	34.0	30.0	37.7	34.5
2005	33.0	29.7	31.6	34.4	34.1	33.6	31.9	31.1	31.5	32.8
2006	33.2	29.5	33.8	33.0	33.4	34.5	30.2	29.8	31.2	32.7
2007	32.6	29.1	32.6	33.2	33.5	33.1	31.2	29.5	31.4	32.4
2008	31.7	28.9	32.4	32.5	31.2	31.6	29.8	29.8	30.0	31.4
2009	30.1	27.8	31.5	32.3	29.4	29.9	29.8	29.7	30.2	30.5
2010	30.1	27.8	30.9	31.4	29.7	30.5	30.9	29.8	30.1	30.3
2011	29.0	27.6	31.4	31.4	29.6	30.8	31.3	30.1	30.3	30.3
2012	29.1	27.1	31.4	31.2	30.1	31.1	31.8	30.6	30.6	30.4
2013	29.8	27.4	32.0	30.7	30.4	30.7	32.0	30.7	31.1	30.6

Source: Source: South Africa. Department of Basic Education (2013c, 2014)

Figure 11 overleaf illustrates the gradual convergence of L:E ratios between 1999 and 2013. KwaZulu-Natal with its large class sizes had an L:E ratio 10.1% in excess of the national average in 1999, which narrowed to only 0.3% greater than the national average. Similarly, the L:E ratio in Mpumalanga, which also exceeded the national average by 6.8% in 1999 fell to only 0.6% greater than the national average in 2103. In the case of the Eastern Cape, the L:E ratio, which was 7.7 % greater than the national average in 1999, by 2013 had fallen to 2.5% below the national L:E average.

Conversely, the L:E ratios of provinces with smaller classes, below the national average, tended to increase between 1999 and 2013. Gauteng, North West and the Northern Cape increased their L:E ratios over that period from 13.3%, 10.5% and 10.5% above the national average in 1999, to 4.7%, 4.8% and 0.5% below the national average L:E ratio in 2013. The only outlier seems to be the Free State, which remained at roughly 10% above the national average.

Figure 11: Percentage deviation from average learner-educator ratio by province, 1999 and 2013



	EC	FS	GT	KZN	LP	MP	NC	NW	WC
1999	7.7	-10.7	-13.3	10.1	0.7	6.8	-10.5	-10.5	-2.3
2013	-2.5	-10.4	4.7	0.3	-0.6	0.6	4.8	0.5	1.7

Source: Own calculation

This reflects a move towards greater equity in the distribution of educators, which is confirmed by the analysis below of the per learner expenditure trends across the nine provincial Education departments. It should be noted that the rate of chronic absenteeism and disability among teachers (for example, due to the HIV/AIDs pandemic) tends to be higher in provinces such as the Eastern Cape and KwaZulu-Natal than in provinces such as the Western Cape. Furthermore, weak management systems to monitor attendance and strong teacher union influence in provinces like the Eastern Cape and KwaZulu-Natal have undermined the provincial Education departments' ability to monitor educator attendance and performance. As a result, an increase in the number of teachers may not translate commensurately into an increase in teaching contact time with learners, with negative consequences for the quality of teaching and learning (Absenteeism record 2013).

In 1999/2000, considerable disparities existed in Basic Education spending per learner, with per learner spending in the Eastern Cape (R2 942) and the KwaZulu-Nata (R2 631) significantly below the national average of R3 247 (see Table 36 overleaf). By 2012/13, equity in per capita spending had improved markedly across most of the provinces, although some degree of inequality remains.

Table 36: Basic education spending per learner in Rands, 1999/00 to 2013/14

Year	Eastern Cape	Free State	Gaut-eng	KwaZulu-Natal	Lim-popo	Mpuma-langa	Northern Cape	North West	Western Cape	Average
1999/00	2 942	3 570	4 020	2 631	3 211	3 019	4 315	3 602	3 952	3 247
2000/01	3 376	4 014	4 742	3 120	3 481	3 335	4 919	4 100	4 500	3 709
2001/02	3 878	4 509	5 031	3 444	3 720	3 725	5 256	4 496	4 944	4 078
2002/03	4431	5 081	5 442	3 837	4 044	4 300	6 034	4 931	5 247	4 520
2003/04	4 836	5 917	6 213	4 335	4 597	5 022	6 469	5 495	5 709	5 085
2004/05	4 996	6 495	6 301	4 878	5 137	5 327	6 765	5 808	5 993	5 446
2005/06	5 288	7 279	6 506	5 617	5 496	6 473	7 528	7 117	6 789	6 048
2006/07	6 217	7 981	6 835	5 961	6 544	5 843	6 345	8 780	7 288	6 611
2007/08	6 894	8 695	8 082	6 580	6 613	7 520	8 703	8 439	8 170	7 336
2008/09	8 599	10 232	9 724	8 435	8 467	8 995	10 602	9 375	9 801	9 019
2009/10	10 412	12 312	11 656	9 428	10 687	10 753	11 715	10 975	11 235	10 663
2010/11	11 271	13 246	12 516	10 476	12 165	11 441	12 838	12 200	12 458	11 711
2011/12	12 653	14 440	13 558	11 794	12 343	12 298	14 638	13 154	13 185	12 734
2012/13	13 284	15 566	14 382	12 285	12 618	13 489	15 048	13 707	13 768	13 375
2013/14	14 232	16 247	15 377	13 275	13 626	14 284	16 066	15 090	15 029	14 385

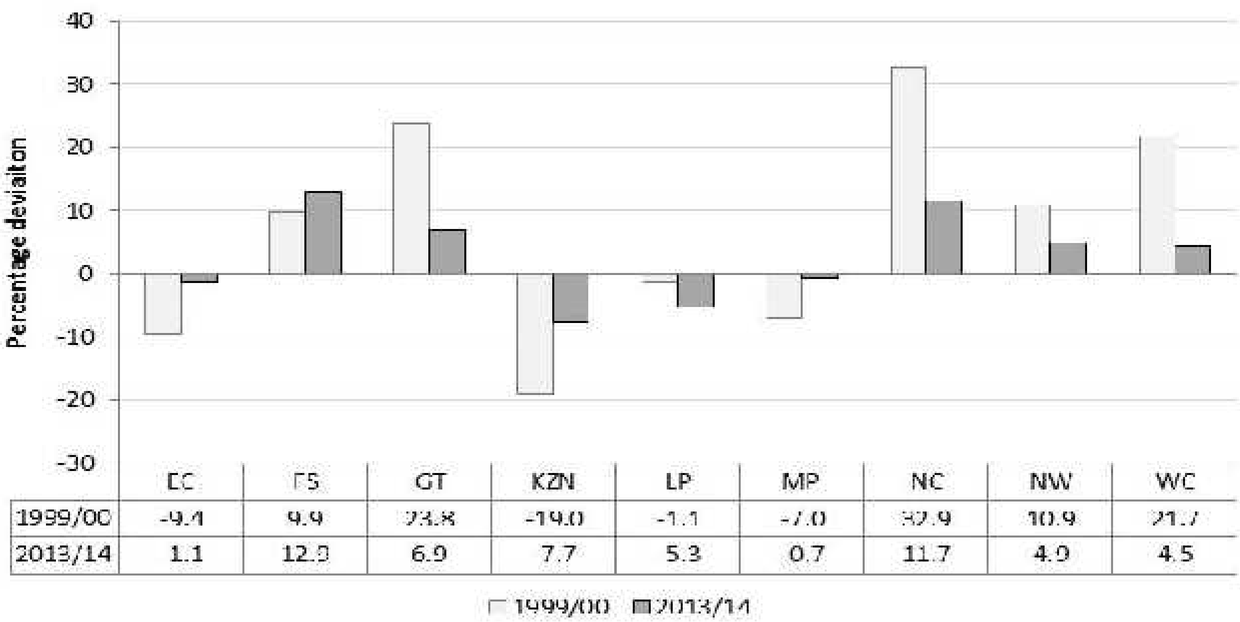
Source: Own calculations

As illustrated in Figure 12 overleaf, the Eastern Cape, KwaZulu-Natal and Mpumalanga had per leaner spending levels in 1999/00 which were 9.4%, 19% and 7% respectively below the national average of R3 247 per learner. By 2013/14, as a result of prioritisation of the Equitable Share formula towards provinces with the greatest proportions of learners, the per learner funding gap for these three provinces had narrowed to 2.1%, 9.9% and 1.1% respectively below the national average per learner of R14 099. Provincial Education departments such as those in Gauteng, the Northern Cape and the Western Cape with per learner spending levels of 23.8%, 32.9% and 21.7% above the national average in 1999 respectively reduced their per learner spending to 7.9%, 11.5% and 2.7% above the national average in 2013/14.

The only province in which the funding gap per learner actually increased over this period was in Limpopo, from -1.1% of the national average to -5.3% of the national average. The Free State Province, which spent 9.9% more than the national average per learner spending in 1999/2000 increased further to 12.9% more than the national average.

Substantial inequality in per learner funding persists (for example, the spending per learner in KwaZulu-Natal is still -9.9% below the national average, while the Free State spent 12.9% above the average on its learners in 2013/14. Some of the reasons for this (see the departmental level analysis in the next chapter) include labour legislation constraints on moving educators across provinces or even within the same province, the inability of some provinces to build new schools to alleviate apartheid backlogs, and SCM constraints in the provision of textbooks, stationery and other complementary inputs.

Figure 12: Percentage deviation in basic education spending per learner by province, 1999/00 and 2013/14



Source: Own calculations

From the above analysis it is clear that the Basic Education sector has made considerable strides since 1999 in enhancing equity in funding and improving access to schooling across all provinces. However, it is also crucial to look at educational outcomes from a value-for-money perspective.

Table 37: National Senior Certificate pass rates by province, 2010 to 2013

	Year	Total no who wrote	Total number passed	% passed	Eligibility to register for Bachelor's degree	% Eligible to register for Bachelor's degree
Eastern Cape	2010	64 090	37 364	58.3	10 225	16.0
	2011	65 359	37 997	58.1	10 291	15.7
	2012	63 989	39 443	61.6	11 246	17.6
	2013	72 138	46 840	64.9	13 686	19.0
Free State	2010	27 586	19 499	70.7	5 890	21.4
	2011	25 932	19 618	75.7	6 817	26.3
	2012	24 265	19 676	81.1	6 937	28.6
	2013	27 105	23 689	87.4	8 961	33.1
Gauteng	2010	92 241	72 537	78.6	31 301	33.9
	2011	85 367	69 216	81.1	30 037	35.2
	2012	89 627	75 214	83.9	32 449	36.2
	2013	97 897	85 122	87.0	38 104	38.9
KwaZulu-Natal	2010	122 444	86 556	70.7	31 466	25.7
	2011	122 126	83 201	68.1	27 397	22.4
	2012	127 253	93 003	73.1	34 779	27.3
	2013	145 278	112 403	77.4	47 202	32.5
Limpopo	2010	94 632	54 809	57.9	14 757	15.6
	2011	73 731	47 091	63.9	12 946	17.6
	2012	77 360	51 745	66.9	15 324	19.8
	2013	82 483	59 184	71.8	18 781	22.8

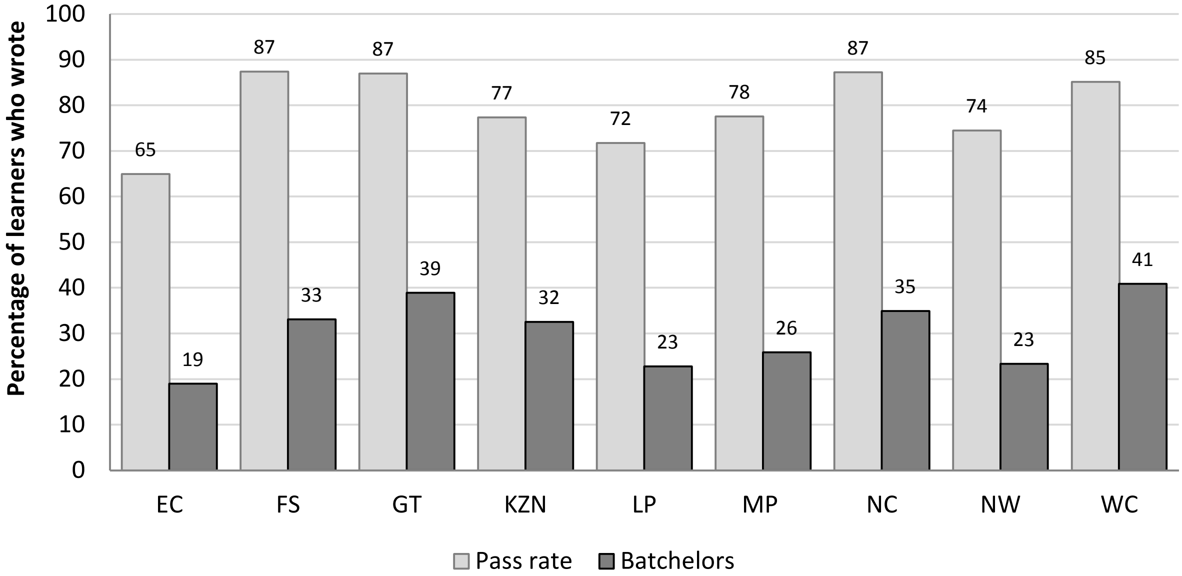
	Year	Total no who wrote	Total number passed	% passed	Eligibility to register for Bachelor's degree	% Eligible to register for Bachelor's degree
Mpumalanga	2010	51 695	29 382	56.8	8 147	15.8
	2011	48 135	31 187	64.8	8 866	18.4
	2012	47 889	33 504	70.0	9 495	19.8
	2013	50 053	38 836	77.6	12 954	25.9
Northern Cape	2010	28 909	21 876	75.7	8 021	27.7
	2011	25 364	19 737	77.8	7 187	28.3
	2012	27 174	21 609	79.5	7 445	27.4
	2013	29 140	25 414	87.2	10 166	34.9
North West	2010	10 182	7 366	72.3	2 152	21.1
	2011	10 116	6 957	68.8	2 012	19.9
	2012	8 925	6 661	74.6	2 055	23.0
	2013	10 403	7 749	74.5	2 424	23.3
Western Cape	2010	45 764	35 124	76.8	14 412	31.5
	2011	39 960	33 110	82.9	15 214	38.1
	2012	44 670	36 974	82.8	16 317	36.5
	2013	47 615	40 542	85.1	19 477	40.9
ALL PROVINCES	**2010**	**537 543**	**364 513**	**67.8**	**126 371**	**23.5**
	2011	**496 090**	**348 114**	**70.2**	**120 767**	**24.3**
	2012	**511 152**	**377 829**	**73.9**	**136 047**	**26.6**
	2013	**562 112**	**439 779**	**78.2**	**171 755**	**30.6**

Source: Department of Basic Education (2013a:63-64)

National Senior Certificates are a rather crude proxy for educational outcomes. Nevertheless, Table 37 above yields important insights. Of the 537 543 learners who wrote the National Senior Certificate examinations in 2010, an average of 67.8% passed across all the provinces. Encouragingly, this average pass rate rose to 78.2% in 2013.

While learner enrolment and pass rates are a fairly good indicator of access to basic education in Grade 12, the percentage of learners who wrote the examination and achieved pass marks which would permit them to study for a Bachelor's degree (undergraduate degree) at a South African university is a much better indicator of education quality. Disconcertingly, the eligibility to register for a Bachelor's degree, although it is increasing, is very low across all the provinces, with an average rate of 30.6% of those learners who passed the Senior Certificate being eligible to continue with university studies. Even in the Western Cape, which performs the best in terms of this indicator, only 40% of the candidates who passed the Senior Certificate examination in 2013 were eligibility to register for a Bachelor's degree. an indicator of poor education quality, despite fairly high pass rates.

Figure 13: National senior certificate pass rates and eligibility to register for a Bachelor's degree rates by province, 2013



Source: Department of Basic Education (2013a: 63-64)

The provinces that performed best, both in terms of pass rates and in terms of the proportion of learners who are eligible to study for a Bachelor's degree at a South African university are the Free State, Gauteng, the Northern Cape and the Western Cape (see Figure 13 above). Not surprisingly, these are also the better resourced provinces – the ones which have per learner spending levels higher than the national average (see Figure 12 on page 296). Kwa-Zulu Natal and Mpumalanga had pass rates roughly in line with the national average of 78.2% in 2013. In KwaZulu-Natal 32% of learners who passed were eligible to register for a Bachelor's degree, which exceeded the national average of 30.6% in 2013. This suggests that despite the massive number of learners and teachers in the province and spending per learner levels which are 10.2% lower than the national average in 2012/12 (see Figure 12), KwaZulu-Natal has been able to deliver above average quality of teaching and learning. The Eastern Cape, Limpopo and North West underperformed, as both their pass rates and the rates of eligibility to register for a Bachelor's degree falling far short of the national overage. The performance of the Eastern Cape, with pass rates of only 65% and rates of eligibility to register for a Bachelor's rates of 19% was egregious.

From the above analysis, it is clear that considerable resources have been pumped into the Basic Education sector, and that equity in funding and the distribution of educators has improved, as has learners' access to services relating to Basic Education. Disappointingly, extending access has generally not been accompanied by enhanced quality of teaching and learning, especially in black township and rural schools.

6.4 Provincial health fiscal trends

In his first State of the Nation Address on 24 May 1994, President Nelson Mandela announced the free provision of primary health care (PHC) to pregnant women and children under six years old. This was extended to all PHC users on 1 April 2006 (Harrison 2010). Other fundamental shifts in health policy included: a programme to increase access to essential drugs including anti-retrovirals for the treatment of HIV/AIDS, anti-tobacco legislation, choice on the termination of pregnancy, community service for graduating health professionals, hospital revitalisation and expansion of clinics (Harrison 2010).

As can be seen in Table 38 below, aggregate Health spending across all provinces grew from R22.48 billion in 1997/98 to R130.67 billion in 2013/14. Between 1997/98 and 2002/03, Health constituted 23.7% of aggregate expenditure across all the provinces (see Table 24 on page 279).

Table 38: Provincial Health expenditure (payments) by province in R billions (actual audited), 1997/98 to 2013/14

R billion	Eastern Cape	Free State	Gaut-eng	KwaZulu-Natal	Lim-popo	Mpuma-langa	Northern Cape	North West	Western Cape	Total
1997/98	3.03	1.66	5.30	4.81	1.95	1.05	0.38	1.38	2.94	**22.48**
1998/99	3.05	1.69	5.48	4.90	2.08	1.06	0.39	1.34	3.03	**23.02**
1999/00	3.50	1.59	5.60	5.11	2.22	1.15	0.43	1.38	3.11	**24.09**
2000/01	3.79	1.78	5.94	5.77	2.52	1.12	0.47	1.56	3.34	**26.29**
2001/02	3.89	1.95	6.84	7.03	2.66	1.46	0.52	1.70	3.70	**29.75**
2002/03	4.49	2.19	7.69	7.50	3.17	1.69	0.61	2.01	3.95	**33.30**
2003/04	5.24	2.54	8.20	8.24	3.63	1.95	0.83	2.26	4.55	**37.45**
2004/05	5.18	2.79	8.58	8.95	4.17	2.26	0.84	2.59	5.17	**40.53**
2005/06	6.12	3.12	9.97	10.56	4.79	2.67	1.10	2.97	5.72	**47.02**
2006/07	7.26	3.46	11.11	11.66	5.83	3.01	1.41	3.48	6.42	**53.65**
2007/08	8.01	3.83	13.09	14.96	6.13	3.66	1.56	3.85	7.50	**62.58**
2008/09	10.50	4.45	15.68	17.10	7.96	4.32	1.74	4.49	8.66	**74.90**
2009/10	12.09	5.21	18.40	20.35	9.02	5.62	2.21	5.20	10.37	**88.46**
2010/11	13.27	6.02	20.48	20.73	10.51	6.35	2.54	5.72	12.34	**97.96**
2011/12	14.89	6.81	23.67	24.79	11.37	7.01	3.01	6.38	13.39	**111.31**
2012/13	15.60	7.61	26.83	27.39	12.83	7.48	3.17	7.01	14.60	**122.53**
2013/14	17.05	7.78	27.42	29.53	13.14	8.05	3.40	8.39	15.92	**130.67**

Source: National Treasury provincial database, National Treasury Provincial Budget and Expenditure Reviews (various issues)

This share rose to an average of 30.1% across all provinces in the period from 2008/9 to 2013/14. Table 24 shows that, over the same period, the Health share of total provincial expenditure tends to be higher than the national average of 30.1% in provinces with academic hospitals such as Gauteng (33.9%), KwaZulu-Natal (31.7%) and the Western Cape (35.9%).

Table 39 overleaf indicates that the real annual average growth rate of Health spending across all provinces was a modest 1.6% between 1997/98 and 2002/3. However, the periods from 2002/3 to

2007/8 and from 2007/8 to 2013/14 saw considerably more vigorous real average annual growth rates of 8.6% and 6.1% respectively.

Table 39: Nominal and real average annual growth rates in Health expenditure by province, 1997/98 to 2013/4

Province	Nominal annual average growth			Real annual average growth		
	1997/98 - 2002/03	2002/3 - 2007/8	2007/8 - 2013/14	1997/98 - 2002/03	2002/3 - 2007/8	2007/8 - 2013/14
Eastern Cape	8.2%	12.3%	13.4%	1.7%	7.5%	6.5%
Free State	5.8%	11.8%	15.3%	-0.6%	7.0%	8.3%
Gauteng	7.7%	11.2%	-1.4%	1.2%	6.5%	-7.4%
KwaZulu-Natal	9.3%	14.8%	5.0%	2.7%	9.9%	-1.4%
Limpopo	10.1%	14.1%	14.0%	3.5%	9.3%	7.1%
Mpumalanga	10.0%	16.7%	12.5%	3.4%	11.7%	5.7%
Northern Cape	10.1%	20.7%	14.0%	3.5%	15.5%	7.1%
North West	7.9%	13.8%	9.3%	1.4%	9.0%	2.7%
Western Cape	6.1%	13.7%	9.9%	-0.3%	8.8%	3.2%
All provinces	**8.2%**	**13.4%**	**13.1%**	**1.6%**	**8.6%**	**6.2%**

Source: Own calculations

Given that the provision of Health care services is labour-intensive, it is not surprising that CoE constituted about 60% of the aggregate provincial Health spending between 2008/9 and 2013/14 (see Table 40 overleaf). Over the same period, personnel spending as a share of total Health spending was 62%, 63.9% and 65.3% in the Eastern Cape, Free State and Limpopo respectively, exceeding the national average. Capital payments for hospital and clinic infrastructure development and rehabilitation also constituted a greater share (just over 7%) of Health spending after 2003/4 than in the preceding period 1997/98 to 2002/3, when it was just 4.4%.

Between 1997/98 and 2002/3, aggregate spending on CoE across all provinces declined sharply by 7.8% in real terms (1.2% in nominal terms), as can be seen in Table 41 on page 302. However, some provinces effected nominal contractions in their Health personnel bill which was much greater than this average. These are the Eastern Cape with a -1.8% nominal decline in personnel spending between 1997/98 and 2002/3 (-8.4% in real terms), Mpumalanga with a nominal decline of -3.3% (-9.8% in real terms) and Limpopo with a nominal decline of -3.5% (-10% in real terms).

Table 40: Expenditure by economic classification as an average share of total Health spending, 1997/98 to 2013/14

	Percentage	1997/98 - 2002/03	2003/4 - 2007/08	2008/9 -2013/14
Eastern Cape	Compensation of employees	62.9	56.5	62.0
	Transfers and subsidies	13.2	8.8	3.5
	Capital payments	1.2	8.2	6.7
	Other	22.7	26.6	27.8
Free State	Compensation of employees	64.6	59.6	63.9
	Transfers and subsidies	6.7	2.9	1.7
	Capital payments	1.7	6.8	7.6
	Other	27.0	30.7	26.8
Gauteng	Compensation of employees	56.6	49.7	57.4
	Transfers and subsidies	6.7	7.9	5.1
	Capital payments	4.1	7.3	5.0
	Other	32.6	35.2	32.5
KwaZulu-Natal	Compensation of employees	62.1	57.6	60.5
	Transfers and subsidies	5.8	3.6	2.4
	Capital payments	7.3	7.4	7.0
	Other	24.8	31.4	30.1
Limpopo	Compensation of employees	64.1	62.1	65.2
	Transfers and subsidies	4.2	1.7	3.5
	Capital payments	6.6	9.5	7.7
	Other	26.8	26.6	23.6
Mpumalanga	Compensation of employees	61.8	53.9	58.5
	Transfers and subsidies	2.4	3.3	2.5
	Capital payments	6.6	6.9	9.3
	Other	29.2	35.8	29.7
Northern Cape	Compensation of employees	59.5	50.0	49.7
	Transfers and subsidies	9.0	2.1	2.3
	Capital payments	3.5	13.3	15.2
	Other	27.9	34.6	32.8
North West	Compensation of employees	68.2	57.9	57.5
	Transfers and subsidies	3.8	3.3	2.3
	Capital payments	5.3	8.1	10.1
	Other	22.8	30.7	30.2
Western Cape	Compensation of employees	63.0	53.7	56.7
	Transfers and subsidies	10.8	7.9	5.4
	Capital payments	2.0	6.0	6.3
	Other	24.3	32.4	31.5
All provinces	**Compensation of employees**	**61.7**	**55.5**	**59.7**
	Transfers and subsidies	**7.3**	**5.4**	**3.6**
	Capital payments	**4.4**	**7.7**	**7.1**
	Other	**26.7**	**31.4**	**29.6**

Source: Own calculations

In the periods 2002/3 to 2007/8, and 2007/8 to 2013/14, aggregate expenditure on CoE across all provinces continued to contract although at slower annual average rates of 4.6% and 3.4% respectively in real terms. This suggests that the ability of provincial health departments to contain wage bill pressures has improved markedly over time, thereby reducing the “crowding out” of other complementary inputs such as medicines or medical equipment.

Table 41: Nominal and real average annual growth rates in Health expenditure by economic classification and province, 1997/98 to 2013/4

Province		Nominal annual average growth			Real annual average growth		
		1997/98 - 2002/03	2002/3 - 2007/8	2007/8 - 2012/14	1997/98 - 2002/03	2002/3 - 2007/8	2007/8 - 2013/14
Eastern Cape	Compensation of employees	-1.8%	0.5%	1.6%	-8.4%	-3.7%	-3.6%
	Transfers and subsidies	-24.1%	-19.3%	-13.1%	-29.1%	-22.7%	-17.6%
	Capital payments	-47.8%	33.6%	-7.4%	-51.3%	27.9%	-12.2%
	Other	-15.1%	0.7%	0.5%	-20.8%	-3.6%	-4.7%
Free State	Compensation of employees	0.6%	-0.4%	1.3%	-6.1%	-4.6%	-4.0%
	Transfers and subsidies	-38.2%	-19.1%	-2.9%	-42.4%	-22.6%	-7.9%
	Capital payments	-51.5%	37.2%	-2.4%	-54.8%	31.4%	-7.4%
	Other	-13.0%	-1.0%	-2.1%	-18.9%	-5.2%	-7.2%
Gauteng	Compensation of employees	-3.5%	-0.4%	3.8%	-10.0%	-4.6%	-1.6%
	Transfers and subsidies	-33.4%	-5.7%	-2.3%	-37.8%	-9.7%	-7.3%
	Capital payments	-36.8%	6.3%	-15.4%	-41.1%	1.7%	-19.8%
	Other	-10.4%	0.5%	-3.3%	-16.4%	-3.8%	-8.3%
KwaZulu-Natal	Compensation of employees	-0.6%	-0.4%	1.5%	-7.3%	-4.6%	-3.7%
	Transfers and subsidies	-36.8%	-17.8%	1.4%	-41.0%	-21.3%	-3.9%
	Capital payments	-36.8%	3.2%	-2.0%	-41.0%	-1.2%	-7.1%
	Other	-13.9%	2.6%	-2.6%	-19.6%	-1.8%	-7.7%
Limpopo	Compensation of employees	0.3%	1.4%	1.3%	-6.4%	-2.9%	-3.9%
	Transfers and subsidies	-41.6%	-14.0%	12.3%	-45.5%	-17.7%	6.5%
	Capital payments	-31.6%	-1.6%	-19.2%	-36.2%	-5.8%	-23.4%
	Other	-16.2%	-1.2%	-0.9%	-21.8%	-5.4%	-6.1%
Mpumalanga	Compensation of employees	-3.3%	1.6%	1.7%	-9.8%	-2.7%	-3.5%
	Transfers and subsidies	-45.5%	-0.2%	3.1%	-49.2%	-4.5%	-2.2%
	Capital payments	-34.7%	-3.2%	2.0%	-39.1%	-7.3%	-3.3%
	Other	-8.8%	-1.7%	-3.8%	-14.8%	-5.9%	-8.8%
Northern Cape	Compensation of employees	-0.2%	-3.5%	0.6%	-6.8%	-7.6%	-4.6%
	Transfers and subsidies	-45.2%	-12.0%	7.8%	-48.9%	-15.8%	2.2%
	Capital payments	-37.3%	19.9%	0.2%	-41.5%	14.8%	-5.0%
	Other	-12.7%	1.5%	-1.6%	-18.5%	-2.8%	-6.7%
North West	Compensation of employees	0.8%	-4.0%	2.0%	-5.9%	-8.1%	-3.3%
	Transfers and subsidies	-47.7%	5.7%	-12.1%	-51.2%	1.2%	-16.6%
	Capital payments	-30.6%	4.5%	0.2%	-35.2%	0.1%	-5.0%
	Other	-16.6%	6.2%	-2.6%	-22.2%	1.7%	-7.6%
Western Cape	Compensation of employees	-0.3%	-1.7%	0.8%	-6.9%	-5.8%	-4.4%
	Transfers and subsidies	-29.8%	-11.9%	0.2%	-34.5%	-15.7%	-5.0%
	Capital payments	-45.1%	15.9%	-3.0%	-48.8%	11.0%	-8.0%
	Other	-15.2%	4.4%	-0.9%	-20.9%	-0.1%	-6.1%
All provinces	**Compensation of employees**	**-1.2%**	**-0.4%**	**1.9%**	**-7.8%**	**-4.6%**	**-3.4%**
	Transfers and subsidies	**-34.0%**	**-12.8%**	**-1.6%**	**-38.4%**	**-16.5%**	**-6.7%**
	Capital payments	**-38.1%**	**8.5%**	**-5.8%**	**-42.3%**	**3.9%**	**-10.7%**
	Other	**-13.3%**	**1.4%**	**-2.1%**	**-19.1%**	**-2.9%**	**-7.1%**

Source: Own calculations

The primary health care (PHC) headcount statistics reflect the number of visits by patients to PHC facilities such as clinics and community health centres (in millions of visits). The steady increase in the PHC headcount in Table 42, overleaf, indicates that access to, and use of, PHC services has increased in all provinces. However, there is substantial variation in access across provinces. For instance, as can be seen in Table 45 on page 306, Limpopo and the Western Cape had roughly the same number of medically uninsured health-risk adjustment population who depend on public health services (4.65 and 4.68 million people respectively), and the number of primary health care visits, as delineated in Table 42 overleaf, is also broadly similar (14.24 and 14.40 million visits respectively). By contrast, while the North West and Mpumalanga Provinces also have roughly the same size population who depend on public health services (3.16 and 3.38 million people respectively), there is substantial variation in the actual uptake of public health services across these two provinces (8.01 and 9.18 million visits respectively). These variations arise from factors on the demand side for health services (such as different patterns of mortality and morbidity, and different socio-economic mixes of catchment area populations), as well as on the supply side (such as the physical footprint of health facilities in a province, the mix of levels of care, and the perception of service quality).

Table 42: Primary health care headcount (in millions), 2000-2013

Year	Eastern Cape	Free State	Gaut-eng	KwaZulu-Natal	Lim-popo	Mpuma-langa	Northern Cape	North West	Western Cape	Total
2000	14.29	3.81	8.29	11.04	8.97	3.94	2.56	6.57	11.16	70.64
2001	14.02	5.41	11.82	15.96	10.79	5.53	2.54	7.21	11.87	85.15
2002	13.31	5.70	12.78	17.02	12.32	6.02	2.54	7.18	12.82	89.68
2003	14.16	5.94	13.09	17.89	12.96	6.69	2.84	7.17	12.89	93.62
2004	14.80	5.93	13.49	18.73	12.88	7.03	2.99	7.69	13.54	97.08
2005	15.82	5.99	14.59	19.41	13.33	7.22	2.97	8.11	13.52	100.95
2006	16.21	5.87	15.40	20.82	14.11	7.38	3.23	7.93	13.19	104.14
2007	16.30	5.90	15.53	21.93	13.51	7.21	3.29	7.53	13.15	104.35
2008	17.13	6.34	17.35	23.70	14.54	7.89	3.43	8.15	14.47	112.98
2009	18.21	6.52	18.61	25.34	15.25	7.94	3.33	8.42	15.36	118.97
2010	17.57	6.58	19.62	25.54	13.80	7.89	3.43	8.05	15.47	117.95
2011	18.15	7.00	21.82	28.51	14.79	8.66	3.38	7.85	15.61	125.78
2012	18.15	7.53	23.10	30.95	14.39	9.02	3.41	7.97	15.20	129.72
2013	17.27	7.01	23.64	31.84	14.27	9.18	3.39	8.01	14.40	128.99

Source: District Health Information System (DHIS), special data request to the Department of Health, 15/2/2015.

Spending in rands per PHC visit (PHC headcount) is reflected in Table 43 overleaf. Significant variations in the per PHC visit spending still persisted in 2013/14, with the Western Cape (R1 105), Free State (R1 110) and Gauteng (R1 160) spending above the national average of R1 013, the Northern Cape and North West spending at roughly the average, and Eastern Cape (R987), Limpopo (R921), KwaZulu-Natal (R928) and Mpumalanga (R877) falling below the average.

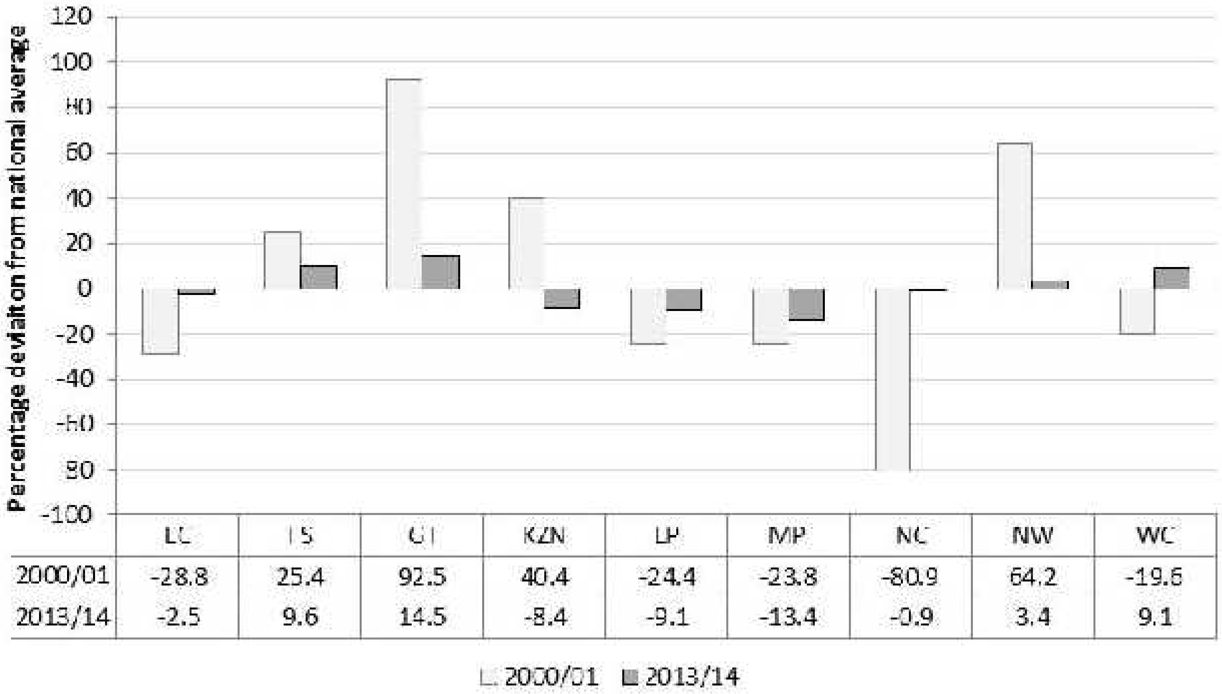
Table 43: Expenditure per PHC visit in Rands by province, 2000/1 to 2013/14

Year	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpuma-langa	Northern Cape	North West	Western Cape	Average (Rands)
2000/01	265	467	716	523	281	284	183	238	299	**372**
2001/02	278	361	579	440	247	263	204	236	312	**349**
2002/03	338	385	602	440	257	280	239	280	308	**371**
2003/04	370	428	626	461	280	292	293	316	353	**400**
2004/05	350	471	636	478	324	321	280	337	382	**417**
2005/06	387	521	684	544	359	370	369	366	423	**466**
2006/07	448	590	722	560	413	408	436	439	487	**515**
2007/08	492	649	843	682	454	507	473	511	570	**600**
2008/09	613	703	904	722	547	548	508	551	598	**663**
2009/10	664	798	989	803	592	708	663	617	675	**744**
2010/11	755	915	1 044	812	761	805	741	710	798	**831**
2011/12	821	974	1 085	869	769	809	888	812	857	**885**
2012/13	860	1 011	1 161	885	892	830	928	880	961	**945**
2013/14	987	1 110	1 160	928	921	877	1 004	1 048	1 105	**1 013**

Source: Own calculations from National Treasury and DHIS data

While disparities across provinces remain, these gaps have been narrowing over time. Figure 14 below demonstrates that the percentage deviation in spending per PHC visit has declined across all provinces between 2000/1 and 2013/14.

Figure 14: Percentage deviation in spending per PHC visit from average spending by province, 200/01 and 2013/14



Source: Own calculations

As with Basic Education per learner spending, there appears to have been substantial convergence to equity across provinces in the provincial budgeting for Health services. With the intense emphasis placed on Health and Social Development since 1994, the health status of South Africans has improved, but on aggregate remains relatively poor. Life expectancy, as projected on the basis of Statistics South Africa's mid-year population survey, declined from 52.7 years in 2002 to 51.7 years in 2004 (driven by factors such as the HIV/AIDS pandemic), before increasing to 57.6 years in 2010 (supported by the rollout of extensive antiretroviral and other health programmes). As can be seen in Table 44 below, life expectancy increased further to an average of 58.5 years nation-wide in 2012. However, life expectancies in Limpopo (62.8 years), the Northern Cape (61.4 years) and the Western Cape (64.5 years) were much higher than the national average. Life expectancies in the Eastern Cape (55.9 years), the Free State (56.4 years), Mpumalanga 56.8 years) and KwaZulu-Natal (53.9 years) lie considerably below this national average.

As illustrated in in Table 44 overleaf, the provincial incidence of infant mortality follows a similar pattern as adult life expectancy, as well as maternal mortality and HIV/AIDs prevalence. Poorer provinces with lower per capital incomes tend to underperform the national average. This is to be expected, given the substantial correlation between health status, access to basic services such as water and sanitation, the incidence of poverty, unemployment and other socio-economic factors.

Table 44: Selected health status indicators by province, 2012

	EC	**FS**	**GT**	**KZN**	**LP**	**MP**	**NC**	**NW**	**WC**	**SA**
Life expectancy at birth	55.9	56.4	60.6	53.9	62.8	56.8	61.4	58.1	64.5	**58.5**
Prevalence of disability	6.1	6.7	3.3	4.6	6.1	5.5	10.2	7.7	4.4	**5.2**
HIV prevalence (in 2013)	8.6	10.4	9.0	12.9	4.6	9.6	5.3	11.1	3.9	**9.3**
Malaria cases per 100 000 population	0	1.2	10.2	3.3	31.1	56.2	2.2	0.5	0	**10.4**
Maternal mortality ratio	115	199	123	192	185	135	148	190	29	**145**
Under 5 mortality	86.2	79.0	49.1	85.6	54.3	78.9	40.9	61.0	32.1	**65.4**

Note::Life expectancy: Average number of additional years a person could expect to live if current mortality trends were to continue for the rest of that person's life, projected by the Actuarial Society of South Africa 2008
Prevalence of disability: Percentage of people reporting moderate to severe disability in a survey where disability is defined as a limitation in one or more activities of daily living (seeing, hearing, communication, moving, getting around, daily life activities, learning, intellectual and emotional).
HIV prevalence: Percentage of population estimated to be HIV positive in 2013 by the Actuarial Society of South Africa 2008
Maternal mortality ratio: Women who died in hospital as a result of childbearing, during pregnancy or within 42 days of delivery or termination of pregnancy, per 100 000 live births in facility
Under 5 mortality: The number of children under 5 who die in a given year per 1000 live births in that year
Source: Health Systems Trust (2013:241-245)

The international Millennium Development Goal 4 was a two thirds reduction in child mortality between 1990 and 2015. For South Africa, using the under-5 years mortality rate between 1993 and 1998 of 59 per thousand live births, this would translate into a reduction to 20 deaths per 1000 live births in 2015. Table 44 above reveals that the under-5 mortality in the Western Cape, the best performing province, was 32.1 per 1000 live births in 2012 and as high was 86.2 per 1000 live births in the Eastern Cape. Chances are therefore remote that Millennium Development Goal 4 will be attained in 2015.

Malaria is endemic to Limpopo, Mpumalanga and Gauteng, but hardly occurs in other provinces. In the Free State, the Northern Cape and North West, disability is far more prevalent, with rates in excess of the national rate of 5.2% of the population. It is clear that the burden of disease varies markedly across province and across individual health districts within provinces (for example, rural versus urban health districts).

A crude estimate of the demand for public health care in each province can be made by deducting the proportion of the population with private medical insurance from the total population in each province, to yield the proportion of the each provincial population dependent on public health service provision. However, some population groups (for example, the aged, and women of reproductive age) tend to require more health services than average. This implies that in provinces with a higher number of people in these categories there will be a more intensive demand for public health services according to their individual provincial health risk profiles.

Table 45: Estimates of population dependent on public health services, 2013

I	Midyear population estimates (2013) Millions	% population insured (2012)	Uninsured population estimate Millions	Risk adjusted index	Risk adjusted uninsured population	% of risk adjusted population (2012) Millions
Eastern Cape	6.62	10.9%	5.90	96.9%	5.71	13.1%
Free State	2.75	18.1%	2.25	103.3%	2.33	5.4%
Gauteng	12.73	29.0%	9.04	105.4%	9.53	21.9%
KwaZulu-Natal	10.46	12.3%	9.17	98.9%	9.07	20.9%
Limpopo	5.52	8.0%	5.08	91.6%	4.65	10.7%
Mpumalanga	4.13	14.5%	3.53	95.7%	3.38	7.8%
Northern Cape	1.16	18.9%	0.94	100.7%	0.95	2.2%
North West	3.60	14.1%	3.09	102.2%	3.16	7.3%
Western Cape	6.02	25.2%	4.50	104.0%	4.68	10.8%
All Provinces	**52.98**		**43.50**		**43.46**	

Note: The percentage of the population with medical insurance is based on the 2012 General Household Survey.
The risk-adjusted capitation index was calculated by the National Treasury using data from the Council for Medical Schemes' Risk Equalisation Fund
Source: Based on National Treasury (2015a:19)

Accordingly, an index of the health risk profile of each province called a Risk-adjusted Index (calculated from Council for Medical Schemes data by the National Treasury) is applied to the uninsured population to arrive at figures for a risk-adjusted public sector health service dependent population. Using this as a proxy for public health service demand, Table 45 on page 279 shows that KwaZulu-Natal (20.9%), Gauteng (21.9%) and, to a lesser extent, the Eastern Cape (13.1%) face the most health demand pressures.

One crucial element of the supply of public health services is the location of health facilities. There were 3 750 of these in South Africa in 2012, ranging from public clinics to sophisticated tertiary and academic hospitals (see Table 46 below).

Table 46: Number of health facilities by province, 2012

	EC	FS	GT	KZN	LP	MP	NC	NW	WC	SA
Public clinics	719	214	321	556	436	233	128	256	212	**3 075**
Community health centre	33	6	31	16	23	47	26	49	51	**282**
District hospitals	65	25	10	39	30	22	14	15	34	**254**
Regional hospitals	6	5	12	13	5	3	2	4	5	**55**
Specialised hospitals	18	1	6	18	4	5	1	2	13	**68**
Provincial tertiary	2	1	1	1	2	2	-	1	-	**10**
National central hospitals	-	-	3	1	-	-	-	-	2	**6**
Total	**843**	**252**	**384**	**644**	**500**	**312**	**171**	**327**	**317**	**3 750**

Source: Health Systems Trust (2011:262)

As can be seen in Table 47 below, the distribution of health facilities is broadly in line with the risk-adjusted uninsured population dependent on public health services. Gauteng, KwaZulu-Natal and the Western Cape have proportionately smaller numbers of facilities, but they each have a tertiary and academic hospitals which offer more complex services to larger numbers of patients. The Northern Cape is the only province without either a provincial tertiary or central academic facilities. This is a very rough proxy for access, because it does not take the size of each facility (the number of useable beds) and the occupancy rates of those beds into account, nor does it factor in the provincial population. This is remedied in the analysis of access in terms of useable beds per 1000 of the population below.

Table 47: Percentage share of health facilities by type and province in 2012

	EC	FS	GT	KZN	LP	MP	NC	NW	WC	SA
Public clinics	23%	7%	10%	18%	14%	8%	4%	8%	7%	**100%**
Community health centre	12%	2%	11%	6%	8%	17%	9%	17%	18%	**100%**
District hospitals	26%	10%	4%	15%	12%	9%	6%	6%	13%	**100%**
Regional hospitals	11%	9%	22%	24%	9%	5%	4%	7%	9%	**100%**
Specialised hospitals	26%	1%	9%	26%	6%	7%	1%	3%	19%	**100%**
Provincial tertiary	20%	10%	10%	10%	20%	20%		10%		**100%**
National central hospitals			50%	17%					33%	**100%**
Total	**22%**	**7%**	**10%**	**17%**	**13%**	**8%**	**5%**	**9%**	**8%**	**100%**

Source: Health Systems Trust (2011:262)

This profile of health facilities is also matched by a similar skills profile. The Eastern Cape and Limpopo had 160 and 172 professional nurses per 100 000 of the population in 2012, which was above the national average of 140.8 (see Table 48, overleaf), but only had 3.8 and 1.6 medical specialists per 100 000. The distribution of scarce medical specialist skills are skewed towards provinces with academic hospitals such as Gauteng (21.1 specialists per 100 000 people) and the Western Cape (33.2 specialists per 100 000 people). This highlights the fact that reprioritisation of budget allocations towards poorer, more rural provinces may not necessarily result in a proportionate increase in the number of personnel with medical specialist skills, or in increased competence of personnel. This has repercussions for the range of public health services offered and their quality.

Table 48: Public sector health personnel per 100 000 of the population by province, 2012

	EC	FS	GT	KZN	LP	MP	NC	NW	WC	SA
Dental practitioners	1.96	2.87	2.65	1.2	3.1	3.29	2.57	1.74	2.91	**2.31**
Enrolled nurses	54.4	30.9	67.2	115	88.6	51.7	21.7	24.5	55.2	**69.9**
Medical practitioners	24.9	27.2	34.6	33.9	21.6	23.1	38.8	20.2	34.7	**29.4**
Medical specialists	3.8	14.9	21.1	7.9	1.6	2.1	1.9	3.2	33.2	**11.2**
Pharmacists	6.2	10.7	11.8	6.4	7.9	6.3	11.9	5.8	18.4	**9.2**
Physiotherapists	2.26	3.4	2.59	2.54	2.88	2.06	4.84	2.07	2.07	**2.66**
Professional nurses	160.1	91.2	132.3	154.8	172.1	132	130.1	122.1	114.4	**140.8**
Psychologists	1.26	1.35	2.2	0.89	1.84	0.6	0.79	0.92	2.01	**1.43**

Source: Health Systems Trust (2011:268-69)

In relation to access to hospital based care, focusing not just on the number of facilities, but on the number of useable beds and their occupancy rates, Table 49 overleaf suggests that significant variation in access persist: Limpopo, Mpumalanga, the Northern Cape and North West all have fewer useable beds per 1000 uninsured population than the national average of 2.1 beds per 1000. However, occupancy rates in these provinces also fall below the national average which may suggest that further bed closure or hospital consolidation may be warranted, with the resources redirected towards PHC where the utilisation rate in these provinces is relatively high. One reason for low bed occupancy rates is that quality of care in public hospitals still poses a challenge and waiting times in queues are long (Harrison 2010) so even low income patients may prefer to pay for private treatment. Unavailability or unaffordability of public transport may also pose formidable barriers to access, especially to the rural poor (Harris, Goudge, Ataguba, McIntyre, Nxumalo, Jikwana & Chersich 2011).

In contrast to hospital based care, there is much less variation in access to PHC across the provinces. Such access is a function of the priority placed on primary health care, the availability of less specialised medical skills required and the larger clinic and community health centre physical footprint.

Table 49: Selected indicators of public health service access by province, 2011

	EC	FS	GT	KZN	LP	MP	NC	NW	WC	SA
Useable bed per 1000 uninsured population	2.3	2.0	2.1	2.7	1.6	1.5	1.5	1.5	2.2	**2.1**
Useable bed occupancy rate	71	72	74	70	72	70	59	71	82	**73**
PHC utilisation rate	2.7	2.5	2.0	2.8	2.8	2.4	2.9	2.3	2.8	**2.5**
Utilisation rate PHC <5 years	4.6	3.7	4.1	4.6	6.2	4.8	4.6	4.4	4.7	**4.7**
Average length of stay	6.7	4.9	4.9	6.7	5.7	4.5	3.2	5.5	5.3	**5.6**
Total	**87.3**	**85.1**	**87.1**	**86.8**	**88.3**	**83.2**	**71.2**	**84.7**	**97**	**87.9**

PHC utilisation rate: number of visits per person per year in the population
PHC utilisation under 5: number of visits per year per child under 5 in the population
Average length of stay: average duration in days of patient's stay in a health facility
Source: Health Systems Trust (2011:262)

There are also substantial variations in access to particular health service outputs across provincial Health departments. For example, KwaZulu-Natal and the Western Cape achieved cervical cancer screening coverage rates of women 30 years of 77.1% and 64.4% in 2011, which far exceeded the national rate of 55%. The Eastern Cape (37.8 %) and the Northern Cape (32.4%) significantly underperform the average cervical cancer screening coverage rate. Similar variation in access across provinces can be discerned in relation to the immunisation of infants, antenatal care, and tuberculosis cure rates as well.

Table 50: Selected health service outputs by province, 2011

Health Service	EC	FS	GT	KZN	LP	MP	NC	NW	WC	SA
Cervical cancer screening coverage	37.8	44.2	44.9	77.1	60.1	59.3	32.4	48.8	64.4	**55**
Immunisation coverage of children <1 year	84.2	91.9	114.6	98.6	96.7	73.9	95.1	82.9	89.5	**95.2**
Antenatal care coverage	99.4	87.1	121.1	90.1	111.8	99.9	127.8	102	80.8	**101.2**
Tuberculosis cure rate	60.9	70.9	78.7	62.9	66.7	64.5	65.6	58.3	79.4	**67.5**
Cataract surgery coverage	1 102	1 329	1 345	681	717	962	471	778	1 501	**1 016**

Cervical cancer screening coverage: Cervical smears in women 30 years and older as a proportion of 10% of the female population 30 years and older
Immunisation coverage of children <1 year: Proportion children under 1 year who completed their primary course of immunisation
Ante-natal care (ANC) coverage: Proportion of pregnant women receiving some antenatal care which is estimated from the number of first ANC visits divided by the expected number of pregnant women.
Tuberculosis cure rate: Percentage of new smear positive tests competing treatment
Cataract surgery coverage: Number of clients who had cataract surgery per 1 million population for 2011
Source: Health Systems Trust (2013:222,229, 249, 254)

Antenatal coverage rates in Gauteng (121.1% of the estimated number of pregnant women), Limpopo (111.8%) and the Northern Cape (127.8%) indicate that these provinces may be treating significant numbers of expecting mothers from other provinces or from neighbouring states, putting pressure on their budgets.

It is difficult to present appropriate, accurate measures of public health service quality, since indicators such as waiting times in clinics and the availability of medicines are not freely publicly available. However, the available data on public service user satisfaction indicate that satisfaction has been improving between 2009 and 2011 (outlined in Table 51 overleaf), although significant variations across provinces continue to exist.

Table 51: Percentage of public health service users highly satisfied with the service received, 2009 to 2011

	EC	FS	GT	KZN	LP	MP	NC	NW	WC	SA
2009 GHS	56	41.8	52.9	53.7	67.4	46.8	65.8	44.8	58.1	**54.5**
2010 GHS	52.7	55.8	52.4	48.9	75.4	57.4	64.1	50.5	60.4	**55.9**
2011 GHS	67	68.4	57.6	51.5	78.1	62.2	54.5	52	65.6	**61.9**

GHS: General Household Survey conducted by Statistics South Africa
Source: Health Systems Trust (2011:261)

6.5 Summary and concluding remarks

Since 1994, there have been incidents of provincial overspending leading to deficits. The analysis in this chapter demonstrates that the National Treasury has been able to enforce hard provincial budget constraints and aggregate fiscal discipline by compelling provinces to run surpluses to compensate. However, this fiscal discipline seems to have been achieved at the cost of allocative efficiency in inputs, especially in the aftermath of the 1997/98 overspending, which triggered national government interventions in three provinces, and again in 2008/9, in the aftermath of the global financial crisis.

The main driver of provincial over-expenditure tends to be the provincial wage bill. There have been increases in the headcount of educators and health personnel (to eliminate service backlogs in poor and rural areas), as well as strong growth in public sector wages, determined at the national level. Spending on CoE is the single largest spending category in provincial Education and Health departments. Pressures on the personnel budgets of provincial departments have, *inter alia*, been fuelled by above-inflation collective bargaining settlements with the powerful public sector unions. Spending on CoE is also extremely inflexible because salaries and other conditions of service are set in the national sphere but are budgeted for by provincial departments. Because stringent labour laws constrain the government's ability to decrease staff numbers in the short term, employee headcounts tend to be difficult to decrease in the short term.

In view of weak management in many of the provinces, particularly at district and institutional level, strong trade unions and inflexible labour law, expenditure on CoE has - in practice - tended to be a first charge on provinces' budgets. This has "crowded out" other forms of goods and services spending. As a result, spending on anything other than CoE is extremely volatile, with highly detrimental consequences for service delivery. The ensuing allocative inefficiencies in input use manifest, for example, in the Basic Education sector as increases in the number of teachers, but not necessarily accompanied by additional classrooms, textbooks and other learner support materials. Similarly, in the Health sector, nurses may be available, for example, but not medical specialists, the necessary medicines or medical equipment. In some provinces, Basic Education spending may have even crowded out Health and other provincial services, such as the maintenance of Provincial Roads and Agriculture. Cash-flow pressures induced by personnel spending increases create incentives for provincial Education and Health departments to delay transfers to non-profit organizations which deliver services such as Early Childhood Development services and HIV/AIDS Home-Based Care, and to delay transfers to schools and hospitals. Many non-profit organisations face severe cash flow problems and the threat of closure as a result. Another symptom of the problem has been delayed payments to suppliers, resulting in increased accruals and compromised financial sustainability of small businesses that supply provincial departments. These are discussed in greater detail in Chapter 7.

Between 1999 and 2002/3, capital expenditure on schools and hospitals was negligible, due to severe constraints in planning and delivering Basic Education and Health infrastructure. This meant that the immense service backlogs inherited from the apartheid era were not adequately addressed and, in fact, intensified during that period. From 2003/4, capital spending began to accelerate, supported by the National Treasury through the Infrastructure Delivery Improvement Programme (IDIP), which provides technical support and capacity building to provincial departments of Health and Education.

The trade-off for maintaining aggregate fiscal discipline in provincial governments (with negligible own revenue sources) has been a loss of allocative efficiency on the input side. Hence, the efficiency and equity of service delivery in Basic Education and Health has been compromised. Although the MTEF creates certainty and predictability in funding at the provincial level, in many provinces the MTEF has done little to create stability *within* provincial departments of Education and Health. It would be reasonable to assume that this volatility increases closer to the coal face of delivery, for example, at the district and school or hospital level. This is because there are no virement restrictions which limit shifting of funds within the year across districts or individual institutions. Unfortunately, actual spending data at the level of the individual Education or Health institution (such as a school or a hospital) is not publicly available. The MTEF appears to be successful at a macro level, but micro-prioritisation on the input side still leaves much to be desired.

Basic Education and Health are among the highest priorities of all administrations since 1994. Increased resources are being channelled into these sectors on a sustained basis. Allocative efficiency in terms of the planned mix of health service outputs has improved (for example less curative hospital based care and more preventative PHC), as has equity in the average per capital funding per learner and per patient. In Basic Education, disparities in learner-educator ratios have been reduced, school infrastructure has been extended and there has been convergence to greater equity in school funding. Educational outcomes however continue to disappoint,

Access to the Health and Basic Education services has been enhanced but not necessarily the quality of health care or teaching and learning. This arises from the interplay of a number of factors, including the legacy of apartheid discrimination and historical disparities, as well as the failure of certain aspects of post-1994 policy and practice. An example of unsuccessful policy would be the fact that enforcing minimum teacher qualifications (a three-year degree) has not resulted in improved teaching practice, subject matter expertise or ultimately learning outcomes. The painful lesson that is being learnt is that redistributing budget allocations does not automatically result in redistribution of inputs (whether these are human resources such as mathematics teachers or school infrastructure) across and within provinces. Even when the number of inputs may increases, input quality may not, leading to disappointing Basic Education and Health service delivery outcomes.

CHAPTER 7:
PFM REFORM IMPACT ON PROVINCIAL BASIC EDUCATION AND HEALTH DEPARTMENTS

7.1 Introduction

The previous chapter has identified broad trends in aggregate provincial fiscal outcomes and presented a detailed analysis of revenue, expenditure and delivery outcomes in the provincial Basic Education and Health sectors. This chapter hones in on the PFM reform progress made in individual departments in respect of PFMA requirements. A PFM progress (PFMP) index is constructed to track each provincial Education and Health department's PFM outcomes from 1997/98 to 2013/14 and is then used to benchmark their performance over time, and in comparison to that of the sector as a whole.

7.2 The Public Financial Management Progress Index: objective and structure

The PFMP index is a weighted average of a set of nine indicators of PFM practice from 2007/8 to 2012/14. The indicators in the PFMP index proxy for the main PFM functions and financial leadership effectiveness in the provincial departmental PFM system. The nine indicators cover budget formulation (such as integration between planning and budgeting), budget execution (including SCM and internal controls) and the reporting and auditing of both financial and performance information. The PFMP index permits comparisons of PFM quality for a particular department over time to assess its progress, as well as comparisons across provincial Education and Health departments in a benchmarking exercise.

Analyses of PFM progress are almost always dominated by discussions of financial audit opinions by the Auditor-General. However, provincial departments often make extensive use of external consultants to compile their annual financial statements, and many material misstatements submitted to the Auditor-General are only detected in the course of these audits and are corrected by the external auditors (Auditor-General 2012a). Focusing exclusively on the audit opinion might well reflect departmental compliance but is however unlikely to be an inappropriate method for gauging the quality of day-to-day PFM practice in a provincial department.

A composite indicator such as the PFMP index, which comprehensively covers all the main PFM functions, as well as institutional and financial leadership elements, is likely to be more valid. For example, if unauthorised, irregular or fruitless and wasteful expenditure is accurately disclosed in the annual financial statements by the AO, it will not necessarily result in a qualification of the financial statements, but will constitute non-compliance (non-reporting of such expenditures will, however, be reflected as qualifications to the audit opinion). It might therefore still be possible to have large amounts of unauthorised, irregular, and fruitless and wasteful expenditure (which signify substantial PFM system dysfunction) even with an unqualified opinion. Unauthorised expenditure is defined in section 1 of the PFMA as spending which exceeded the amount appropriated by Parliament or the legislatures or which was incurred for purposes for which it was not intended. Irregular expenditure, as defined in section 1 of the PFMA, refers to spending incurred without compliance with the relevant laws or regulations, for instance PFMA supply chain management regulations or *Public Service Act Regulations* on compensation of employees. Fruitless and wasteful expenditure (as defined in section 1 of the PFMA) refers to spending made in vain which could otherwise have been avoided, had reasonable care been exercised (for example interest and penalties on late payments or payments for goods not used or received).

Furthermore, a value-for-money focus also needs to consider the linkages between financial and service delivery (non-financial) planning, implementation, M&E processes. The PFMP index therefore covers progress in relation performance information as well as financial management outcomes. The PFMP index encompasses operational budgets (which fund the ongoing delivery of existing public services), capital budgets (which finance the development new infrastructural assets for extension of public services to previously excluded communities) and transfers to delivery agents which deliver services on behalf of provincial departments (such as non-profit organisations which deliver HIV/AIDS home-based care or Early Childhood Development services).

Based on only nine indicators which can be calculated from information reported publicly each year, the PFMP index is simple, easily and inexpensively updated, unlike more detailed but time-consuming and expensive exercises such as the PEFA approach discussed earlier in section 3.13 on page 117. Despite its simplicity, the PFMP index provides compelling insights into changes in the quality of PFM practice in a department over time, and can be applied to any national or provincial department, not just Health and Education.

The nine indicators are drawn from the audited annual financial statement information in the Annual Reports of departments (as collated electronically in the National Treasury database which is available on request), and from the Auditor-General’s provincial audit reports between 2007/8 and 2013/14. Table 52, overleaf, lists each of the nine indicators and explains what each indicator attempts to measure. Four indicators relate to budget planning and expenditure controls in personnel, goods and services, transfer and capital budgets; two indicators relate to SCM as part of budget execution; two indicators relate to financial and non-financial reporting; and the final indicator relates to financial leadership and governance. These data were collated for each of the nine provincial Basic Education and Health departments between 2007/8 and 2013/14, the only period for which the entire data set was available. The details may be found in Annexure 2 on page 421 and Annexure 3 on page 426.

Table 52: Definition of PFMP index indicators

	INDICATOR NAME	INDICATOR DESCRIPTION	PROXY MEASURE FOR
1	Compensation of Employees (CoE) budget deviation	Difference between the budgeted and actual expenditure on compensation of employees as year end, as a percentage of the final appropriation CoE budget. CoE is defined in the Standard Chart of Accounts as all current personnel-related payments – all payments to government employees, salaries and wages, and social contributions. Social contributions are service benefits paid by the government for its employees, such as pension or medical scheme contributions. This category excludes capitalised compensation.	Percentage over- or underspending of the CoE budget proxies for the effectiveness of HR budget planning and payroll management. Poor personnel budget control and consequent overspending "crowds out" complementary inputs such as school textbooks or medicines.
2	Goods and services budget deviation	Difference between the budgeted and actual expenditure on goods and services at year end, as a percentage of the final appropriation goods and services budget. This category encompasses all government payments in exchange for goods and services, but excludes capital assets and goods used by the government for construction of and improvements to capital assets.	Percentage over- or under-spending of the goods and services budget is a proxy for the effectiveness of operational financial planning and SCM processes
3	Transfer budget deviation	Difference between the budgeted and actual expenditure on transfers and subsidies, as a percentage of the final appropriation transfer budget. This category encompasses funds that are transferred to other institutions, businesses and individuals, which do not constitute final expenditure by the department. This item includes all unrequited, non-repayable payments by the department – payments for which no goods or services are received in return. It includes current and capital transfers.	This allows for the separation of all transfers from payments controlled directly by departments. Percentage over- or under-spending of the transfers budget is a proxy for the efficiency with which departmental administrative systems can identify, verify and pay over transfers (e.g. subsidies to independent schools or non-profit organizations delivering health services).
4	Capital budget deviation	Difference between the budgeted and actual expenditure on capital, as a percentage of final appropriation capital budget. The capital budget covers purchases of new assets, as well as upgrades, additions, rehabilitation and refurbishment of existing assets. This includes own-account construction – when government units engage in capital projects on their own account, such as provincial works and roads departments engaged in the construction of buildings and roads.	Percentage over- or under-spending of the capital budget shows the effectiveness of departmental infrastructure management and the extension of access to services, e.g. through new schools and hospitals.
5	Financial audit outcomes	Financial audit opinion expressed in the annual financial statements by the Auditor-General on whether they are a fair representation of the financial status of a department or public entity.	Quality of financial statements and effectiveness of financial controls.
6	Audit of Predetermined Objectives' outcomes	Auditees are required by the PFMA to report on their actual performance against predetermined performance objectives in their Annual Performance Plans. The Auditor-General determines whether the reporting of actual performance against auditees' predetermined objectives is useful and reliable (valid, accurate and complete) in all respects.	Quality of non-financial reporting, the integration of plans with budgets, progress in implementing performance budgeting.
7	Irregular expenditure (R millions)	Expenditure incurred without complying with the applicable legislation, mainly procurement regulations in terms of the PFMA but also compensation of employees spending in terms of the *Public Service Act* (Proclamation 103 of 1994).	Effectiveness of SCM systems and SCM compliance controls.

	INDICATOR NAME	INDICATOR DESCRIPTION	PROXY MEASURE FOR
8	Fruitless and wasteful expenditure (R millions)	Expenditure which was made in vain and could have been avoided if reasonable care had been taken. This includes penalties and interest on late payments, as well as payment for services not used or goods not received.	Indicator of value-for-money and operational efficiency.
9	Leadership, governance and financial and performance management findings (drivers of internal control)	The Auditor-General evaluates three overall drivers of internal control required for good audit outcomes: (i) whether AOs, MECs and senior management have discharged their statutory PFMA responsibilities; (ii) the effectiveness of governance structures (e.g. audit committees) and processes (internal audit and risk management) of the auditee; and (iii) the management of resources to achieve the financial and service delivery objectives of the auditee (e.g. controls over processing transactions and reconciliations, regular financial and performance reports and monitoring of compliance with regulations).	Underlying drivers of internal controls, effectives of management and institutional capability.

Note: All Standard Chart of Account definitions cited verbatim from Annexure W2 of the 2013 Budget Review. All auditing terms are extracted verbatim from the Glossary of Terms, Acronyms and Abbreviations, 2012-13 Consolidated General Report on the National and Provincial Audit outcomes

Source: Auditor-General (2013a:279-285); National Treasury (2013a).

The capital budget deviation indicator is subject to the limitation that some provincial Departments of Education and Health do not manage their own infrastructure construction; it is performed on an agency basis for them by the provincial Department of Public Works. In this case, the provincial Department of Education or Health may only have partial control over capital budget spending outcomes. For example, the Eastern Cape Department of Roads and Public Works constructs schools on behalf of the Eastern Cape Department of Education. The Limpopo Department of Education uses the Limpopo Department of Public Works, as well as the Independent Development Trust (IDT), as implementation agents. The Western Cape uses both the Western Cape Department of Transport and Public Works and its own internal Project Implementation Unit as infrastructure implementation agents. The Gauteng Department of Education has its own internal infrastructure management chief directorate, and builds its own schools, but also uses external contractors. Capital spending data by implementing agents is not reported as such in departmental budgets but appear instead as capital transfers. This fact should be borne in mind in interpreting the capital budget deviation indicator in the PFMP index.

Unfortunately, the data for the indicator set required are only available from 2007/08 onwards for all provinces; therefore the index begins at that point. For example, audits of performance information (Audits of Predetermined Objectives) by the Auditor-General in terms of the *Public Audit Act,* 2004 (Act 25 of 2004) only began to be phased in after the National Treasury released its *Framework for Managing Performance Information* in 2007. For the period from 1994 preceding this phasing in, financial audit outcomes are analysed alone in section 7.3.3 on page 327. Similarly, the Auditor-General only began to explicity report findings relating to the failure by administrative leadership (AOs, CFOs and Executive Authorities) in discharging their leadership role in ensuring that underlying internal control weaknesses are expeditiously addressed to improve audit outcomes and avoid recurrent findings, and on the effectiveness of governance structures such as audit committees and the internal audit function required by the PFMA.

For each provincial Department of Education and of Health, and for each fiscal year, the outcome of each of the nine indicators comprising the PFMP index is ranked (generally on a scale from 0 to 5, as in Table 53 below, where 0 reflects the worst possible performance and 5 the best). So, for instance, where CoE budgets in a particular department for a particular year was over- or underspent by 5% of the total departmental expenditure or less, a score of 5 was assigned, whereas if over- or underspending was between 15% and 25% of the total expenditure, a score of 3 was assigned, and so on.

Table 53: PFMP indicator ranking and data sources

	INDICATOR NAME	INDEX RATING	DATA SOURCE
1	Compensation of Employees budget deviation	5 – Over-/underspending of less than 5%, 4 – Over-/underspending of 5% to less than 10% 3 – Over-/underspending of 10% to less than 15% 2 – Over-/underspending of 15% to less than 25% 1 – Over-/underspending of between 25% and 50% 0 – Over-/underspending of more than 50%	Annual Financial Statements (National Treasury database)
2	Goods and services budget deviation	5 – Over-/underspending of less than 5%, 4 – Over-/underspending of 5% to less than 10% 3 – Over-/underspending of 10% to less than 15% 2 – Over-/underspending of 15% to less than 25% 1 – Over-/underspending of between 25% and 50% 0 – Over-/underspending of more than 50%	Annual Financial Statements (National Treasury database)
3	Transfer budget deviation	5 – Over-/underspending of less than 5%, 4 – Over-/underspending of 5% to less than 10% 3 – Over-/underspending of 10% to less than 15% 2 – Over-/underspending of 15% to less than 25% 1 – Over-/underspending of between 25% and 50% 0 – Over-/underspending of more than 50%	Annual Financial Statements (National Treasury database)
4	Capital budget deviation	5 – Over-/underspending of less than 5%, 4 – Over-/underspending of 5% to less than 10% 3 – Over-/underspending of 10% to less than 15% 2 – Over-/underspending of 15% to less than 25% 1 – Over-/underspending of between 25% and 50% 0 – Over-/underspending of more than 50%	Annual Financial Statements (National Treasury database)
5	Financial audit outcomes	4 – Financially unqualified 3 – Financially unqualified with findings 2 – Qualified 1 – Adverse or Disclaimer 0 – Not submitted by due date	Auditor-General Consolidated General Report on National and Provincial Audit Outcomes
6	Audit of Predetermined Objectives' outcomes	1 point each for (i) compliance with regulations, (ii) usefulness, (iii) reliability and (iv) submission timeliness. The maximum score is 4 points for a department with no Audit of Predetermined Objectives findings.	Auditor-General Consolidated General Report on National and Provincial Audit Outcomes

	INDICATOR NAME	INDEX RATING	DATA SOURCE
7	Irregular expenditure (R millions)	5 – No irregular expenditure 4 – less than R50 million 3 – between R50 and R100 million 2 – between R100 and R250 million 1 – between R250 and R500 million 0 – above R500 million	Auditor-General Consolidated General Report on National and Provincial Audit Outcomes
8	Fruitless and wasteful expenditure (R millions)	5 – No irregular expenditure 4 – less than R50 million 3 – between R50 and R100 million 2 – between R100 and R250 million 1 – between R250 and R500 million 0 – above R500 million	Auditor-General Consolidated General Report on National and Provincial Audit Outcomes
9	Leadership, governance and financial and performance management findings (drivers of internal control)	An auditee with no leadership, governance or financial management and performance management findings by the Auditor-General would receive 3 points. If there are leadership, governance, or financial and performance management findings, then a point is subtracted for each category of finding.	Auditor-General Consolidated General Report on National and Provincial Audit Outcomes

Source: Own calculation

Each of the nine anked indicators is then weighted. Each of the indicators has a weight of 10%, except for financial audit outcomes which is weighted 20% because of the policy emphasis by National Treasury and the Auditor-General on "clean audit outcomes". A "clean audit" refers to an opinion in which (i) the financial statements are unqualified (they contain no material misstatements; (ii) the Audit of Predetermined Objectives has no material findings related to performance information; and (iii) there are no other findings related to non-compliance with legislation such as the PFMA or the *Public Service Act* (Auditor-General 2013a:280).

In order to reflect the quality of PFM practice within a department broadly, it is therefore appropriate that the PFMP index contain not only financial management indicators, but also those relating to performance information and other forms of compliance (such as SCM and payroll controls). As discussed in Chapter 3, PFM institutions such as formal governance institutions (for example, audit committees and internal audit functions), as well as more informal yet powerful institutions, such as leadership, are also critical. Hence, a variable is included in the PFMP index to capture financial leadership and governance findings by the Auditor-General as well.

The PFMP index for each fiscal year then comprises the sum of each of the nine weighted indicators. The lowest possible score a provincial department can achieve on the PFMP index is 0, and the maximum possible score is 4.5. See Annexure 2 on page 421 for the detailed calculations of the PFMP index and the score for each provincial Education department and Annexure 3 on page 426 for each provincial Health department. A benchmarking analysis based on the PFMP index summary for nine provincial Education and Health departments concludes this chapter.

7.3 Assessing PFM reform progress in provincial Education departments

This section commences with a trend analysis in the underlying variables comprising the PFMP index in each of the nine provincial Education departments, and concludes by comparing PFM progress across all the provincial Education departments for each fiscal year between 2007/8 and 2013/14. This analysis draws on the indicators presented in detail in Annexure 2 on page 421.

7.3.1 Budget planning and control

In general (as illustrated in Annexure 2), the provincial Education departments exhibited a greater tendency to overspend than to underspend on compensation of employees (CoE) budgets between 2007/8 and 2013/14. During this period, underspending of personnel budgets never exceeded 2.6% of the total adjustment budget for CoE spending in all nine provinces. In the adjustment budget, which is passed in October annually towards the middle of the fiscal year, Parliament approves any changes made to the original budget appropriation approved before the start of the fiscal year in March every year.

By contrast, overspending of CoE budgets exceeded 5% of the total adjustment CoE budget appropriation in 2008/9 in the Free State (overspending of 5.3% of the total relevant adjustment budget spending), in Mpumalanga (overspending of 6.0%) and in the Northern Cape (overspending of 11.4%). In 2009/10, the Eastern Cape exceeded its CoE budget (overspending of 5.3% of its adjustment budget) and in 2011/12 KwaZulu-Natal overspent by 5.8 % of its adjustment budget. The Free State overspent its CoE adjustment budget by 5.1% in 2013/14. Because of the labour-intensive nature of Education services and the substantial proportion of the provincial Education budget devoted to personnel-related expenditure (roughly 80% of the budget, see Table 29 on page 287), overspending on the CoE budget – even by a single per cent – has substantial repercussions for other budget items, especially goods and services.

The fact that three provinces had CoE overspending greater than 5% in 2008/9, and that three other provinces also overspent, albeit to a lesser degree (Gauteng by 2.8%, KwaZulu-Natal by 3.7% and Limpopo by 3.9% of the CoE adjustment budget) is indicative of systemic personnel pressures across the entire provincial sphere. These pressures emanate from wage bargaining agreements in the national sphere, rather than just from specific budget planning and/or control weaknesses localised in a particular provincial Education department. The HR planning and control shortcomings of individual departments do, however, amplify the impact of systemic personnel spending pressures, resulting in even greater overspending.

The systemic personnel-related pressure in the provincial sphere was a result of the Occupation Specific Dispensation (OSD), which was ill conceived and incorrectly costed at the national level (national Department of Basic Education and the Department of Public Service and Administration) and poorly implemented at the provincial level. The OSD has already been discussed in section 6.2.3 on page 280.

The role of the OSD in driving provincial overspending has also been noted by the Auditor-General. For instance, in the 2009/10 audit in the Northern Cape Department of Education, the Auditor-General noted that the reason for the overspending on the province's CoE budget was "inadequate budgeting due to the implementation of the occupation specific dispensation for educators". The situation was exacerbated by internal HR management weaknesses, such as the absence of an HR plan, the lack of an organizational structure approved by the Executive Authority, the lack of job descriptions and job evaluation, the fact that some senior management performance agreements had not been signed, that performance bonuses were not correctly calculated, that overtime was not capped, and that overpayments made to deceased employees or ex-employees and these overpayments were not subsequently recovered (Auditor-General 2010a:44-53).

A similar situation of defective OSD design, exacerbated by poor provincial OSD implementation, also prevailed in the Free State Department of Education which overspent its CoE budget by R335.695 million in 2008/9. In this case, the OSD implementation degenerated into an almost across-the-board increase. The Auditor-General attributed this overspending fiasco mainly to

> …the implementation of the Occupational Specific Dispensation (OSD) for nurses and educators, which was not adequately funded by national government. A further contributing factor at the Department of Education was the difference in improvement in conditions of service for employees between the budgeted 5% and the actual increase of 10.5%. (Auditor-General 2009a:56)

Poor HR practice in the Free State Department of Education also contributed to the overspending. There were no control measures such as the certification of monthly payroll reports to ensure that no "ghost workers" were paid, and there were no controls to monitor sick and annual leave payments to curtail abuse (Auditor-General 2009a:58).

The KwaZulu-Natal Department of Education, in its *2010/11 Annual Report*, does not ascribe its overspending of R253.268 nillion in 2010/11 to weak internal controls *per se*, but to unfunded mandates, such as the OSD, which emanate from the national government:

> … the issue is not about the internal control deficiencies as reported by the Auditor-General. The issues are largely about the insufficient funding allocated to the Department for the wage agreement and OSD, and capital Infrastructure spending in 2009/10. (KwaZulu Natal Department of Education 2011:68)

As can be seen in Annexure 2 on page 421, overspending on CoE budgets is invariably accompanied by significant underspending on goods and services budgets. For instance, in 2008/9, when the Northern Cape overspent its CoE budget by 11.4%, its goods and services budget was underspent by 19.2% of the total goods and services appropriation. Similarly, when Mpumalanga overspent its CoE budget by 6% in 2008/9, it was accompanied by a sharp contraction of 19.8% of the goods and services budget. Civil servants' salaries are paid first, and then, to manage cash-flow, spending on goods and services (such as textbooks or school maintenance) tends to be sharply curtailed, to the detriment of teaching and learning. This confirms the analysis in section 6.3 on page 284, which explored these "crowding out" effects. Because personnel spending comprises the biggest share provincial Education department budgets (on average around 80%), compensating for personnel budget overspending results in a proportionally much greater contraction of spending on goods and services.

In the Free State Department of Education, the "crowding-out" effect was manifested in 2008/9 through underspending in non-personnel spending categories relative to the budget, as a result of steps taken to reign in expenditure on these other items to "compensate for the overspending on compensation of employees under Programme 2: Public Ordinary School Education". This in turn compromised service delivery, including "learner transport and learner nutrition due to non-payment of suppliers" (Auditor-General 2009a:29). In 2013/14, the overspending of the Free State Department of Education CoE adjustment budget by 5.1% was attributed by the Auditor-General to "under-budgeting for employee cost, as well as a lack of daily and monthly disciplines to monitor the spending against the budget" (Auditor-General 2014b:29).

The Gauteng and Limpopo provincial Education departments did not overspend their CoE budget by more than 5% in any year between 2007/8 and 2013/14, but they each overspent the personnel budgets for at least three consecutive years, during which spending pressures gradually mounted. Gauteng overspent its CoE budget by 2.8% in 2008/9, by 1.8% in 2009/10, by 3% in 2010/11 and by 0.6% in 2013/14. In the same years, Gauteng incurred underspending on its goods and services budgets of 16%, 9.1%, 37.2% and 6.8% respectively. Limpopo provides another example of a provincial Education department having small but serial incidents of CoE overspending, crowding out goods and services and often transfer spending as well. The Auditor-General attributed 80% of the R803 591 000 overspending in the Limpopo Department of Education in 2009/10 to inadequate provision for OSD (Auditor-General 2010b:25), and noted that the Department, in violation of *Treasury Regulations,* used funds from underspending of conditional grants to cash-flow finance OSD payments:

> At [Limpoopo] Education, the grants for infrastructure, HIV and Aids and technical secondary school recapitalisation were underspent by R89 579 000. Such underspending was caused by ineffective budgetary control and monitoring, with the result that the department had to use conditional grants to finance normal operating expenditure, specifically with regard to Occupation Specific Dispensation (OSD) payments. (Auditor-General 2011h:16)

When provincial departments are in danger of over-spending and face cash flow pressures in the last quarter of the fiscal year, they often simply delay the payment of invoices received until the new financial year, exploiting the fact that they are on a cash accounting system. It is therefore also important to also consider the amount of accruals (unpaid invoices outstanding). Unfortunately, some provinces have weak systems to track their accruals (which are treated as additional disclosure notes to the annual financial statements). This is discussed in more detail in section 7.3.3 on page 327. The Western Cape's provincial Education department is the only one whose management of its CoE budget has been exemplary, overspending no more than 0.3% of its CoE budget from 2007/8 to 2013/14.

In contrast to personnel budgets where overspending is common, there has been a systematic trend among provincial Education departments towards underspending on their capital budgets, with negative consequences for school infrastructure delivery, although this has improved markedly since 2010/11. Many provinces failed to spend between one fifth and one third of their capital budgets – for example in 2010/11, the Free State underspent its capital budget by 38.6%, Gauteng did so by 20.5%, Mpumalanga by 36%, the North West by 21.8% and the Eastern Cape by an egregious 56.2% (see Annexure 2 on page 421).

7.3.2 Budget execution

Provincial Education departments have only negligible own revenues (for example, from school and hospital patiernt fees), so the primary budget execution emphasis is on expenditure controls and SCM risk rather than revenue management. As observed previously, the amounts of irregular, and fruitless and wasteful expenditure (in R millions) reported in the Auditor-General's report each year can serve as a proxy for the soundness of the SCM system and expenditure controls.

Table 53 on page 317 defined irregular expenditure as "expenditure incurred without complying with the applicable legislation" (Auditor-General 2013a:283). PFMA *Treasury Regulation* 16A9.1(a) requires that the Accounting Officer must take all reasonable steps to prevent abuse of the SCM system. *Treasury regulations* 3.2.1 and 27.2.1 require that a risk management strategy, which includes a fraud prevention plan, must be used to direct internal audit priority and effort, and to determine the skills required of managers and staff to improve controls and to manage such risks (Auditor-General 2013a).

Annexure 2 on page 421 demonstrates that only four provincial Education departments (Limpopo, the Eastern Cape, Gauteng and KwaZulu-Natal) reported levels of irregular expenditure greater than R500 million between 2007/8 and 2013/14. Limpopo incurred large amounts of irregular expenditure in 2010/11 (R696 million) before the national government intervention in terms of section 100 of the Constitution. In 2012/13 Limpopo again incurred irregular expenditure (R1 221.8

million) after the national government intervention, and again in 2013/14 (R2 209.4 million). The Eastern Cape also incurred substantial irregular expenditure in 2008/9 (R1 551 million), in 2009/10 (R658 million), in 2010/11 (R3 936 million), in 2011/12 (R858 million) and 2012/13 (R631 million). In 2013/14 the Gauteng Department of Education incurred irregular expenditure to the tune of R1 772 million, and the KwaZulu-National Department of Education incurred R2 680 million (the single largest sum over the period under review). Notwithstanding, there are – as demonstrated below – supply chain weaknesses across all the provincial Education departments, although this is true to a lesser extent in the North West, Mpumalanga and the Western Cape.

A matter for deep concern is not only the sheer magnitude of public funds at risk, but that when there are serial and pervasive violations of regulations, as noted by the Auditor-General, the AOs fail to take steps to correct these infractions. Despite the high risk of fraud and corruption, the control environment in provincial Education departments is often very weak, departmental supply chain policies (where they exist) are not implemented fully, there are few controls to monitor contractor performance, and fraud prevention plans not implemented.

In the Eastern Cape Department of Education audit in 2012/13, the Auditor-General observed that “SCM remained a significant challenge, with basic internal controls not functioning to prevent irregular expenditure, and an environment conducive to fraud and corruption” (Auditor-General 2013e:79). In the Free State Department of Education, the Auditor-General noted that SCM systems remained dysfunctional, “which has resulted in an increased amount of irregular expenditure without taking remedial action against the officials responsible for non-adherence to the SCM processes” (Auditor-General 2013f:63).

Often auditees attempt to bypass competitive SCM bidding processes, claiming that there had been an emergency,(when in fact better planning could have prevented the so-called emergency altogether), or insufficient time was available for the competitive bidding process, for example, in the Gauteng Department of Education (Auditor-General 2010c:57). Another chronic control problem is that employees of the Department are frequently awarded tenders without declaring their interests in the companies to which tenders were awarded, as happened in the Mpumalanga Department of Education in 2009/10 (Auditor-General 2010d:59). This situation also occurred in 2010/11:

> …92 awards worth R4.271 million were awarded to employees of the department, in 43 of which employees did not declare their interests. In 49 instances worth R2.180 million, employees did remunerative work for which they did not obtain approval. Findings on uncompetitive or unfair procurement processes: in 2 bids worth R0.551 million, 3 quotations were not obtained, in a further 3 awards worth R0.205million, awards were made to suppliers without tax clearance certificates. (Auditor-General 2010d:43)

In 2010/11 the Auditor-General made a finding of SCM non-compliance in the KwaZulu-Natal Department of Education. Awards amounting to R51.4 million had been made to 326 employees who did not declare their interests, and 68 awards worth R11.685 million had been made to close family members of employees who did not declare their interests as suppliers (Auditor-General 2011b:50). By the year end of 31 March 2011, 163 investigations had been concluded or were still in progress, of which 91 related to fraud and 72 to other financial misconduct. The Auditor-General noted:

> It would appear that the control environments of the above auditees are conducive to SCM-related irregularities, fraud and other financial misconduct. However, the fact that investigations are ongoing is encouraging, as it is the first step in implementing corrective measures. This should be followed by a reassessment of the control environment in order to implement further controls, where necessary, and closely monitor the operating effectiveness of controls to prevent irregularities from recurring. (Auditor-General 2011b:32)

The Auditor-General also found that irregular expenditure of R15.7 million in 2008/9 in the Northern Cape "occurred as a result of inadequate management oversight and monitoring" and was "of concern from the perspective of fraud risk" (Auditor-General 2009b:21). By 2010/11 in the Northern Cape, the level of irregular expenditure had increased even further: seven tender awards worth R1.528 million were made to employees, of whom only three declared their interest in bids worth R1.06 million; and uncompetitive or unfair procurement processes occurred in 16 awards worth R2.350 million. Deviations for contracts more than R1 million were not reported to the Auditor-General for two bids worth R28.791 million in 2010/11. There were five bids worth R13.721 million which resulted in uncompetitive or unfair procurement processes were identified, including not obtaining three price quotations, sourcing from suppliers who were not on the accredited supplier database, and using incorrectly constituted bid specifications committees. In 30 bids worth R113.031 million, there were inadequate contract performance measures and monitoring – prospective suppliers failed to declare their past SCM practices, including previous fraud convictions or under-performance on state contracts (Auditor-General 2011c:56).

The Auditor-General ascribed this deterioration in SCM in the Northern Cape to the fact that "leadership failed to staff the supply chain units with trained, competent individuals as committed in the prior year. The limited financial resources available to the public entities also limited their ability to attract sufficiently skilled financial staff" (Auditor-General 2011c:33).

The Limpopo Department of Education in 2009/10 had supply chain findings relating to not paying suppliers within 30 days of receipt of the invoice, as required by *Treasury Regulation* 8.2.3 (Auditor-General 2010b:34). Furthermore, in addition to three fraud-related investigations in progress at year end, there were also four SCM-related investigations relating to irregularities in the acquisition of learner and teacher support materials and IT equipment, in the registration of companies in the supplier database (for example, the absence of valid tax clearance certificates), as well as "corrupt activities with regard to procurement procedures at the SCM unit" (Auditor-General 2011h:27). Despite the national intervention into the Limpopo Provincial Government on 5 December 2011, SCM was still dysfunctional by year end 2012/13, with irregular expenditure amounting to R1.22 billion "mostly as a result of the department not complying with the requirement to obtain three quotations in many instances as well as not adhering to regulations in the awarding of tenders" (Auditor-General 2013b:67).

In 2008/9, the North West Department of Education transferred R11.2 million to schools in contravention of the *South African Schools Act*, 1996 (Act 84 of 1996), resulting in irregular expenditure, "due to inappropriate oversight and monitoring by the administrative leadership in ensuring proper implantation and adherence to SCM policies, and also to deficiencies in the design and application of control activities" (Auditor-General 2009c:33). The following year, even more procurement irregularities were detected by the Auditor-General, who found that competitive bidding processes to procure goods and services had been circumvented (contracts to the value of R717 804) in the North West Department of Education, the correct preference point system for bid evaluation had not been applied (contracts worth R49 104), suppliers who did not score the highest points had been awarded tenders anyway without any objective justification (awards valued at R27 025 954) and contracts had been extended or renewed without the required competitive bidding processes (awards to the value of R3 926 864) (Auditor-General 2010e:47-49). A similar situation recurred the following year, in part due to inadequate SCM controls (for example, over conflict of interest disclosure) and ineffective risk management. This situation prompted the Auditor-General to remark:

> The controls at some auditees were inadequate in that officials failed to declare whether they or their close family members, partners and associates had interests in suppliers or in contracts to be awarded. Furthermore, they failed to withdraw from the process involved in awarding such contracts. Even though SCM is generally a high-risk area and directly affects the objectives of most auditees, the internal audit sections at some auditees did not evaluate the controls, processes and compliance with laws and regulations with regard to SCM. (Auditor-General 2011d:45)

By 2012/13, the Auditor-General was still lamenting the levels of irregular expenditure, the dysfunctional SCM system, the absence of disciplinary measures against officials who had incurred or approved irregular expenditure, and the incompetence and lack of skills of the SCM unit in the North West Department of Education (Auditor-General 2013c:77).

The Western Cape Department of Education, which had reported no irregular expenditure in 2007/8 and 2008/9, incurred irregular expenditure to the tune of R381 million in 2009/10, R18.74 million in 2010/11 and to R26 million in 2011/13. Vacancies in the SCM unit were one of the main contributing factors which had compromised effective SCM performance monitoring (Auditor-General 2011e:46-48). Some of the SCM control weaknesses highlighted in the 2009/10 audit included: not obtaining three quotations before awarding contracts, failure to investigate reports of corruption, misconduct or SCM violations, or to deal with them appropriately afterwards, not checking the prohibited suppliers database (for those "blacklisted" due to prior poor performance or a fraudulent track record with government) before awarding contracts, By 31 March 2011, nine SCM-related investigations were in progress or had been completed.

The Western Cape Education Department SCM officials had not received the minimum training required by the National Treasury's *Framework for Minimum Training and Deployment.* This weakness in the provincial SCM unit's capacity was exacerbated by ineffective internal audit. Despite the high fraud SCM risk, the departmental fraud prevention plan did not contain specific measures directed at addressing this risk: "Although non-compliance was identified by the AGSA [Auditor-General] and/or fraud had been identified in the past, internal audit did not evaluate the controls, processes and compliance with laws and regulations with regard to SCM" (Auditor-General 2010f:42).

As noted earlier, fruitless and wasteful expenditure refers to "expenditure which was made in vain and could have been avoided had reasonable care been taken", such as penalties and interest on late payments and payment for services not used, or goods not received (Auditor-General 2013a:283). Annexure 2 on page 421 reflects that the highest levels of fruitless and wasteful expenditure between 2007/8 and 2013/14 were found in the Limpopo Department of Education in 2012/13 (R320.7 million) and in the Eastern Cape Department of Education in 2012/13 (R630.3 million). The Mpumalanga and Western Cape Departments of Education had the lowest levels of fruitless and wasteful expenditure over the same period.

Some of the types of fruitless and wasteful expenditure and the poor departmental controls giving rise to them are listed below:

(i) *Eastern Cape*: In 2010/11, fruitless and wasteful expenditure was incurred due to a lack of controls and monitoring of payroll processes and employee data (such as payments to employees who could not be verified, or who had not reported for work) and miscalculated leave payments. R641 million in fruitless and wasteful spending was discovered to be due to erroneous payments of subsidies to Section 21 schools (independent schools).

(ii) *Gauteng*: In 2008/9, lease payments by the provincial Department of Education on an unoccupied building led to R7 156 246 in fruitless and wasteful expenditure (Auditor-General 2009d:35).

(iii) *KwaZulu-Natal:* In 2008/9, catering for events where the number of attendees actually attending fell far short of the number anticipated and paid for, resulted in fruitless and wasteful expenditure of R620 000 (Auditor-General 2009e:81).

(iv) *Limpopo:* Shoddy construction of new schools and unused mobile classrooms gave rise to R320.7 million of fruitless and wasteful expenditure in 2012/13 (Auditor-General 2013b:27).

(v) *Northern Cape:* Inadequate management oversight and monitoring led to late payments which attracted interest penalties of R92 197 (Auditor-General 2009b:21). In general, if fruitless and wasteful expenditure is accurately reported in the financial statements, they do not automatically result in qualifications, but in 2009/10 the Northern Cape Department of Education could not produce supporting documentation and its audit opinion was accordingly qualified by the Auditor-General in relation to the completeness of the opening balance of fruitless and wasteful expenditure (Auditor-General 2009f:66).

(vi) *Western Cape:* The only blemish in the Western Cape Department of Education's otherwise spotless record without fruitless and wasteful expenditure was R40 000 reported in 2012/13, mainly as a result of interest paid on overdue payments (Auditor-General 2013d).

7.3.3 Financial reporting and audit opinion

The financial audit opinions for each of the provincial Education departments are represented in the Table 54 overleaf, abbreviated as follows: Financially Unqualified (FU), Financially Unqualified with Findings (FUWF), Qualified (Q), Disclaimer of Opinion (D), Adverse Opinion (AO) and Financial Statements Not Submitted by Legislated Deadline (N/A). If the audit opinion is FU, it indicates that there are no material misstatements in the financial statements (although there may be findings on the Audit of Performance Objectives or other findings of non-compliance with legislation). A FUWF opinion indicates that the department concerned has generally achieved fair presentation of financial statements, but that there are specific matters or uncertainties which the Auditor-General considered significant or material enough to warrant mention in the report.

In a Q opinion, material misstatements in respect of specific amounts were found in the financial statements, or insufficient evidence was produced by the auditee for the Auditor-General to conclude that these amounts are not materially misstated. When a D opinion is expressed, "the auditee provided insufficient evidence in the form of documentation on which to base an audit opinion"; this is "not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements" (Auditor-General 2013a:281). Finally, an A outcome reflects that the financial statements "contain misstatements that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements" (Auditor-General 2013a:280).

Table 54: Provincial Education department audit outcomes, 2000/1 to 2013/14

	EC	FS	GP	KZN	LP	MP	NC	NW	WC
2000/01	D	FUWF	Q	D	Q	Q	N/A	D	FUWF
2001/02	D	FUWF	Q	D	Q	FUWF	D	D	FUWF
2002/03	D	Q	FUWF	D	FUWF	FUWF	FUWF	Q	Q
2003/04	D	D	FUWF	D	FUWF	D	Q	FUWF	Q
2004/05	D	Q	FUWF	Q	FUWF	D	FUWF	D	Q
2005/06	D	Q	FUWF	Q	FUWF	D	Q	Q	D
2006/07	A	Q	FUWF	Q	Q	Q	D	Q	Q
2007/08	A	FUWF	Q	FUWF	Q	Q	D	Q	FUWF
2008/09	A	FUWF	Q	FUWF	Q	Q	D	FUWF	FUWF
2009/10	D	Q	FUWF	FUWF	D	Q	Q	D	FUWF
2010/11	D	Q	FUWF	Q	Q	FUWF	Q	Q	FUWF
2011/12	D	FUWF	FUWF	Q	D	FUWF	Q	Q	Q
2012/13	Q	FUWF	FUWF	Q	D	FUWF	Q	Q	FUWF
2013/14	Q	Q	FUWF	Q	D	FUWF	Q	FUWF	FUWF

Note: Audit opinions reflected as follows: Financially Unqualified (FU), Financially Unqualified With Findings (FUWF), Qualified (Q), Disclaimer of Opinion (D), Adverse Opinion (A) and Financial Statements Not Submitted by Legislated Deadline (N/A)

Source: Auditor-General Consolidated PFMA reports, various years

Table 54 above suggests that, while no provincial Education department achieved a "clean audit" (an unqualified financial opinion (UF) with no findings in relation to performance information or compliance), there was indeed some improvement in audit outcomes between 2000/1 and 2012/14. In 2000/1 only two Education Departments had unqualified financial audits which increased to four in 2013/14. It is also evident, however, that progress has not been linear, and several departments which had initially made good progress subsequently relapsed, only to recover later. The Departments of Education in the Free State, Mpumalanga, the Northern Cape and the Western Cape exhibited this trajectory. The provincial Departments of Education in Limpopo, KwaZulu-Natal and the Free State have regretably retrogressed.

In analysing audit outcomes over time, due cognisance should be taken of the fact that accounting standards had changed between 2007/8 and 2013/14, becoming more stringent and making it harder to achieve good audit outcomes (for example, the accounting standards for the recording of assets have moved from pure cash accounting to modified cash accounting as a prelude to accrual accounting.). In other words, the goal bar has consistently been raised as the PFM reforms have progressed.

To allow a more nuanced look at the more recent performance of provincial Education departments between 1997/98 and 2012/13, numeric values were assigned to the Auditor-General audit outcomes for each fiscal year: FU opinions were awarded 4 points, FUWF 3 points, Q outcomes 2 points, D and A outcomes 1 point respectively. No points were awarded if the annual financial statements were not submitted within the statutory timeframes prescribed by the PFMA. This permits benchmarking and ranking of performance over the six-year period. Table 55 below shows the seven-year average scores for each provincial Education department (out of a maximum average of 4 points). The maximum average would be obtained if the department obtained an FU audit outcome consecutively in each of the seven years.

Table 55: Ranking of provincial Education department audit opinions, 1997/98 to 2012/14

	EC	FS	GP	KZN	LP	MP	NC	NW	WC
2007/08	1	3	2	3	2	2	1	2	3
2008/09	1	3	2	3	2	2	1	3	3
2009/10	1	2	3	3	1	2	2	1	3
2010/11	1	2	3	2	2	3	2	2	3
2011/12	1	3	3	2	1	3	2	2	2
2012/13	2	3	3	2	1	3	2	2	3
2013/14	2	2	3	2	1	3	2	3	3
Average	**1.3**	**2.6**	**2.7**	**2.4**	**1.4**	**2.6**	**1.7**	**2.1**	**2.9**

Notes: Values assigned to different audit opinions: FU = 4, FUWF=3, Q=2, D and A = 1, Not timeously submitted = 0
Source: own calculations

Focusing only on financial audit outcomes (thus ignoring Audit of Predetermined Objectives and other non-compliance findings which are explored later), the provincial Education departments can be segmented into three groups, based on their relative performance between 2007/8 and 2013/14:

(i) *Above average performers*: The best performer was the Western Cape Department of Education, with a seven-year average of 2.8 (out of a maximum possible average of 4.5), followed by the Gauteng Department of Education, with an average of 2.7 points. The Free State Department of Education and Mpumalanga Department of Education both had a seven-year average of 2.6 points. Each of these departments performed significantly (at least 18%) above the national seven-year average of 2.2.

(ii) *Average performers*: The KwaZulu-Natal Department of Education had a seven-year average of 2.5 points, which is slightly above the national average of 2.2, and the North West Department of Education had an average of 2.1 points, which is marginally below the national seven-year average.

(iii) *Underperformers:* Limpopo, the Northern Cape and the Eastern Cape attained average scores of 1.8, 1.7 and 1.2 points respectively, significantly below the national average of 2.2.

The analysis below probes the drivers of deteriorating and improved outcomes in individual provincial Education departments between 2008/9 and 2012/19 in greater depth, attempting to eludcidate the root causes. Audit outcomes are conditioned by multifaceted interactions between technical financial management factors (such as accounting standards for assets in the move towards modified cash accounting), the effectiveness (or otherwise) of other management systems (such as HR systems and management information systems), leadership and governance within a department itself and, in some cases, the support of or intervention by the national government.

The following subsections examine in detail the progress in each provincial Education Department between 2007/8 and 2013 in order to understand the impact of different administrative and governance environments have impacted on financial audit processes and outcomes.

7.3.3.1 Eastern Cape Department of Education: national government intervention induces marginal improvements after chronic malaise

After two years of adverse opinions in 2007/8 and 2008/9, the Eastern Cape Department of Education had three consecutive disclaimers of opinion, followed in 2012/13 by an improvement to a qualified audit opinion after a national government intervention in March 2011 (in terms of section 100 of the Constitution). The Minister of Basic Education assumed responsibility for the areas in which the provincial Education department was struggling to meet the minimum standards of delivery. One of the root causes of these poor audit outcomes was the fact that during the 2008/9 year, the positions of HoD, CFO and Chief Operating Officer were all vacant. The incumbents were all temporarily "acting" in these capacities, so there was virtually a complete leadership vacuum, which persisted over the next two periods. The Auditor-General also reported that the senior management of the department was uncommitted to the audit process, that the finance staff did not understand the required accounting practices, and that the personnel appointment procedures were ineffective (Auditor-General 2009g:21).

By the following year, very little had changed. The Auditor-General again reported "a lack of direction and accountability", "a total breakdown in internal controls and supply chain management", and "findings that are indicative of fraud and corruption" (Auditor-General 2010h:15). This situation was compounded by severe coordination problems, of which typical examples are given below:

> Operational personnel at directorates other than Finance do not understand how their daily tasks impact on the budget, and costs of service delivery have not been communicated and understood by all personnel. Promotions are approved by heads of department without consulting the chief financial officer to determine whether budget is available. (Auditor-General 2011g:37)

By 2012/13, the effects of the national intervention in the Eastern Cape Department of Education resulted in an improvement from the disclaimer to a qualified audit opinion. Some of the key improvement drivers were the appointment of qualified top managers to permanent positions, support from the Eastern Cape Provincial Treasury and the Office of the Premier, the centralization of HR information and expenditure vouchers, as well as the improved ability of the Department to retrieve these documents. Regrettably, in 2013/14 the Department's audited outcome stagnated and it is not clear whether a more positive trajectory will be maintained. The Auditor-General expressed some reservations about prospects for sustained improvements in audit outcomes the "The sustainability of these outcomes is still questionable, however, as the basic key controls that enhance the credibility of information used for enforcing accountability have not been institutionalized. In addition, these departments do not yet fully appreciate the important role of applying consequences for transgressions and poor performance" (Auditor-General 2014c:19).

7.3.3.2 Free State Education Department: regression after slow management response to asset accounting standard changes

In 2007/8 and 2008/9, the Free State Department of Education achieved a financially unqualified audit opinion with findings, regressed to a qualified opinion in 2009/10 and 2010/11, to regain a financially unqualified audit opinion with findings in the next two financial years. In 2013/14, the Department unfortunately deteriorated to a qualified audit opinion.

In the 2008/8 audit, the Auditor-General identified inadequate monitoring and supervision by the CFO and a lack of capacity as the root causes of the qualification on expenditures, which related to overspending on the compensation of employees budget (as discussed earlier in section 7.3.1 on page 319).

In that and the following year, however, the Department obtained permission from the National Treasury to deviate from the modified cash basis disclosure requirements which were then being introduced for reporting on major and minor capital assets. The application for the deviation was due to systems errors in LOGIS (the procurement system) which had compromised the reliability of the Department's asset register. By the time the period of exemption from the disclosure of large capital assets had concluded in 2009/10, "management had not taken sufficient action to put the department in a position to reliably disclose its capital assets", resulting in a qualified opinion (Auditor-General 2010g:16). Asset control and verification processes were still deficient. Asset records were not properly updated, were not complete and reliable records of all assets, and therefore could not support credible financial statement disclosure. Asset registers had also not been reconciled with disclosures in the financial statements (Auditor-General 2010g:18).

By the next financial year, 2010/11, the senior management of the Free State Department of Education had still not remedied the serious weaknesses in asset management which the Auditor-General had raised in the prior year, resulting in yet another qualified opinion. The leadership in the Education department "underestimated the shortcomings regarding assets, and could not rectify the shortcomings within the financial year" (Auditor-General 2011f:13). In 2011/12, these asset-related findings were finally resolved and the Department improved to an unqualified audit opinion with findings. The Auditor-General did, however, caution that this outcome "may not be sustainable as consultants were used to update the asset registers or significant effort was required during July 2012 to correct the findings raised on fixed assets" (Auditor-General 2012b:35). While the Department did achieve regulatory compliance, it is not necessarily certain that day-to-day PFM practice had improved commensurately. The Free State Department of Education was able to avoid a qualification in relation to capital assets the following year as well, achieving another financial unqualified audit opinion in 2012/13. However, the Department was still not able to achieve a clean audit since the Auditor-General recorded new non-compliance findings, relating to budgeting, expenditure management, transfers and conditional grants (Auditor-General 2013f:63).

The promising trend of improvement appears to have been short-lived – it was reversed when the Department retrogressed to an audit opinion with a new qualification in respect of expenditure in 2013/14. The qualification arose "mainly because of incorrect interpretation of supply chain management requirements and irregular expenditure guidelines as well as resistance by management to acknowledge that significant contracts were irregular and therefore to disclose such expenditure as irregular expenditure" (Auditor-General 2014b:30). Senior management in the Free State Department of Education also neglected their responsibility to ensure that financial information was correct and complete, and failed to rectify the issues which had been raised by the auditors in the previous year (Auditor-General 2014b).

7.3.3.3 Gauteng: regression due to qualifications, then sustained improvement due to effective leadership

After a financially unqualified audit opinion with findings in 2006/7, the Gauteng Department of Education then received a qualified audit opinion in 2007/8 in respect of receivables. Inaccurate and incomplete staff debtors' balances led to unquantifiable misstatements in the financial statements:

> The staff debtors resulted from the no-work-no-pay policy in respect of employees who participated in an illegal strike action. The misstatement in the financial statements could not be quantified as the database of all the employees that were on strike, was incomplete. Material differences were identified between the calculated deductions based on the mandates for employees who were on strike and the actual deductions processed on the payroll system, as well as the amount raised as staff debtors at year-end. (Auditor-General 2008a:38).

The Gauteng Department of Education's audit opinion was again qualified in 2008/9 in respect of non-current (capital) assets, disclosure items and expenditure. Documentation could not be produced to support the Department's R18.5 billion asset and R478 million work-in-progress balances, and the fixed asset register did not correspond with the opening and closing balances in the financial statements, because reconciliations between the fixed asset register and the Basic Account System had not been done on a monthly basis. The root causes identified included the fact that “the leadership had not effectively implementing action plans to address recurring audit findings, lack of effective document management, inadequate supervision, monitoring and capacity within the finance unit, [and] high dependency on the services of consultants” (Auditor-General 2009d:25). The qualification relating to presentation and disclosure referred to the fact that “information and communication were not captured in the form and time frame to support financial reporting and disclosure notes [were] not system generated and [were] only produced once a year rather than regularly on a monthly basis which prevented management from management detecting and correcting errors” (Auditor-General 2009d:25). The expenditure-related qualification arose because the Department “did not, or could not, provide the relevant information within the agreed audit deadlines and could not provide a clear trail of documentation to verify the financial statement balances” (Auditor-General 2009d:25).

The Gauteng Department of Education then exhibited steady improvement over the next three years from 2010/11 to 2013/14, maintaining financially unqualified audit opinions with no findings in respect of Audits of Performance Information, but with non-compliance findings in other areas such as HR and IT (Auditor-General 2011i). The Auditor-General commended senior management for the “dedicated interest that is exhibited by the executive leadership at the department” (Auditor-General 2012c:79) and the “stability at the level of the accounting officer and MEC, which has assisted the department to move from strength to strength. The South African Institute of Government Auditors presented the GDE with the accolade of best Annual Report in Gauteng for 2012” (Auditor-General 2013g:65).

7.3.3.4 KwaZulu-Natal: Steady decline

From financially unqualified audit opinions for three consecutive years between 2007/8 and 2009/10, the KwaZulu-Natal Department of Education regressed to a qualified opinion over the next four years. The qualification in 2010/11 related to liabilities: “…no adequate system existed to verify accruals of R117,1 million and the existence and valuation of leave entitlement and capped leave balances amounting to R2,9 billion, which were not supported by appropriate audit evidence” (Auditor-General 2011b:12). These issues with regard to commitments were not resolved by the senior management of the Department and recurred the following year, in 2011/12, along with additional qualifications relating to other disclosure items and to receivables (current assets): “[The Department of] Education did not recognise outstanding debts resulting from salary overpayments to staff whose services were not terminated on the salary system in good time” (Auditor-General 2011b:77). The root cause of these qualifications was the absence of “leadership control” in resolving the qualification, and other issues raised in the previous year’s Annual Report (Auditor-General, 2013h:76). In the 2013/14 audit, the KZN Department of Education received a qualification regarding liabilities: the capped leave balances at year end were incorrect because the PERSAL (personnel and salary) system had not been updated (Auditor-General, 2014d:20).

7.3.3.5 Limpopo: Finance vacancies, skills deficits and corruption prompt deterioration despite national government intervention

Having obtained qualified audit opinions in both 2007/8 and 2008/9 the Limpopo Department of Education's audit outcome regressed to a disclaimer in 2009/10. It improved somewhat to achieve a qualified opinion in 2010/11, only to regress once more to disclaimers in 2011/12, 2012/13 and 2013/14. The deep-seated, ingrained dysfunction in this department is evident from the fact that qualifications on capital (non-current) assets were present in each of the audit opinions between 2007/8 and 2013/4 and qualifications on current assets and on other disclosure items were received in four consecutive years from 2009/10 to 2013/14. This suggests that senior management in this department repeatedly ignored the Auditor-General's findings with impunity, and that fiscal accountability mechanisms in the province were severely compromised.

In the 2007/8 audit report, the Auditor-General observed that the Limpopo Department of Education had not kept accurate and comprehensive records of assets as required by section 40(1)(a) of the PFMA, nor a full and updated asset register:

> My audit revealed that assets to the value of R17,1 million were grouped in bundles in the asset register, assets were not bar-coded, asset descriptions in the asset register were inadequate and not all assets were recorded in the asset register. Assurance regarding the completeness, valuation and existence of the tangible asset balance of R907,6 million as disclosed in the financial statements could not be obtained. (Auditor-General 2008b:39).

A deficit of asset management skills and personnel to ensure that the Limpopo Department of Education's manual asset register met with the requirements outlined by the Limpopo Provincial Treasury was identified as the root cause (Auditor-General 2008b:10). Two years later, in 2009/10, when this qualification on assets recurred in an overall disclaimer for this department, the astoundingly high vacancy rate of 69% in the finance section still prevailed:

> The qualification on assets recurred from the prior year due to the lack of an adequate action plan and the leadership not monitoring its progress. There was a lack of control over the awarding of contracts on infrastructure projects and over the recording and updating of assets in the accounting records. An adequate records management system had not been designed and implemented, resulting in significant delays or non-submission of documents requested for audit purposes (Auditor-General 2010b:22).

The Auditor-General emphasised that the lack of commitment by the leadership to address the audit issues raised in the prior year had rendered futile the Limpopo Provincial Treasury's attempt to support the Department of Education in compiling a full and precise asset register (Auditor-General 2010b:47). In addition to the qualification on assets, the Limpopo Department of Education also received qualifications on receivables and disclosure due to its inability to provide supporting documents for the accounts receivable balance and for the contingent liabilities, accruals, commitments, and gifts and donations balances, due to poor filing systems (Auditor-General 2010b:23). Issues relating to irregular expenditure to the tune of R171 million, caused by dysfunctional SCM systems, and to overspending of R803 million, mainly on the personnel budget, have already been discussed above (see section 7.3.1 Budget planning and control on page 319)

The improvement in PFM, reflected by progress from a disclaimer to a qualified opinion in 2010/11, was credited to leadership intervention, the recruitment of a competent CFO and a reduction in critical post vacancies in the finance unit. Despite this improvement, levels of unauthorised expenditure (R773 million) and irregular expenditure (R696 million) remained alarmingly high (Auditor-General 2011h:6-13):

> Because of the serious concerns around overspending and supply chain management irregularities, the national government initiated an intervention in the Limpopo Provincial Government in terms of Section 100 of the Constitution, placing the Department of Education, the provincial treasury and three other departments under national administration. In opposition to the national intervention, provincial officials obstructively withheld the documents required for the audit, or did not provide them timeously…. Despite the Premier's public affirmations of cooperation, there was resistance to the intervention process amongst officials at all levels. This resistance and resulting frustration contributed to the late or non-submission of required documents during the audit process. This ultimately resulted in the audit opinions for Education, Health and Public Works being disclaimed. (Auditor-General 2012d:65)

The Auditor-General noted that the national intervention team's attempts to turn around the Limpopo Department of Education's audit outcomes had failed, with the Department retaining a disclaimer for the second consecutive year. The effort had been stymied by non-cooperation by provincial officials:

> The political leadership was slow in dealing with issues and honouring commitments made. I also saw a continuation of the uncoordinated working relationship between the national intervention team and the provincial leadership, together with senior management. This had a weakening effect on the attempts to improve the situation, especially at the departments of Education, Health and Public Works. These departments also failed to address their finding on reporting on their performance against predetermined objectives. (Auditor-General 2013b:9)

The administrator also appointed a team of consultants to resolve audit findings and establish effective financial management processes, but they did not influence the audit outcome since they were appointed too late during the financial year to make a difference (Auditor-general 2013b:67).The audit report on the 2013/13 financial statements of the Limpopo Department of Education was really damning in its conclusions:

> The numerous mis-statements identified in the financial statements are indicative of significant fraud which calls into question the reliability of evidence obtained and the genuineness of accounting records and documentation. But for the legal requirement to perform the audit of the department, I would have withdrawn in terms of the ISA [International Standard on Auditing] standards (Auditor-General 2013i:4).

The Auditor-General (2013b:67)., in his provincial general report, provided an incisive delineation of the root cause of poor audit outcomes and the steps which need to be taken by the Accounting Officer and MEC (Member of the Executive Council, the political head) to resuscitate moribund financial management systems:

(i) vacancies in the financial unit and at senior management level were to be filled with competent officials;
(ii) quarterly meetings between the MEC and audit committee were essential to review the risks and effectiveness of internal controls;
(iii) physical assets were to be regularly reconciled with financial reconciliations, especially since the department was still using manual asset management systems based on Excel spreadsheets which are prone to human error and vulnerable to deliberate manipulation;
(iv) officials were to be held accountable for violating laws and regulations and performing poorly;
(v) an efficient record system capable of retrieving and making documentation available at all times was to be rolled out; and
(vi) a comprehensive action plan was to be formulated to address the underlying causes driving audit outcomes and timeously give effect to internal audit recommendations

In 2013/14, while still under administration, the Department again received a disclaimer of opinion with all the prior years' qualifications recurring, as well as a new qualification in relation to liabilities, since poor recordkeeping by the Department meant that the Auditor-General was unable to verify the accuracy of bad debt balances (Auditor-General 2014e). There had been simultaneous failure in multiple layers of assurance: senior management, governance structures such as the audit committee, and political oversight from the MEC. The Auditor-General expressed the following caution:

> It is unlikely that the outcome will change if management does not start taking ownership of the challenges. The audit committee could also not thoroughly review the draft financial statements, as they were only submitted to the committee on the day of the meeting. The audit committee thus had to rely on the high-level review performed by the Provincial Treasury in this regard. Notwithstanding the fact that the department was under administration, the involvement of the MECs to address the financial management weaknesses was not sufficient, as changes were made to the political leadership in quick succession (Auditor-General 2014e:22).

Only time will tell whether the Auditor-General's good advice will ever be heeded, rather than disregarded as it has been so many times before. In the interim, the learners of the Limpopo Province, many of whom are poor and rely on a public education, continue to suffer.

7.3.3.6 Mpumalanga: Responsiveness to asset accounting standard changes and appointment of a CFO enables sustained improvement

After three years of qualified audit opinions between 2007/8 and 2009/10 (mainly in respect of capital assets and expenditure), the Mpumalanga Department of Education succeeded in sustaining a financially unqualified audit opinion for four consecutive years between 2010/11 and 2013/14). The root causes of the qualified audit outcomes which were identified by the Auditor-General in 2008/9 are cited verbatim below:

- Lack of effective leadership and supervision to monitor the financial management and accounting functions, as key financial officials of the department were suspended.
- Inadequate implementation and lack of continuous monitoring of action plans by leadership to address asset management weaknesses in the department.
- Lack of expertise in the asset management unit.
- Lack of regular reconciliations and interim reporting, which would have identified errors in systems generating reports. (Auditor-General 2009i:3).

During 2008/9, the CFO's post was vacant. It is therefore hardly surprising that the audit outcome was qualified in four areas: (i) capital assets, (ii) payables, (iii) expenditure and (iv) presentation and disclosure (evidence on the accuracy and completeness of commitments and lease commitments). In 2009/10, the Mpumalanga Department of Education again received a qualified opinion, but this time only in respect of capital assets. A CFO was employed after the year end in 2009/10. By 2010/11, the CFO had made a tangible impact, as the audit outcome was financially unqualified. The Auditor-General attributed this positive outcome to "the commitment of the accounting officer and the chief financial officer (CFO), the implementation and monitoring of action plans, and the use of consultants and treasury assistance to provide capacity to compile the asset register" (Auditor-General 2011j:5). The Mpumalanga Department of Education achieved a financially unqualified opinion in 2011/12, 2012/13 and 2013/14 as well.

7.3.3.7 Northern Cape: Stagnating audit outcomes

The Northern Cape had disclaimers of opinion in 2007/8 and 2008/9, but improved to a qualified audit outcome in 2009/10. For the next four years, until 2013/14, the audit outcome did not improve beyond a qualified audit.

The Northern Cape Department of Education had a CFO during the 2007/8 financial year, but he was redeployed in March 2009 because a new Provincial Executive Council took office after the 2009 election. In the interim, an official from the Northern Cape Treasury was acting in that capacity while the post was being advertised. This leadership vacuum was compounded by an Acting HoD when the previous incumbent left during March 2009.

In the 2009/10 financial year, the Auditor-General credited the improvement in audit opinion from a disclaimer to a qualification to the teamwork between the new CFO, the new HoD and the MEC, who set an appropriate leadership tone at the top:

> It was clear that there was good two-way communication between the CFO, the HoD and the MEC. The MEC supported the HoD and the CFO in their commitment to instil discipline in the department, which is required to improve on the audit outcome. The CFO, who joined the department on 16 March 2009, was the main driver of the improvement in the audit outcome, but had it not been for the firm support of the new HoD (who was appointed on 1 June 2009) and the MEC, it might not have been as successful. (Auditor-General 2010a:38)

The qualified audit opinion in 2012/13 related to capital assets. The root causes identified by the Auditor-General were a "[l]ack of consequences for poor performance and transgressions, slow response by oversight institutions, slow response by political leadership, slow response by management" (Auditor-General 2013j:66). The Auditor-General also emphasised the need for leadership continuity at the level of AO and senior management (Auditor-General 2013j:67). The capital asset problem recurred in 2013/14, resulting in another qualified audit. Because vacancies were only filled towards the end of the financial year, the preparation of supporting documentation and registers for capital projects was delayed. Even though consultants had been appointed to assist, the problem was not resolved because

> …the schedules and registers prepared by the consultants were not properly reviewed, resulting in differences between the auditee's records and the registers prepared by the consultants. Additionally, not all projects were included in the assets register, moveable assets were incorrectly valued at R1 instead of fair value, assets identified during physical verifications could not be traced to the asset register and assets in the asset register could not be physically verified. (Auditor-General 2014f:20)

7.3.3.8 North West: Tentative improvement after leadership instability undermined audit outcomes

The North West Department of Education achieved a significant improvement from an audit opinion qualified in respect of capital assets, current assets (receivables), liabilities (payables), and other disclosure items (commitments) in 2007/8 to a financially unqualified audit in 2008/9. Disappointingly, the Department deteriorated to a disclaimer in 2009/10 and its audit outcomes then stagnated thereafter, with qualified audits for the next three years, from 2010/11 to 2012/3. In 2013/14, however, the Department improved to an unqualified audit report with findings.

This root cause of the degeneration of the audit outcome to disclaimer in 2009/10 was identified as a "lack of permanent key personnel at HoD and CFO levels, which resulted in poor monitoring of and supervision over basic disciplines and ultimately an inability to provide sufficient appropriate audit evidence for disclosures made in the financial statements" (Auditor-General 2010e:21). The

Auditor-General ascribed the improvement of the outcome to a qualified audit to better management cooperation, and coordination of the audit evidence requested (Auditor-General 2011d:14), but this improvement was not sustained.

In the 2012/13 year, the audit option was qualified in respect of non-current (capital) assets, current assets, liabilities and other disclosures, as the Auditor-General could not verify the location of movable tangible capital assets. The North West Department of Education had also not strengthened its systems to capture employees' leave timeously, or rectified non-compliance with laws and regulations (Auditor-General 2013c:77). Given that both the CFO and the AO were temporarily "acting" in those position, the Auditor-General attributed the stagnant audit outcomes to

> … instability and vacancies in key positions and a lack of consequences for poor performance and transgressions. Management did not review the financial statements and annual performance report prior to submission for auditing as material misstatements identified during the audit needed to be corrected to avoid a regression in the audit outcome. (Auditor-General 2013c:77)

In 2013/14, the North West Department of Education addressed the findings on non-current (capital) assets, current assets, liabilities and other disclosures. The Department received a financial unqualified audit opinion, although there were still findings in respect of performance information and regulatory compliance (Auditor-General 2014g).

7.3.3.9 Western Cape: Sustained improvement

After a disclaimer in 2005/6 and a qualification in 2006/7, the Western Cape Department of Education achieved a financial unqualified audit in 2007/8. Commendably, the Department managed to sustain this outcome until 2010/11. Then it relapsed to a qualified audit in 2011/12, only to regain its financially unqualified audit in 2012/13 and 2013/14. The qualification in 2011/12 related to movable capital assets. The Department did not have complete and accurate records of mobile classrooms. It had also not reconciled its records with the physical mobile units, and was therefore unable to provide the requisite audit evidence timeously.

> For Education there was a lack of review and monitoring by management at the district offices to ensure control over monthly reconciling of transactions as the districts did not have adequate processes in place to identify mobile units being used by schools in the relevant districts they controlled. (Auditor-General, 2012e:68)

Once the finding on the accounting for mobile classrooms had been addressed, the Western Cape Department regained a financially unqualified audit opinion. The Department also received no findings regarding its Audit of Predetermined Objectives, but fell short of a clean audit because of a finding of non-compliance regarding SCM:

> The department has a challenge when it comes to procurement at school level, which is an integral part of its service delivery function. The department must consider ways of assisting the districts to improve monitoring of supply chain management compliance for procurement at school level. (Auditor-General 2013d:63)

7.3.4 Audits of Predetermined Objectives

Section 5.5.6 on page 230 discusses the role of Audits of Predetermined Objectives in the accountability cycle. In 2013/14, only the Gauteng, Mpumalanga and Western Cape Departments of Education did not have any findings in relating to Audits of Predetermined Objectives. This indicates that for the vast majority of the provincial Education departments, performance information is still not entirely credible.

Appendix 2 on page 421 lists, for each provincial Education department, the nature of findings: if performance information was not submitted by the legislated date (T); the performance information was not useful (U), the performance information was not reliable (R), and other non-compliance findings (C).

In an Audit of Predetermined Objectives, the Auditor-General assesses whether the actual performance reported in a department's Annual Report, compared to the predetermined performance objectives in the its strategic and Annual Performance Plans, is reliable, accurate and complete. During the Audit of Predetermined Objectives whether the performance information submitted by an auditee, can be traced back to the source data or supporting documentation, and whether the reported information is consistent with the source data or other evidence of performance. The criteria against which the performance information is audited are derived from all relevant legislation and the National Treasury's *Framework for Managing Performance Information* (National Treasury 2007b).

The four types of findings on performance information relate to the following:

(i) *Late submission* refers to submission of performance information after the statutory timeframes stipulated by the PFMA.

(ii) *Non-compliance with regulatory requirements* refers to whether the contents and format of a department's strategic and annual performance plan meet regulatory requirements, whether the plan was approved by the Accounting Officer as well as the subsequent quarterly reporting of actual achievements. Common deficiencies include no reporting or incomplete reporting on predetermined objectives, the lack of effective, efficient and transparent systems of internal controls on performance information, and no quarterly reporting or inadequate quarterly reporting on performance information.

(iii) *Usefulness of performance information* reflects whether the reported performance is consistent with the predetermined performance objectives and targets in the annual performance plans, and whether the targets are clearly linked to the departmental mandate. Targets should elucidate the requisite performance level in a manner which is specific, measureable, appropriate, realistic and time bound.

(iv) *Reliability of performance information* depends on whether there is sufficient audit evidence to validate the reported performance against the applicable predetermined objective, there are management systems for generating the supporting information and managing the source data or evidence provided to support the performance report, and the reported performance is accurate and complete.

An analysis of the nine provincial Education department audit reports highlights a number of significant weaknesses in performance information. Performance targets were often unrealistic, because of insufficient credible baseline information on which to base achievable targets, service delivery needs were greater than expected, or were overly conservatively estimated. Often indicators did not measure what they were intended to (effectiveness, efficiency or economy), and there were no logical relationships with the inputs, activities, outputs, and outcomes of the department. This was often because of a lack of approved policies for how performance information should be managed in the department, and the necessary human resources, expertise and systems to implement the performance information management policy effectively.

Shortcomings in the performance management information systems *per s*e were often exacerbated by poor linkages with other management systems, such as the department's individual and institutional performance management systems and its budgeting system. For example, when performance targets were not achieved, the responsible officials were frequently not held to account, performance targets were often not included in individual senior managers' performance agreements or in subsequent individual performance reviews.

Where material variations between targets and actual performance were identified, departments often lacked procedures to take corrective action (Auditor-General 2012e:44-45). In some cases, these problems extended right to the top, as AOs were not held accountable by their Executive Authorities, either for non-reporting on departmental performance, or for underperformance (Auditor-General 2012f:43). The PFMA was crafted on the assumption that the Executive Authority (Member of the Executive Council) would want to hold the AO (HoD) accountable for performance – the evidence in suggests that this is patently not always the case. This issue was also raised in section 5.6.1 on page 239. There is often also very poor integration between the strategic planning and budget processes of provincial Education departments:

> The link between the budgets of reporting institutions and their measurable performance objectives was not always clear. Provincial departments could therefore not monitor actual expenditure against budgeted expenditure per performance

> objective. In certain instances departments indicated that performance targets were not achieved due to insufficient budgets. (Auditor-General 2012f:43).

In particular, performance targets were not costed and therefore the targets set were often unaffordable in terms of the available budgets:

> Departments did not determine the budget required to implement and achieve predetermined objectives (PDOs). Therefore, departments were unable to monitor and evaluate the correlation between performance implementation (planned versus actual performance) and financial implementation (budgeted versus actual expenditure). No standardised processes were in place to ensure that budgets were aligned to the PDOs. Furthermore, integrated systems that linked budget/financial information to PDOs were not available. (Auditor-General 2012e:44-45)

The absence of systems to integrate financial and performance management in provincial Education systems clearly undermines managing value-for-money. Performance budgeting is therefore an area where much more work has to be done.

Poor performance information management at a departmental level was often aggravated by ineffective monitoring and support from oversight institutions such as the Office of the Premier and/or the Provincial Treasury, which ay not have the approved policies and procedures or adequate skills for monitoring provincial performance information in strategic and annual performance plans and annual reports, and for providing recommendations for the corrective steps which should be taken (Auditor-General 2012f: 43).

7.3.5 Financial leadership and governance

The destructive role that leadership instability plays in undermining PFM reform has been amply illustrated in section 7.3.3 on page 327. There is a direct relationship between instability, prolonged management vacancies, and deteriorating audit outcomes. Conversely, stable, competent management is a precondition for sustained improvement in audit outcomes.

It is not an exaggeration to say that in the most dysfunctional departments, the leadership dynamic is toxic. In the Eastern Cape, for instance, the Auditor-General noted:

> Although the Department of Education retained its disclaimer of opinion, the number of findings had increased over the past number of years. This is due to a lack of leadership and discipline demonstrated by its senior management and the lack of respect shown by the senior management to the accounting officer. (Auditor-General 2011g:12)

As noted earlier in section 7.3.3 on page 327, audit challenges encountered by the Auditor-General are due to poor skills and large numbers of vacancies. They also arise because departmental management is often implicated in fraud and corruption – in this regard, commenting on the Limpopo Department of Education, the Auditor-General observed:

> The disclaimer at Education can be attributed to vacancies in key positions in the finance section for most of the year and an action plan to address prior year audit findings not having been fully implemented. There is also a suspicion that documents were deliberately withheld in some cases and a special investigation has been recommended to the leadership. (Auditor-General 2010b:25).

Two important fiscal governance structures required by the PFMA are the internal audit function and the audit committee. In the 2013/14 fiscal year, the Auditor-General noted that in most national and provincial departments, internal audit units had a positive impact on audit outcomes. However, the Auditor-General observed that “the lack of a positive impact at 48% (2012-13: 46%) of departments was due to management not addressing internal audit findings” (Auditor-General 2014a:91). Similarly, the audit committees of 76% of the departments had a positive impact on audit outcomes. The Auditor-General went on to observe that Audit Committees are extremely dependent on the reliability of the assurance provided by senior management and the internal audit function: “The lower the assurance provided by these two role players, the more difficult it is for audit committees to accurately assess the control environment of the auditee, including being assured that all significant risks are effectively managed” (Auditor-General 2014a:92).

This illustrates a key argument that although adding other assurance providers, such as internal audit or audit committees in a combined assurance model can be very useful, ultimately the marginal benefit of additional internal or external audit is limited, unless the core dysfunction at a senior management level in a department can be addressed. Devoting greater focus and resources towards those “checking” PFM is unlikely to be as productive as directing effort at improving those actually ‘doing” day-to-day PFM in departments, and holding them accountable.

7.4 Benchmarking provincial Education departments

The table below depicts the PFMP index for each of the nine provincial Education departments for the period from 2007/8 to 2013/14. As noted earlier, the PFMP index is a weighted average of nine underlying variables (see section 7.2 on page 313 for a discussion of the methodology employed) and ranges between 0 (no progress with PFM reforms) and 4.5 (maximum possible progress). The table also reflects the average PFMP index score between 2007/8 and 2009/10 and between 2009/10 and 2013/14, which permits a comparison of the average performance of each provincial Education department across these two periods. The second column from the right shows the difference in average scores across these two periods (a negative score indicates a deterioration, and a positive score indicates progress). The last column in the table lists the PFMP index score that each department achieved in 2013/14 as a percentage of the maximum possible score (out of 4.5)

Table 56: Provincial Education department PFMP index, 2007/8 to 2013/14

PFMP INDEX	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	Average 2007/8 to 2009/10	Average 2010/11 to 2013/14	Differ-ence	% of maximum possible score
Eastern Cape	2.1	2.7	2.5	1.8	2.3	2.4	2.9	**2.43**	**2.35**	-0.08	52%
Free State	3.8	2.5	3.3	2.7	3.5	3.5	2.9	**3.20**	**3.15**	-0.05	70%
Gauteng	3.3	3.6	3.6	3.3	3.1	3.8	3.3	**3.50**	**3.38**	-0.13	75%
KwaZulu/Natal	3.8	3.4	3.5	3.5	3.0	3.0	3.0	**3.57**	**3.13**	-0.44	69%
Limpopo	3.7	3.5	3.0	2.8	2.8	2.0	2.2	**3.40**	**2.45**	-0.95	54%
Mpumalanga	3.1	2.6	3.1	3.3	3.7	3.5	3.9	**2.93**	**3.60**	0.67	80%
Northern Cape	3.5	2.8	3.3	3.2	3.1	3.1	3.0	**3.20**	**3.10**	-0.10	69%
North West	3.2	3.7	3.3	3.0	3.5	3.2	3.6	**3.40**	**3.33**	-0.08	74%
Western Cape	3.8	4.1	3.4	4.1	3.8	4.0	3.8	**3.77**	**3.93**	0.16	87%
Average	**3.4**	**3.2**	**3.2**	**3.1**	**3.2**	**3.2**	**3.2**	**3.27**	**3.17**	**-0.10**	**70%**

Source: Own calculations based on National Treasury and Auditor-General data

In the period under review, PFM in provincial Education departments retrogressed slightly, at worst, or stagnated, at best. The average PFMP index score for all nine provinces was 3.27 points between 2007/8 and 2009/10, and the score declined marginally to an average of 3.17 points in the successive period from 2010/11 to 2013/14. There was considerable variation in the PFMP index scores across the nine Education departments.

In both periods, the Eastern Cape Department of Education's average performance was the worst, with PFMP index scores (with an average of 2.43 and 2.35 points) well below national averages of 3.27 between 2007/8 and 2009/10, and 3.17 between 2010/11 and 2013/14. The Department displayed chronically poor PFM performance, with a PFMP index in 2013/14 which was only 52% of the maximum achievable score of 4.5.

Another department which serially and materially underperformed the national averages in these two periods was the Limpopo Department of Education. This department displayed a marked deterioration from an average PFMP index score of 3.40 between 2007/8 and 2009/10 (75% of the possible score of 4.5) to a disappointing average PFMP index score of 2.45 between 2010/11 and 2012/13 (54% of the possible score).

The three provincial Education departments which performed best and exceeded the national average in all six years under scrutiny were Gauteng, Mpumalanga and the Western Cape. The average PFMP index for Gauteng declined slightly (from 3.50 between 2007/8 and 2009/10 to 3.38 between 2010/11 to 2013/14).

Mpumalanga and the Western Cape provincial Education departments exhibited steady improvement. Mpumalanga's improvement is particularly noteworthy: from an average PFMP index score of 2.93 between 2007/8 and 2009/10 (64% of the maximum score of 4.5) to an average score of 3.60 between 2010/11 to 2013/14 (80% of the maximum score). The Western Cape Department of Education was the strongest performer, achieving an average score of 3.77 between 2007/8 and 2009/10 and 3.93 between 2010/11 and 2013/1 (which is 87% of the maximum possible score of 4.5).

A summary of the PFMP index findinngs is provided below.

Table 57: PFMP index summary for provincial Education departments

	BELOW AVERAGE	AVERAGE	ABOVE AVERAGE
RETROGRESSING	Eastern Cape, Limpopo	KwaZulu-Natal North West Northern Cape	Gauteng
STABLE		Free State	
IMPROVING			Mpumalanga, Western Cape

Source: Own calculations based on PFMP Index

Based on the analysis of PFM progress, three groups of departments can be discerned:

(i) *Intensive Care Unit*: The Eastern Cape and Limpopo Departments of Education performed far below the national average. Their performance has retrogressed. It remains to be seen whether national government intervention will sustainably turn these departments around.

(ii) *Stagnating and under observation*: Provincial Education departments such as those in KwaZulu-Natal, the North West, the Northern Cape and the Free State are performing at roughly the national average. The Free State Department of Education has been stagnant, the others have deteriorated. Leadership instability, skills shortages, poor accountability and other root causes need to be addressed as a matter of urgency to pre-empt further decline. Even though Gauteng's score was above the national average, the reduction in its average score between 2009/10 and 2012/13 is cause for some concern.

(iii) *Steady progress*: Mpumalanga and the Western Cape are performing relatively well and should be encouraged to achieve clean audits (with no findings in respect of their financial statements, performance information and compliance with other regulatory requirements).

On the basis of simple, yet insightful analysis such as the PFMP index, the National Treasury, the relevant provincial treasury, the national Department of Basic Education, the relevant provincial Office of the Premier and the national Department of Public Admnistration should develop differentiated, holistic and sustained capacity building strategies for the first two groups. It is critical that their capacity building activities be well coordinated to ensure that from an HR perspective, vacancies are filled with competent officials (reducing reliance on external complianceappropriate hands-on technical support and training is provided put in place effective systems and to re-engineer and document standard operating procedures in the department. Secondment of personnel from the National Treasury or the relevant provincial treasury (if it is sufficiently capacitate) can assist in ensuring that the necessary institutional capability for effective PFM is put in place, not only in the departmental Head Office, but in district offices and individual schools as well. Peer-learning based on the experiences of Mpumalanga and Western Cape Departments of Education should also be pursued.

7.5 Benchmarking provincial Health departments

The trends in the Health sector are largely similar to those outlined in the previous section for the Basic Education sector with regard to budget planning and control, budget execution, financial reporting and audit opinion, Audits of Predetermined Objectives, financial leadership and governance. A detailed exposition of these trends at an individual department level is therefore not provided in this section. Instead, the Health departments are benchmarked using the PFMP index, based on the underlying data in Annexure 3 on page 426.

Table 58 overleaf below depicts the PFMP index for each of the nine provincial Health departments for the period from 2007/8 to 2012/14. The PFMP index methodology has been applied to the Health sector (as for the Basic Education sector in the previous section). The underlying data for the nine variables comprising the PFMP index can be found in Annexure 3. The second column from the right shows the difference in average scores across these two periods (a negative score indicates deterioration, a positive score indicates). The last column of the table lists the PFMP index score that each Health department achieved in 2013/14 as a percentage of the maximum possible score (out of 4.5).

The provincial Health departments, on average, did not make as much progress in PFM reform as the provincial Education departments did. The national average PFMP index score between 2009/10 and 2013/14 was 3.17 (70% of the maximum score of 4.5) for the provincial Education departments, and only 2.92 (65% of the maximum score of 4.5) for the provincial Health departments over the same period. Similar to the Basic Education departments, PFM in the provincial Health sector seems to have worsened marginally, or stagnated at best between 2010/11 and 2013/14, with a PFM Index score for all provinces in 2010/11 to 2013/14 (2.92) slightly lower than that of the previous period (2.97). As was also the case in the Education sector, there is considerable variation in PFM performance across provincial Health .departments.

As can be seen in Table 58, the worst performers were the Gauteng Department of Health, with average PFMP index of 2.28 between 2010/11 and 2013/14, and the Northern Cape and Limpopo, with averages of 2.55 and 2.60 (all significantly below the national average of 2.92 for the same period).

Table 58: Provincial Health department PFMP index, 2007/8 to 2012/13

PFMP INDEX	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	Average 07/8 to 09/10	Average 10/11 to 13/14	Differ-ence	% of max possible score
Eastern Cape	2.6	1.9	1.7	2.4	2.6	2.8	3.3	**2.07**	**2.78**	0.71	62%
Free State	3.5	2.9	2.3	2.7	2.7	2.8	3.1	**2.90**	**2.83**	-0.08	63%
Gauteng	3	2.6	2.1	1.9	2.0	2.5	2.7	**2.57**	**2.28**	-0.29	51%
KwaZulu-Natal	3.5	3.1	2.8	2.9	3.3	2.9	3.2	**3.13**	**3.08**	-0.06	68%
Limpopo	3.6	3.8	3.3	2.7	2.4	2.8	2.5	**3.57**	**2.60**	-0.97	58%
Mpumalanga	3.2	2.9	2.8	3.4	3.1	3.1	2.5	**2.97**	**3.03**	0.06	67%
Northern Cape	2.6	2.2	2.3	2.0	2.7	2.9	2.6	**2.37**	**2.55**	0.18	57%
North West	3.8	3.5	3.5	3.1	3.1	3.7	3.2	**3.60**	**3.28**	-0.32	73%
Western Cape	3.9	3.5	3.1	3.9	3.8	3.9	3.8	**3.50**	**3.85**	0.35	86%
Average	**3.3**	**3.0**	**2.6**	**2.8**	**2.9**	**3.0**	**3.0**	**2.97**	**2.92**	**-0.06**	**65%**

Source: Own calculations based on National Treasury and Auditor-General data

After a disclaimer in 2009/10, the Gauteng Department of Health received qualified financial audits from 2010/11 to 2012/13, and incurred inordinately high levels of irregular expenditure (R2.2 billion, R2.5 billion and R1.5 billion in 2010/11, 2011/12 and 2013/14 respectively, see Annexure 3 on page 426). Levels of irregular expenditure diminished markedly however in 2013/14, to R233.9 million. There was significant overspending on the Compensation of Employees budget (12.1% in 2010/11 and 5.4% in 2011/12). Because of the size of the personnel budget in Health departments, this CoE overspending exerted an intense “crowding-out” pressure on non-personnel expenditures, resulting in underspending on transfer budgets (by 23.6% and 28.6% of the total transfer budgets in 2010/11 and 2011/12 respectively). At the same time, there was material underspending on capital budgets of 38.5%, 36.5%, 38.8% and 48.0% of the total capital budget in 2010/11, 2011/12, 2012/13 and 2013/14 respectively. In 2012/13, Gauteng Department of Health scored a PFMP index of 2.5 points (55% of the maximum score of 4.5) and this increased marginally to 2.7 points in 2013/14 (60% of the maximum score of 4.5).

The Northern Cape Department of Health had an average PFMP Index score between 2010/11 and 2013/14 of 2.55, significantly below the national average of 2.92 for the same period (and 57% of the maximum possible score of 4.5). After five successive years of disclaimers, the Northern Cape Department of Health improved to qualified opinions in 2012/13 and 2013/14. The Department overspent its CoE budget by 6.5% in 2010/11, and its transfer budget by 10% in the same year, and it underspent by 25.7% on its (final appropriation) capital budget. Since then, departmental control over the CoE budget has improved considerably, with no personnel overspending in 2012/13 and 2013/14. Capital budget underspending was reduced to 4.6% of the capital budget in 2012/13 but increased again to 14.2% in 2013/14. However, as can be seen in Annexure 3 on page 426, irregular expenditure remained unacceptably high at roughly a billion rand each year between 2010/11 and 2013/14. It remains to be seen whether the improvement of this department will be maintained.

The Eastern Cape Department of Health overspent its CoE budget by a massive 15.5% in 2009/10, which severely “crowded out” transfer and capital budget expenditure, resulting underspending of 21.3% of the transfer budget and 28.3% of the capital budget in 2009/10. Irregular expenditure amounted to the huge sum of R1 billion in that year. The Eastern Cape Department of Health received a disclaimer in 2009/19, but the Department subsequently improved to a qualified audit report in 2013/14. Its average PFMP index for 2010/11 to 2013/14 was 2.78 points, below the national average of 2.92 for the same period (62% of the maximum score of 4.5). By 2012/13, control over compensation of employees, transfer and capital budget spending had improved markedly, however, unacceptably high levels of irregular and fruitless and wasteful expenditure of R304 million and R128.5 million respectively persisted. R108 million of the fruitless and wasteful expenditure in the Eastern Cape Department of Health in 2012/13 was a result of medical malpractice settlements. In 2013/14, irregular expenditure declined to R149.3 million and fruitless and wasteful expenditure declined to R51.4 million.

The Department of Health in Limpopo Province had an average PFMP score of 2.60 points between 2010/11 and 2013/14 (58% of the maximum possible score of 4.5), roughly on par with the Northern Cape Department of Health. While the Northern Cape Department of Health has shown some signs of steady improvement, the Limpopo Department of Health, by contrast, has deteriorated. Overspending on its CoE budget was 1.4% in 2011/12 and 1.3% in 2013/12 (see Appendix 3 on page 426). Although these percentages appear to be small, because of the sheer size of the share of personnel spending of the total departmental budget, the crowding-out effect on non-personnel spending items is disproportionate. Underspending on capital budgets rose to 23.3%, 9.7% and 39.9% in 2011/12, 2012/13 and 2013/14 respectively, which was much worse than the capital budget underspending outcomes of 1.2% and 2% in 2007/8 and 2008/9. Moreover, irregular expenditure has increased: R401 million in 2010/11, R625 million in 2011/12, R571 million in 2012/13 and R870 million in 2013/14. Most disconcerting has been the retrogression to a disclaimer in each audit between 2010/11 and 2012/13, compared to the qualified audit in the previous three years. In 2013/14, the Department improved slightly, from a disclaimer to a qualified audit.

The last underachieving department is the Free State Department of Health, which (as can be seen in Table 58 on page 347) retrogressed from an average PFMP index score of 2.90 between 2007/8 and 2009/10 to an average score of 2.83 between 2010/11 and 2013/14 (62% of the maximum possible PFMP index score of 4.5).

Table 58 on page 347 shows that the KwaZulu Natal, Mpumalanga and North West Departments of Health scored above the national average of 2.92 between 2010/11 to 2013/14, with average PFMP index scores of 3.08 (68% of the maximum possible index score), 3.03 (67% of the maximum possible score) and 3.28 (73% of the maximum possible score) respectively.

The KwaZulu-Natal Department of Health's performance has been stagnant at a qualified audit opinion between 2008/9 and 2013/14. While its control over its CoE, transfers and capital budget has been satisfactory, the exceptionally high levels of irregular expenditure are a cause for concern: R 2.038 billion in 2011/12, R 2.719 billion in R2012/13 and R1.219 billion in 2013/14 (see Annexure 3 on page 426).

The Mpumalanga Department of Health's audit outcome has also stagnated. with qualified audits for seven years since 2007/8. However, its control over CoE and capital spending has improved markedly. Levels of irregular spending though remain unacceptably high: R 285 million in 2011/12, R123 million in 2012/13 and R818.4 million in 2013/14.

After two consecutive financially unqualified audits in 2009/10 and 200/11, the North West retrogressed to a qualified audit in 2011/12, only to improve once more to financially unqualified audits in 2012/13 and 2013/14. Budget control in respect of CoE, transfers and capital budgets has been satisfactory in this department between 2007/8 and 2013/14, but the level or irregular spending remains unacceptable: R949 million in 2011/12, R1.726 billion in 2012/13 and R 725.1 million in 2013/14.

The best performer was the Western Cape Department of Health, with an average PFMP index score of 3.85 between 2010/11 to 2012/13. After seven consecutive years of financially unqualified financial statements without any findings regarding Audits of Predetermined Objectives, the Western Cape Department of Health fell short of a clean audit in 2012/13 and 2013/14 only because of compliance findings, chiefly in relation to SCM. Irregular expenditure in this Department amounted to R119.2 million in 2010/11, R74 million in 2011/12, R86.7 million in 2012/13 and R88 million in 2013/14.

A succinct summary of the departmental performance can be found in the Table 59 overleaf.

Table 59: PFMP index summary for provincial Health departments

	BELOW AVERAGE	AVERAGE	ABOVE AVERAGE
RETROGRESSING	Gauteng Limpopo Free State		North West KwaZulu-Natal
STABLE			Mpumalanga
IMPROVING	Northern Cape	Eastern Cape	Western Cape

Source: Own calculations

As in the case of the provincial Education departments, the provincial Health departments can be clustered into three groups:

(i) *Intensive Care Unit*: The Departments of Health that require close monitoring and intensive support are Gauteng, Limpopo, the Free State and the Northern Cape. The basics of PFM practice do not seem to be in place in these departments yet.

(ii) *Stagnating and under observation*: The Eastern Cape is approximately at the national average but its PFM index has exhibited an improving trend for the last four years. The North West, KwaZulu-Natal and Mpumalanga have PFMP index scores above the national average, but KwaZulu-Natal and the North West seem to exhibit a tendency to regress. In all these departments, concerted efforts will have to be made to show material progress in relation to the PFMA objectives.

(iii) *Steady progress*: The Western Cape Department of Health has been performing admirably and should be encouraged to achieve a clean audit (with no findings in respects of financial statements, performance information and compliance with other regulatory requirements) by resolving SCM-related and other compliance findings.

A collaborative, risk-based, differentiated capacity building strategy by the National Treasury, the relevant provincial treasury, the national Department of Health, the national Department of Public Service and Administration and the relevant provincial Officer of the Premier would prioritise stabilising Gauteng, Limpopo, the Free State and the Northern Cape Departments of Health. The financial management capability of the provincial Health departments in the Eastern Cape, the North West, KwaZulu-Natal and Mpumalanga should also be further strengthened to assist them to achieve improved day-to-day PFM practice and clean audits. and closely monitored.

7.6 Summary and concluding remarks

This chapter has outlined a benchmarking exercise between provincial Education and Health departments between 2007/8 and 2014/15 to assess their progress in respect of PFM reform. It is clear from the preceding analysis that PFM reform is being hindered by technical challenges (for example, in relation to asset management and implementation of accounting standards) and insufficient financial management skills in the finance sections of departments, but also by severe dysfunction in complementary management systems such as HR recruitment, payroll management, individual performance management and disciplinary procedures, programme and project management. The most intractable issues however relate to instability in leadership (especially departmental AOs and CFOs) and poor accountability (from the political administrative interface between the MEC and the AO, between the AO and the CFO, cascading all the way down).

In the most dysfunctional departments, there are clear indications of multiple institutional failures within the departments: the CFO, finance section, the SCM section, senior management, internal audit, audit committees etc. This is compounded by the ineffectiveness of oversight institutions in the provincial sphere: the provincial treasury, the Office of the Premier and the provincial legislature.

The situation is often aggravated by the national sphere. National sector departments can be quite ineffective at monitoring, supporting and supervising their provincial department counterparts. The debacle of the poor implementation of the Occupation Specific Dispensation and the resultant personnel spending pressures is not only a consequence of poor provincial implementation (under pressure from militant public sector unions) but also of poor sector leadership by the relevant national departments. Similarly, responsibility for poor HR management and performance management must be laid squarely at the door of the Department of Public Service and Administration and the provincial Offices of the Premier. The lack of professionalism in the public service means that when political heads change as a result of an election or a cabinet reshuffle in the provincial ruling party, the AO and other senior officials such as CFOs are frequently also dismissed and new appointments are made. This creates massive systemic leadership instability which poorer provinces find hard to deal with, given their high level of finance vacancies and skills shortages.

The National Treasury has acted to maintain aggregate fiscal discipline and has occasionally intervened in provincial departments to avert serious crises but has not done enough recently to build on the PFMA momentum which was gained at the beginning of the reform process. The snail's pace at which the Integrated Financial Management System has been implemented – over a decade with little discernible impact and ever-receding deadlines – and the absence of a transversal electronic system to link the financial and non-financial dimensions of PFM are cases in point. The National Treasury could also have done much more, much earlier, to hold provincial treasuries to account for the functions delegated to them in terms of the PFMA.

The greatest dereliction of duty, however, has been in the political domain: the failure by MECs as political heads to hold AOs accountable for their PFMA roles and responsibilities, and to refrain from inappropriate political interference (for example, in relation to SCM). A key element on which the PFMA reform initiative was predicated, the accountability chain, has been severely compromised, creating dysfunctional administrative and leadership cultures where regulations are serially flouted with impunity and the Auditor-General's recommendations are repeatedly flouted.

CHAPTER 8: INTERPRETATION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

8.1 Introduction

The research questions underpinning this thesis revolve around whether the implementation of PFMA reforms between 2000 and 2014, aimed at enhancing value-for-money in South African provincial governments, have yielded the positive outcomes originally envisaged, and the identification of (supporting and inhibiting) factors which have shaped the implementation outcomes actually realised during this period.

This concluding chapter summarises the compelling evidence presented in this research study that PFMA implementation has made great strides in promoting fiscal objectives such as equity in provincial public spending, fiscal discipline and transparency, but that improvements in value-for-money and efficiency of public spending (especially in Basic Education and public Health) fall far short of expectation. Analysis of the underlying political, administrative, legislative and socio-economic factors which have shaped this reform outcome forms the basis for recommendations for advancing future PFM reform.

The key findings from both the qualitative research derived from interviews and the quantitative research used to validate PFM trends are outlined in the section below. The third section of this chapter articulates a set of recommendations based on these findings to enhance the next stage of PFM reform in South Africa. The fourth section considers broader public governance reforms which, strictly speaking, fall outside the scope of PFM, but will nevertheless determine the fate of South Africa's PFM reform programme. The limited remit of this study precludes a deeper exploration of these broader governance reforms which are, however, fruitful avenues for further research.

8.2 Summary of the key findings

Budgeting and PFM reform are an inherently multi-disciplinary terrain, in which multiple, often conflicting, policy intents (shaped by the underlying political and socio-economic dynamics) are given financial, legislative and administrative expression, within binding fiscal and administrative capacity constraints. Fiscal policy, budget plans, processes and institutions (formal and informal) both influence – and are in turn influenced by – the political, economic and social systems within which they are inextricably embedded. Chapter 2 of this thesis therefore commences by locating budgeting and PFM conceptually in both the public administration and public economics literature, also drawing on key public sector accounting concepts. Reviewing international PFM reform experiences and philosophies such as the NPM approach, Chapter 3 articulates a detailed analytical framework, a lens through which the South African PFM reform experience is subsequently viewed.

This study demonstrates that the powerful influence of NPM thinking on the South African PFM reforms is indisputable. The evidence of reform implementation in South African provincial government departments also strongly suggests that too many stages of administrative development cannot simply be “leapfrogged”. Formal institutions (such as the PFM legislation and regulations) may be easier to re-engineer than the equally potent but less tangible informal institutions (for example, how tenders are actually allocated or senior staff are really appointed in practice, as opposed to the formal regulations prescribed on paper, organizational culture and leadership).

The findings of this thesis cover the objectives of PFM reform in South Africa, its key success and risk factors, reform implementation achievements and shortcomings to date and an analysis of the PFMP index benchmarking analysis of provincial Health and Education departments, and raise strategic issues to be considered if the PFMA were to be reviewed. These are summarised below.

8.2.1 Objectives of PFM reforms and factors triggering reform in South Africa

South Africa’s sustained PFM reform programme since 1994 can only be understood against the backdrop of the complete transformation of public governance and the re-configuration of the macro-organization of the state after the demise of apartheid. The negotiated transition to a constitutional democracy triggered profound changes, not only in the public administration, but also in broader South African society (such as a free media and a fundamental realignment of the relationship between the private and public sectors, including the need for Black Economic Empowerment). As is pointed out in Chapter 3, instead of very specific PFM reform goals aimed at enhancing an existing system (as in many other international reform experiences), the PFM reform programme in South Africa was driven by the urgent need for a complete overhaul of the existing PFM system and the political imperative to eradicate completely the racially and gender discriminatory biases in public resource allocation, to end apartheid era inefficiency, corruption and secrecy, and to resource the reconstruction and development of the nascent democracy.

Chapter 4 describes the mounting macroeconomic pressures confronting the incoming democratically elected government in 1994 which, at that stage, had very little accurate information on the status of aggregate finances across the four provincial administrations of “white” South Africa and the patchwork of black homelands and so called “independent states”. The new government inherited an essentially bankrupt fiscus, teetering on the edge of a debt trap. It faced overwhelming pressure to equalise the remuneration of black civil servants upwards to the level of their white counterparts immediately, to ensure racial parity in access to, and the quality of, public services such as education, health, water and electricity, and to eliminate the enormous service backlogs in poor, black and rural communities. The National Party had already begun to equalise social pensions across all races in 1992, but with high levels of poverty, unemployment and the scourge of HIV/AIDS, the incoming government also faced huge political pressure to extend the social welfare system, for example, by introducing a child support grant. This grant was eventually introduced in 1998.

There was also immense pressure for the new, predominantly black political leadership to wrest control over the key administrative institutions from the old order white National Party bureaucracy, and either to re-orient these institutions or to replace them completely. These included the budgeting system, the PSC and the State Tender Board. From a PFM perspective, a particularly pressing issue was the imperative for the new political incumbents to ensure a reprioritisation of public resources in support of redress, reconstruction and development goals and nation-building to heal the fractured, violent past and combat poverty, inequality and unemployment.

Simultaneously, there were also strong political pressures to create the nine provincial governments envisaged in the 1996 Constitution as soon as possible, and to decentralize powers and functions to them, including fiscal powers and functions in a decentralized intergovernmental fiscal relations system, as envisaged in Chapter 13 of the Constitution.

The Constitution's requirement that nine provincial governments be established and that judicially enforceable socio-economic rights (of access to health, education, housing, water, etc. for previously under-served poor black communities) be progressively realised, all created a huge demand for public management and administrative skills. The Constitution also required that the public service be made as racially and gender representative as possible. This meant that there was enormous demand for black management skills during and after the democratic transition, not only from the public but also the private sector. Provinces which had inherited capacity from the four former white provincial administrations (such as Gauteng and the Western Cape) and which had better education systems even under apartheid, fared much better than the provincial governments which had to be established from scratch, had to incorporate black homelands and were largely rural. The gross disparities in capacity across provincial government are a product of their genesis and initial conditions, and sadly continue still persist more than two decades later. In the newly created provincial governments, the civil servants from the former black homelands were often promoted to senior management positions for which they were under-qualified and inexperienced.

Having sketched the broad political-economy and public administrative context, Chapter 5 provides a comprehensive overview of the implementation phases of the PFM reform in South Africa, starting from the pre-1994 baseline during the apartheid regime, the early PFM reforms prior to the PFMA between 1995 and 1999, the first stage of PFMA implementation from 2000 to 2008, and the most recent period from 2009 to 2015.

South Africa's reintegration into the global economy (for example, re-joining the Commonwealth) exposed the new political and administrative leadership to developing trends in PFM in countries such as the UK, Australia, New Zealand, Germany and the United States, which were at the time heavily conditioned by the NPM discourse. This confluence of political change and exposure to new PFM technologies which had evolved while South Africa was in sanctions-induced isolation, culminated in a domestically driven change agenda rather than one imposed externally by the International Monetary Fund structural adjustment or donor conditionalities.

The exigency was perceived to be not merely the reformation, but the wholesale re-constitution, of the public governance architecture and its PFM systems, aligning with international good practice and decisively signalling that the untried, democratically elected government was committed to, and capable of, good fiscal governance. Instead of just tinkering with the existing *Exchequer Act, 1965*, the ambitious modernisation agenda of the PFMA envisaged a complete systemic change of PFM in South Africa, rather than small, incremental enhancements. This modernisation agenda encompassed reconfiguring legislation and regulations, budget formats and processes, and also changes in roles and responsibilities, the accountability chain, accounting systems, auditing and fiscal oversight by Parliament and the provincial Legislatures. The PFM system had to support the radical and ambitious shifts in policy and delivery mechanisms which characterised almost every sector: from curative hospital-based health care to preventative primary health care, from the racially fragmented apartheid education system to an integrated outcomes-based education model, and from minimal social support to a safety net of social grants and expanded social services.

8.2.2 The PFM reform implementation trajectory

The sweeping nature of the political and public administrative changes (coupled with the idealism of the new political incumbents, their distrust of the inherited apartheid institutions, the skills in the academic community and broader civil society, and increasing exposure to international good practice and expertise) gave rise to a reform process which was itself transparent, collaborative and open to mutual influence among the political Executive and administrative role players, Parliament, academics and NGOs advocating PFM reform. The fiscal Constitution anchored the PFM and intergovernmental fiscal reforms, creating a common vision for the reform destination. PFMA implementation consciously adopted a phased approach, in the sense that the more sophisticated requirements (for example, in respect of annual reporting and performance information) only came into force much later than 2000, and individual departments could apply to National Treasury for exemptions from certain sections of the Act. However, it was also a "big bang" reform, in the sense that it was not piloted in a few select departments or provincial governments, but became binding on all national and provincial departments simultaneously. Certain elements of the 1996 Constitution relating to SCM and to the decentralized intergovernmental relations system would come into effect in 1998/99 as part of the transition arrangements, and would conflict with the existing *Exchequer Act, 1965*. As a result there were pressures to enact the PFMA speedily and put in place a constitutionally compliant, decentralized intergovernmental fiscal relations system within the constitutional three-year time frame.

8.2.3 Key success and risk factors for South African PFM reform

Chapter 5 also explores key success and risk factors in PFM implementation. The cooperative "old guard" in the Departments of State Expenditure and Finance, the influx of highly competent individuals who had been involved in the liberation struggle and were committed to making the new non-racist democracy work, the orderly transition which permitted the retention of institutional memory and functional electronic systems (such as the Basic Accounting System and PERSAL) inherited from the apartheid regime helped to contain the administrative risks of transition in the Treasury, at least at the national level, and to lay the foundations for the formal PFMA process. The PFMA reform process was initiated by a strong Finance Minister who was passionate about reform, and a capable and motivated Treasury management team with a shared vision. The National Treasury, born of the subsequent consolidation of the Departments of Finance and State Expenditure in 2000, was also able to draw on international and local specialists for technical assistance.

The situation was very different in many of the provincial governments. A differentiated approach which gradually and asymmetrically devolved fiscal powers and functions in line with a province's capacity may have been technically preferable, but was politically untenable at the time. In any case, the delivery capacity did not lie with national government departments, but with the four provincial administrations of white South Africa. The few new provincial governments which had inherited capability (skills, systems and physical infrastructure) from the former provincial administrations were well capacitated, and helped to shape PFMA thinking and innovation. For instance, the Gauteng Treasury pioneered the MTEF a year prior to its being extended to the national and provincial government in 1997/98, and played an instrumental role, in cooperation with National Treasury counterparts, in the team crafting the PFMA.

By contrast, in many other provincial governments, ambitious NPM-inspired PFMA modernisation aspirations were largely superimposed on a non-existent capacity base, enormous challenges in relation to service delivery, deprivation and poverty and, and, in some cases. an administrative ethos bedevilled by an accountability vacuum and a corruption culture institutionally ingrained in the former homelands. The *Exchequer Act*, 1965 (which was the baseline from which PFMA thinking had proceeded), had never actually been implemented in the homelands, whence most of the black civil servants absorbed into the new provincial government had come. The newly created provincial treasuries were generally weak, except for Gauteng, the Western Cape and, to a lesser extent, KwaZulu-Natal and the Free State. Their capacity deficiencies ranged from vacant finance posts and/or underqualified incumbents, to a lack of well-defined, written management processes and management systems, and access to infrastructure such as the internet, computer networks, telephones etc etc.

Instead of a detailed project implementation plan, the PFMA implementation was emergent and evolutionary, based on logic and common sense, albeit guided by clear underlying principles. The strong political support for the reforms (in the Ministry of Finance and in the Presidency and broader Cabinet), coupled with a capable National Treasury, probably supported this pragmatic approach, which might not have been as successful in other contexts.

8.2.4 Remarkable early reform achievements in the first decade

Chapter 5 outlines some of the key milestones in the PFM reform programme. One of the biggest achievements of PFM reform is the creation of an integrated financial system that produces regular, credible and timely reporting within a reasonably stable and predictable macroeconomic framework. The stability of the fiscal framework has been underpinned by outstanding revenue collection reforms by SARS, by the MTEF and by better debt and liability management.

South Africa was rated the second most fiscally transparent country in the world in the 2012 Open Budget Survey. There has also been substantive convergence to per capita equity of budget allocations, but these have frequently not translated into commensurately high quality public services (such as Health and Education), although access to public services has improved markedly. There have been substantial improvements in macro-prioritisation across sectors, but enhancements in micro-economic efficiency and value-for-money in individual sectors and departments have been disappointing. Chapters 6 and 7 explore the factors that underlie these poor outcomes in provincial Health and Education departments.

Budget process reforms have contributed to better PFM, including introducing the Minister's Committee on the Budget (MinComBud), broadening politicians' input into allocative decisions rather than allowing those decisions to be made by bureaucrats, implementing an intergovernmental system with a Budget Council and a Budget Forum, and instituting a degree of consultation with provinces and organized local government on the annual DoRA and the structure of conditional grants. Building these intergovernmental fiscal institutions all contributed to better PFM outcomes through coordination, consensus building, collaboration and sharing of good PFM practices, especially in the first decade of reform after 1994.

Before PFM reforms, it took protracted periods of about five years for departments' financial statements to be audited. The PFMA shortened the accountability cycle considerably: audited financial statements are now produced seven months after the end of the financial year. The availability of credible audited actual revenue and expenditure figures has improved planning and budgeting for subsequent financial years. Monthly and quarterly financial reporting across the national and provincial spheres also constitutes an effective early warning system. Finally, the improvement in the quality of financial information was accompanied by the introduction of non-financial performance information. Quarterly and annual reporting on actual performance relative to five-year strategic plans and Annual Performance Plan targets also provide Parliament and the provincial Legislatures with the tools to hold the Executive Authority and the AO accountable.

Responsibility for fiscal control has devolved from the Department of State Expenditure (now the National Treasury) to the AOs of departments. They and their CFOs were supposed to customise more detailed departmental frameworks within the broad national framework, appropriate to their own operational context. As discussed in section 5.5.1 on page 193, that did not take place entirely as planned and the devolution of authority to AOs, in some instances, may have been premature. Furthermore, all AOs were uniformly granted the same powers. It did not appear to be politically feasible at the time to devolve powers asymmetrically in a manner which differentiated on the basis of departmental or provincial capacity. There was also a racial diversity transformation imperative, where any insistence on experience was seen as obstructing black empowerment, given that black public servants historically had been debarred from managerial positions reserved for white bureaucrats, even in the homelands. It seems that there was an implicit assumption that newly created provincial governments could "leapfrog" to discretionary public management without going through the stage of external rules-based financial administration and other PFM basics (as discussed in section 3.8 on page 82 and section 3.12 on page 103).

8.2.5 PFM reform shortcomings: enforcement, capacity and accountability

Chapter 5 identifies the inter-related problems of the uneven enforcement of the PFMA, capacity challenges and weak accountability as the major fault lines in PFMA implementation. The degree to which PFMA regulations in respect of SCM, personnel budget management and asset management are enforced varies widely across provincial departments. The poor internal control environment in some departments lends itself to inefficiency, even to outright fraud and corruption. In consequence, management is weak in many departments and provinces, and often egregiously poor performance, maladministration, fraud and corruption identified by independent oversight institutions such as the Auditor-General and the Public Protector are not adequately sanctioned. When the views of former Minister of Finance, Mr Trevor Manuel, were solicited on how the PFMA could be reinvigorated, he responded with characteristic frankness: "*Get big boots and kick ass!*" (pers. comm., 14.09.2014),emphasising the need for stricter PFMA enforcement.

The intense capacity-building in the early years of PFM reform has not been adequately sustained by the National Treasury and many of the provincial treasuries. The Institute for Public Finance and Auditing set up by National Treasury to professionalise PFM practitioners was ineffectual and is now defunct. The Public Administration Leadership and Management Academy (PALAMA) and its predecessor, the South African Management Development Institute were equally unimpressive. It remains to be seen how effective PALAMA's most recent incarnation as the National School of Government will be. NGOs active in PFM training and capacity-building in the early years of reform (such as IDASA's Budget Information Service and the Applied Fiscal Research Centre at the University of Cape Town) have since closed due to a lack of funding. Institutions of higher learning have, by and large, not yet developed programmes fully consonant with the spirit of the PFMA.

The dysfunctional South African education system's singular inability to generate mathematics and finance skills in black township schools and rural schools has meant that the supply of broader management and professional skills, and PFM skills in particular, have not kept pace with an expanding public service directed at extending service delivery.

This situation has been exacerbated by poor HR management skills in implementing recruitment processes, and political cadre deployment which prioritizes political affiliation over skills and experience. The ability of the public sector to attract scarce financial management skills in the face of competition from the private sector may also have been compromised by the pay structure of the civil service. The interviewees in this study indicated that junior and middle managers appear to be remunerated in excess of market rates, while top managers and specialised professionals earn less than market rates. Public sector remuneration falls outside the remit of this study, but merits further investigation.

A final obstacle to skills acquisition and capability has been the extremely unstable political-administrative interface, a problem which has been especially acute in some of the provinces. When new MECs are appointed, they tend to replace the AO, who for all intents and purposes is a political appointment, new AOs replace existing top management teams and this is cascaded to much lower levels. Often virtually the entire top management team is replaced, which seriously undermines continuity of service delivery and departmental institutional memory.

In the South African context, increased reliance on consultants to perform basic day-to-day PFM functions or to generate financial statements has raised red flags with Parliament and the provincial Legislatures, as well the Office of the Auditor-General. The rapacious opportunism of some consulting firms and unethical independent contactors (many of whom were former public servants) has rightly attracted a fair amount of criticism. Far less attention has, however, been paid to the fact that the use of consultants enables the political deployment of incompetent cadres to crucial positions in the CFO Office and other senior positions in provincial departments with delegated financial responsibility, to the detriment of value-for-money, since taxpayers essentially fund the same service twice.

Important lessons about effective, holistic approaches to sustainable capacity-building have been learnt from the National Treasury's infrastructure grant innovations. These grant design innovations combine strictly enforced accountability and incentives for performance with holistic support (ranging from technical assistance for putting systems in place, to training for existing incumbents and recruitment for critical vacant posts). These principles, supported by better coordination among the relevant national departments, could be applied more broadly in capacity-building initiatives across provinces and municipalities.

While formal accountability has been improved in a technical legal sense, through the PFMA legislative framework, in practice, accountability is often operationally weak. Many AOs and CFOs do not take up the roles envisaged for them (for example, customising the PFMA within national frameworks to their own department's service delivery context, putting in place PFM systems and standard operating procedures). Those who drafted the PFMA had assumed that the AOs of provincial departments would understand their responsibilities in terms of the PFMA, and would be willing and able to discharge them. They assumed that the Executive Authority (the relevant MECs) would hold the AOs accountable and that the provincial Legislatures would in turn hold both the MECs and AOs to account. These assumptions turned out to be idealistic. Respondents noted that a lack of capacity is routinely used as an excuse to bypass accountability. Even in cases where AOs, CFOs and other officials have been found guilty of gross PFMA infractions, they are often not appropriately sanctioned, even through the PFMA allows for a range of sanctions, including up to five years imprisonment. Consequence management is, in other words, very weak.

If the Executive Authorities fail to initiate an investigation into their AO in instances of alleged misconduct, there is no recourse in the PFMA for the National Treasury to act if the Executive Authority does not. This creates an incentive for collusion in corruption between the Executive Authority and the AO. At the provincial level, politicians often resent the PFMA as a constraint on their ability to deliver ("officials are telling us what to do"), and regard regulations as unnecessary red tape delaying service delivery. Even if the National Treasury and the provincial treasuries were to initiate forensic interventions, the inability of the justice system to prosecute white collar crime effectively means that fraud and corruption cases are often dropped.

Another crucial missing link in the accountability chain is the poor quality of fiscal oversight by Parliament and the provincial Legislatures in holding the Executive to account. It is too early to tell whether the promulgation of the *Money Bills Amendment Procedures and Related Matters Act,* 2009 (Act 9 of 2009) and the creation of a Parliamentary Budget Office will encourage better fiscal oversight performance. In any event, the current partly list system provides very little incentive for parliamentarians and Members of the Provincial Legislature to hold their political seniors in the Executive to account.

8.2.6 Delays in reviewing the PFMA and the proliferation of regulations

PFMA implementation experience over the last 15 years has highlighted a few shortcomings in the legislation itself. This is completely understandable, since most legislation, especially a law as complex as the PFMA, requires iterative processes to take into account issues encountered in implementation which could not have been foreseen. The implementation of the MFMA five years after the PFMA also provides further lessons relevant for a review of the PFMA. Despite this, by 2015, the PFMA has not been formally and publicly reviewed, despite a few aborted attempts to do so. One reason cited by the respondents as to why a review may have been deferred is that the political risk of diluting the PFMA may be greater than probability of enhancing it in a political environment where the National Treasury has been perceived as growing too powerful.

The delay of the PFMA legislative review process has meant that development has occurred in the regulations only, sometimes in *ad hoc* and inconsistent ways. In some areas (such as planning and budgeting), the PFMA regulations are over-prescriptive. In other instances, where AOs have not provided the necessary policies and standard operating procedures at a departmental level, the regulations may not be sufficiently detailed. There has been a proliferation of regulations, instructions and circulars, which creates confusion among PFM practitioners in line departments, for instance in respect of SCM.

Corruption seems to have increased in the second decade of PFM reform. This seems to be centred on the procurement and HR systems, fostered by administrative environments where informal institutions such as nepotism, cadre deployment, and politicisation have in practice supplanted formal systems. The proliferation of regulations is in part a response to increasing corruption but the additional complexity may paradoxically create an environment even more vulnerable to fraud, and decreased performance and accountability. Additional regulations also mean that more time and effort is spent auditing compliance, and the probability that departments will receive qualifications in regulatory audits increases. Another factor that drives more detailed regulations may have been the need to compensate for capacity shortfalls, by providing specific templates, formats and processes. While this may economise on capacity in the short term, it may well breed a compliance mentality rather than strategic thinking in the long term.

The response to some of the failings of the PFMA implementation (such as the increase in corruption and pervasive capacity weakness) has in some areas seen a roll-back of the PFMA in the regulations, whether this is through more centralized procurement, expenditure ceilings or cost reduction measures in respect of certain inputs (such as consulting services). The about-turn has not been made explicit, but is tacit in a number of regulation areas, increasing confusion and highlighting the current lack of clear and coherent strategic direction for advancing taking PFM reform and elusive political and administrative consensus.

8.2.7 Strategic issues when reviewing the PFMA

In reviewing the PFM reform programme in South Africa and the PFMA in particular, the critical overarching question is: *how should regulatory compliance and control (to ensure conformance and limit abuse) be balanced againt managerial discretion (to expedite service delivery and foster innovation)?* In the light of the serious concerns around accountability, capacity, inconsistent PFMA enforcement in certain areas, fraud and corruption, should there be a reversion to more detailed *ex-ante* regulations as in the *Exchequer Act*, 1965?

A major concern is that the devolution of fiscal powers to AOs may have been premature for some departments, provinces or functions (such as the procurement of large scale infrastructure) because the "basics" of sound PFM practice and appropriate institutional foundations were not in place. The experiences of provincial governments such as the Eastern Cape and Limpopo suggest that it is not feasible to "leapfrog" to a modern PFM system without putting the basic in place – an experience which resonates with similar reform outcomes in other developing countries (as outlined in section 3.12 on page 104).

There is a counter argument, however, which suggests that not enough discretion has been accorded to public managers, for example, through complex and restrictive supply chain processes and through HR constraints on employment. Such HR constraints may be formal policies such as targets aimed at racial, gender or disability diversity, or informal institutions through which political cadre deployment or nepotism foists incompetent subordinates on managers such as CFOs. This dilutes the CFOs' accountability for performance and makes it difficult for even a qualified and experienced CFO to turn-around day-to-day PFM practice in a department.

Similarly, having to satisfy too many national and provincial policy objectives simultaneously in procurement has impeded service delivery, attenuated the value-for-money focus and undermined accountability for performance. The large array of policy objectives include industrial policy local content requirements by the Department of Trade and Industry, Black Economic Empowerment preferential procurement targets, climate change footprint and environmental standards, as well as Provincial Executives Councils' desire to source only from suppliers in their respective provinces in order to stimulate the provincial economy. The severe tensions between the economically rational value-for-money criterion and broader political values around redress, diversity, economic inclusion and fairness are stark and not easy to resolve, with far-reaching distributional consequences for many interest groups of varying political power: public servants as producers of public services, the formal private sector (both established white business and emerging black business) which act as suppliers to government, politicians and political parties as representatives of the electorate, public sector unions and – not least – the direct (disproportionally poor) beneficiaries of public services.

A second strand in this line of thought is that public finance managers have not been able adequately trained to understand and apply the strategic spirit of the PFMA rather than merely gong through the motions of mechanical "malicious compliance" with the letter of the law. The way forward, according to the proponents of this perspective, is to rather strengthen the original thrust of the PFMA rather than dilute it.

As the PFMP Index described in Chapter 7 so clearly demonstrates, there is wide variation in the PFM maturity and performance levels of the nine provincial governments. It is therefore clear that henceforth a more differentiated approach to PFM must be followed to respond to individual provincial contexts. It makes no sense to hamstring provincial governments which have demonstrated good internal controls, sound financial management and clean governance with the same rigid strictures as may be appropriate to environments with less financial management maturity and stability.

Whichever reform path is chosen, future PFM reform progress will be contingent on dealing with the underlying issues of capacity, accountability and enforcement. Unfortunately, these lie outside the remit of PFM per se, and enter the realm of broader public sector governance and civil service reform, which is discussed in more detail in section 8.4 on page 378. Shortcomings of the PFM reforms to date illustrate the devastating impact of a lack of complementary civil service reforms (for example, in HR, fostering a professional public service, the effectiveness of the oversight practices of Parliament and the Legislatures, the judiciary's ability to prosecute white collar crime and corruption, and concerns in public discourse relating to judical independence).

The Western Cape Treasury seems to have achieved some successfully in implementing and institutionalising the PFMA, if clean audit outcomes are an appropriate measure of such success. The Western Cape Treasury has fine-tuned the balance between regulatory compliance and managerial discretion and capability through a mix of more detailed provincial treasury instructions to guide standard operating procedures in departments, long-term structured skills development programmes, intensive consultation with provincial departments, and strong working relationships with line departments and professional forums for provincial SCM practitioners. But it should be noted that these initiatives were superimposed on a provincial government with a very stable political-administrative interface, a strong, embedded culture of administrative accountability and a critical mass of capacity to begin with (inherited from the Cape Provincial Administration). A less strong and consistent provincial treasury may well have produced another layer of red tape through provincial treasury instructions, creating further complexity, loopholes and opportunities for fraud and corruption.

The South African PFM reform experience yields the clear insight that additional layers of audit assurance, whether these are internal audits, audit committees, or external audits via the Auditor-General, cannot substitute either for commitment to sound PFM by management, or for a lack of political accountability from Executing Authorities (MECs in the provincial sphere and Ministers in the national sphere), the provincial Legislatures and national Parliament. The excellence in supreme audit institution function (for which the Office of the Auditor-General has been internationally recognised) coupled with a broken accountability chain has led to the curious situation where a high degree of transparency co-exists with limited accountability and negligible consequences for PFM violations.

The proliferation of different forms of regulation (instructions, circulars, practice notes) which increasingly vary markedly in underlying philosophy from the primary PFMA legislation has progressively thrust the Auditor-General's Office into the role of arbiter and interpreter of the original policy intent, on a range of issues from performance information to SCM. This places provincial treasuries in an especially invidious position, since they too have to interpret regulations issued by the National Treasury for provincial departments.

The growing chasm between the regulations and the PFMA legislation itself, while politically the lesser of two evils, is technically untenable and ultimately counterproductive to the original ethos of the PFMA. With hindsight, it may well be appropriate to tighten *ex ante* regulation or recentralize again, followed by some sort of graduated decentralization. Whichever future reform trajectory is deemed appropriate must be made explicit by amending the Act with a clear statement of reform direction, and should not be left entirely to accretion of regulation, further perpetuating the yawning gap between the Act and its regulations.

8.2.8 Attenuated political will and degrading fiscal institutions

Many of the respondents interviewed in the study noted that in the second decade of PFMA implementation, the political will and coherence of the PFM reform programme leadership had declined. For the ANC's third term in 2004, all the provincial Premiers and all the MECs for finance were replaced in one fell swoop, which undermined much of the institutionalization process. Furthermore, the original group of visionaries who had originally developed the PFMA in the national and provincial systems have since left the public service, sometimes frustrated by the long time it takes to translate policy into reform implementation.

The 2008 global economic crisis, coupled with poor domestic economic management (sluggish growth, uncontrolled personnel costs, labour strikes, electricity black-outs euphemistically called load-shedding), have resurrected the spectre of macro-instability as public debt has burgeoned and the country's sovereign credit rating has been down-graded twice up to February 2015. Cost reduction and expenditure containment, unheard of at the inception of the PFMA, has increasingly become the dominant discourse.

In some areas, direction from the centre on the reform agenda is much less clear. For example, activity-based costing, which was once a reform priority has been de-emphasised, with the result that links between plans and budgets remain tenuous. Costing skills are still as limited in the public sector as they were when the PFMA came into force, mainly the preserve of private sector consulting firms. Newer leadership in the national and provincial treasuries may also have very different perspectives on the PFMA and its way forward than those who had originally drafted the PFMA.

Even more pertinently, in the second decade of reform after 1994, larger issues of public governance, and the probity and stewardship of public resources have come to dominate the media, including high profile corruption, fraud and maladministration cases, coupled with the lack of visible consequences for PFMA violators. This has seriously eroded trust between South Africa's citizens and the government, and even trust within government (for example, between the National Treasury and the provincial treasuries). These challenges have overshadowed issues of value-for-money and PFM reform per se, and are likely to continue to do so in the medium term.

Sadly, some of the PFM institutions such as the Budget Council appear to be no longer as effective as they once were, often meeting irregularly or being less analytical and strategic in their orientation. The "Team Finance" *esprit de corps* between the National Treasury and its provincial treasury counterparts so evident in the first decade of PFM reform seems to have all but disappeared.

Increasingly, there has been a divergence between the letter and spirit of the PFMA, and in some departments between the formal rules of the Act and the informal institutions which shape actual behaviours and day-to-day PFM practice. This is evidenced by the large proportion of material misstatements corrected during the audit process by the Auditor-General, without which auditees would obtain qualified financial audits. This suggests that the day-to-day PFM practice may be worse than the audit outcomes suggest. Informal institutions both at a departmental level (how procurement and staff appointments are actually made, as opposed to the process on paper), and at individual public managers' attitudes and mind-sets, have in general not shifted sufficiently to embrace a value-for-money orientation. The periodic episodes of mainly personnel overspending followed by periods of enforced surpluses to compensate has created uncertainty in many provincial departments which has exacerbated this situation, since fiscal discipline has been maintained largely at the expense of allocative efficiency and operational efficiency in service delivery.

The severe mismatch between the current capacity of some provincial governments and the level of capability required to give effect to the spirit of the PFMA has fostered a "compliance mentality", effectively negating accountability for performance, since anything can be blamed on insufficient capacity. This was in some instances exacerbated by a "tick-the-box" or "template driven" capacity-building approach, which may be effective as a short-term measure, but was not supported by appropriate professionalization and long- term skills development, partly because of the dysfunctional education system, and partly because of the dysfunctionality of institutions such as the Public Administration and Leadership Academy (previously known as South African Management Development Institute).

Proliferation of egulation may be an expedient stop-gap measure, but ultimately, if it is decided to realise the original vision of the PFMA, the real underlying challenges of political and statutory accountability and capacity must be confronted. This will not be easy, since much of the more of the low-hanging fruit has already been picked.

8.2.9 Provincial government revenue and expenditure outcomes

Whereas the preceding chapters consider the theory of PFM reform, its modalities and *praxis* in the provincial sphere, Chapter 6 sketches landscape of broad fiscal outcomes across the nine provincial governments, which provides a backdrop for the analysis of the individual performance of provincial Health and Education departments in Chapter 7.

As noted previously, while access to public services has expanded remarkably, the quality of public service delivery remains highly variable, both within and across provincial governments, especially in management- and/or professional services-intensive sectors such as Health and Education, which have large decentralized departments. The essence of the problem is not primarily financial in nature, but often relates to programme and project management and systems (or the absence thereof). Value-for-money as a goal of PFM reform still goes largely unrealised. Service delivery protests, often violent, which were once sporadic, have become commonplace, as many communities vent their frustrations at their expectations not having been met.

Control over CoE expenditure has been weak in many of the provinces, resulting in cycles of personnel overspending, accompanied by the "crowding out" of spending on complementary service delivery inputs (such as textbooks or medicine), severely compromising provincial Health and Education sector service delivery. Inadequate control over personnel budgets often reflected the dysfunctional dynamic between dysfunctional personnel controls and HR management systems, weak district and institution level managers, strong unions, “ghost employees” and other forms of maladministration, and the inability to take hard political employment choices in the provincial sphere. These factors where exacerbated by the inability of the relevant national departments to manage the impact of the cost implications of the centralized collective bargaining system and programmes such as the Occupational Specific Dispensation (OSD) at provincial level (resulting in unfunded or partially funded mandates). The OSD was introduced in section 6.2.3 on page 280).

Ironically, the burgeoning wage bill co-exists with high levels of vacancies for scarce skills, not only in the finance sections in departments, but also among professionals (with many unfilled posts for engineers, medical specialists etc) and other technical and supervisory specialisations. Personnel spending cash-flow pressures in provincial departments often occasion “freezes” on the filling of unfilled posts for scarce skills, which simply perpetuates inappropriate skills profiles in departments.

Contemporaneously with personnel overspending, there has also been perennial infrastructure underspending. The provincial governments with the greatest backlogs, such as Limpopo and the Eastern Cape, have the least capacity to plan and spend on infrastructure effectively.

As discussed earlier, capacity-building in some provincial government departments has further been hampered by chronic instability in the political-administrative interface, and uneven enforcement of the PFMA in environments where there is low accountability.

8.2.10 PFMP Index: benchmarking provincial Education and Health departments

In Chapter 7, the construction of the PFMP index for each of the nine provincial Education departments and nine Health departments for the period from 2007/8 to 2013/14, the only period for which all the variables required were available. The PFMP index is a weighted average of nine underlying variables (see section 7.1 for a discussion on the methodology employed). The possible scores range between 0 (no progress with PFM reforms) and 4.5 (maximum possible progress). The variables are measures of the ability of departments to manage their personnel budgets, goods and services budget, capital budgets, transfers to other institutions (such as non-profit organizations), financial audit and performance information audit outcomes, the quantum of irregular expenditure (as a proxy for SCM quality), and fruitless and wasteful expenditure

Table 57: PFMP index summary for provincial Education departments on page 345 segments each of the provincial Education departments into three groups depending on their PFM progress:

intensive care where a department's performance is below the provincial average and the trend appears to be retrogressing (red), *stagnating and under observation* where performance is average but is stable or retrogressing (yellow) and *good progress* where a department not only reflects above average performance but also an improving trend (green). Table 59: PFMP index summary for provincial Health departments on page 350 does likewise for the provincial Health departments.

As noted in the earlier discussion on the proliferation of PFMA regulation, the main conclusion which can be drawn from the analysis of the PFMP Index is that a differentiated approach to each of these three groups must be taken going forward. If additional regulation or centralization is created in order to respond to accountability or capacity challenges in the intensive care group, this should not be at the expense of unduly impeding service delivery or innovation in the group of departments which are making good progress. It is also important to note that provincial Education departments seemed to have fared much better in respect of PFM reform than provincial Health departments. There is therefore an opportunity for Health departments in the Northern Cape and Gauteng, for example, to learn from the PFMA implementation experiences of their provincial Education department counterparts.

8.3 Recommendations

Based on the finding of this thesis that the value-for-money dimensions of PFM implementation in provincial governments needs to be strengthened, this chapter concludes by making recommendations relating to (i) a proposed process to reinvigorate PFM reforms, (ii) specific technical PFM improvements, (iii) complementary public service reforms, and (iv) broader governance issues which may influence the future PFM reform trajectory.

8.3.1 A process to reinvigorate the PFMA

A re-launch of PFM in South Africa should use systematic evidence-based research, such as that presented in this thesis, to initiate a candid, inclusive dialogue among all the relevant stakeholders on the PFMA's achievements and shortcomings to date, as well as the root causes/drivers that underlie the successes and the failures. A series of technical workshops could stimulate critical reflection on the lessons learnt during PFMA impleementation, forging a strategic intergovernmental consensus among the National Treasury, the provincial treasuries, the Office of the Auditor-General, the national sector departments and their provincial counterparts in concurrent functions such as Health and Basic Education. It is equally important to engage departments at the centre of government (such as the Presidency, the Department of Public Service and Administration and the Department of Cooperative Government and Traditional Affairs), and the Premiers' Offices in the nine provinces. These departments are able to initiate the HR and broad public management reforms necessary to support further PFMA institutionalization.

Public entities which also fall within the purview of the PFMA and interact closely with provincial governments also have an important role to play in the process of PFMA reform.

These technical workshops, structured in various work-streams, should also draw on professional bodies (for example, in management and financial accounting and internal audit), as well as local and international expertise. National sector departments, their provincial counterparts and the provincial treasuries could be supported to cascade these technical workshops down to middle management at an operational level in departments. These workshops would enable treasuries and national departments to understand the perceptions of middle management (the actual implementers of day-to-day PFM in provincial departments) of reform challenges, risks and opportunities. Workshops should ideally include staff from CFOs' offices, programme managers with finance delegations, and other officials with PFMA financial responsibilities. These technical workshops could culminate in a conference to engage Parliament and the provincial legislatures, academia, public sector trade unions and other stakeholders with oversight responsibilities or PFM capabilities in the broader civil society.

8.3.2 Specific areas for technical review and enhancement

In order to enhance a value-for-money focus, the areas discussed below should be reviewed.

8.3.2.1 Improving the link between planning and budgeting

This would encompass

(i) a review of the existing planning-related PFMA regulations, formats etc. in consultation with the relevant sector departments and the Department of Planning, Monitoring and Evaluation in the Presidency, in order to simplify and streamline them;

(ii) better alignment of the budget structure with the structure of delivery programmes (which, for example, often span several budget programmes or sub-programmes, as has been highlighted in recent expenditure reviews) and better mapping of implementation programmes to budget programmes and vice-versa for costing and M&E purposes;

(iii) the establishment of a costing unit in the National Treasury to build skills in the provincial treasuries and national sector departments to give effect to section 35 of the PFMA, (which requires that all national legislation which imposes a function, power or any other obligation on a province be costed) and build capacity conduct cost-benefit and cost-effectiveness analyses; and

(iv) technical assistance to the provincial Education and Health departments to cascade their MTEFs down to delivery institutions by using cost centres – given that the Integrated Financial Management System is likely to be delayed over the medium term, this could also include the development of IT costing tools and management information systems which pool existing financial information and performance information into more user-friendly business intelligence.

8.3.2.2 Strengthening SCM

The PFMA did not initially put much emphasis on procurement processes. A thorough review of SCM practices, controls, risks and reporting was conducted by the newly created Office of Chief Procurement Officer in the National Treasury. This review (discussed in greater detail in section 5.5.4 on page 212) announced that a single Supply Chain Management Bill would replace the many disparate pieces of legislation which currently regulate procurement in the South African public sector. It is recommended that the proposed new SCM legislative framework should consider:

(i) removing some of the multiple policy objectives which SCM currently has to fulfil in order to prioritise service delivery and value-for-money – for instance industrial policy objectives (such as local economic development) of which create additional complexity, delays and blur accountability. These other policy objective should be pursued instead through direct subsidies or tax incentives where appropriate.

(ii) rigorous evaluation of the impact of various preferential procurement frameworks (which are constitutionally permissable) to assess the extent to which their aim to promote emerging business has actually been achieved, and that the cost of such preferential procurement (in the form of premiums paid over and above market rates) should be made transparent so that the implicit subsidy from the fiscus is quantified.

(iii) streamlining all procurement-related legislation and regulation, not just the PFMA – initiatives taken by the Western Cape Treasury in this regard could be shared with other provinces;

(iv) improving the effectiveness of bid committees, striking an appropriate balance between the flexibility of AOs and their accountability – this may include debating whether measures should be introduced requiring all instances in which an AO deviates from bid committee recommendations above a certain threshold to be approved by the relevant treasury;

(v) having the recently created Office of the Chief Procurement Officer in the National Treasury ensure the development of electronic systems accessible to all the provinces to check for and identify potential SCM conflicts of interest in tenders;

(vi) ensuring that the Chief Procurement Officer leads the professionalization of public sector SCM practitioners by creating provincial professional forums in consultation with the relevant professional bodies. These professional forums should accelerate the achievement of the Chief Procurement Officer’s mandate to build capacity for strategic procurement in provincial treasuries and line departments.

8.3.2.3 Promoting effective capital infrastructure spending

Serial and material underspending on capital budgets in some provincial departments has long been a challenge. Any review of the PFMA would have to consider

(i) reviewing infrastructure procurement to ensure that the time-frames and processes in the PFMA accommodate both operational expenditure and more complex infrastructure projects;

(ii) introducing multi-year capital appropriations (which are currently included in the MFMA but not in the PFMA to improve certainty and planning for infrastructure development;

(iii) building provincial Health and Education departments' capability in respect of asset lifecycle management. Accounting standards such as GRAP 17 make provision for the accounting treatment of non-current assets (capital assets) and the *Government Immoveable Assets Management*, 2007 (Act 19 of 2007) provides norms and standards for all national and provincial Departments, but the lifecycle management of assets is still not sufficiently embedded in all provincial departments. As provincial Education and Health departments take over this function from the provincial Departments of Public Works, it is vital that they budget adequately for planned maintenance and maintain complete and up-to-date asset registers;

(iv) enhancing oversight by the treasuries over major infrastructure projects; and

(v) scaling up the model for infrastructure conditional grants pioneered by the National Treasury and national sector departments, which couples incentives for performance with holistic capacity-building that encompasses technical assistance in putting systems in place and training, as well as support for recruitment processes to fill critical vacancies and attract the necessary skills.

8.3.2.4 Standardising operating procedures/business processes within provincial departments

The treasuries should provide technical support to CFOs to ensure that their departments have written standard operating procedures/business processes for financial transactions. Given the high turnover of financial management staff in the public sector, these processes are critical to maintain the integrity of the control environment and train new incumbents. Moreover, without well-defined standard operating procedures for service delivery, defining service delivery outputs and costing them is virtually impossible.

8.3.2.5 Expediting the rollout of the Integrated Financial Management System (IFMS)

The IFMS, which was approved in 2005, was supposed to encompass SCM, financial management, HR management, payroll, and business intelligence. This major project has been jointly managed by the State Information Technology Agency, the Department of Public Service and the National Treasury. The failure to roll out an IFMS, more than a decade and several hundred million rands later, is a critical setback in the South African PFM reform process. The asset register, SCM and HR modules have been implemented at specific pilot sites, but the payroll, finance, inventory management and business intelligence modules were still under development in 2015. Many disclosure items, such as commitments, continue to be recorded manually by departments and often only once a year, for audit purposes. This leaves departments vulnerable to material misstatements in the financial statements. A new approach to systems architecture of the IFMS was adopted by Cabinet in 2015 to speed up the implementation of the financial module (see section 5.5.5 on page 226). Nevertheless, the following steps are recommended:

(i) improving project risk management by the National Treasury and other project champions in order to meet the 1 April 2017 implementation deadline, given the critical importance of the IFMS in furthering South African PFM reform; and

(ii) optimising the functionality of existing systems such as the Basic Accounting System in the interim by ensuring that management controls are in place; for instance, budget blocking (preventing expenditure for which there is no budget) is available on the Basic Accounting System but the mechanism is undermined by the lack of efficient management controls.

8.3.2.6 Combatting fraud and corruption

Aside from the PFMA, South Africa has several pieces of solid anti-corruption legislation such as the *Prevention and Combating of Corrupt Activities Act,* 2004 (12 of 2004) supported by the *Protected Disclosures Act*, 2000 (Act 26 of 2000) and the *Prevention of Organized Crime Act*, 2008 (Act 121 2008). Further analysis lies beyond the scope of this thesis, but, as in the case of the PFMA, the main problem does not seem to be the legislation *per se*. Rather it seems to be incapacity or reluctance to implement these laws. For example, section 34 of the *Prevention and Combating of Corrupt Activities Act,* 2004 criminalises persons in authority who do not report fraudulent or corrupt transactions. This provision has never been enforced. For a long time, public servants were allowed to conduct business with the state, provide that written permission had been obtained. The *Public Administration Management Act*, 2014 (Act 11 of 2014) finally forbade this completely. It also created the Public Administration Ethics, Integrity and Disciplinary Technical Assistance Unit to develop norms and standards on ethics, integrity and discipline in the public service. It will build departments' capability to conclude misconduct disciplinary procedures effectively. The unit will hopefully become operational soon and will hopefully be adequately capacitated to fulfil its mandate.

A review of the PFMA should consider

(i) streamlining the interface between the PFMA and these other ant-corruption laws;

(ii) reviewing financial misconduct regulations, building on the key insights from the MFMA regulations, which are clearer;

(iii) building forensic investigation skills;

(iv) enhancing the ability of the justice systems to prosecute white collar crime and corruption and their independence to do so without fear or favour, especially in instances involving individuals with a high political profile;

(v) strengthening public sector integrity systems (for example, dealing with financial interests and the assets of public employees and other forms of conflict of interest, enforcing codes of ethical conduct, the designation of ethics officers, enforcement of restrictions on paid work while in public sector employ and ethics training).

8.3.2.7 Improving the quality of monitoring and reporting

In general, most provincial departments meet PFMA reporting requirements in terms of the content and the regularity with which they report. However, the following areas require attention:

(i) improving the quality of in-year financial reporting – provincial departments may deliberately delay payment of invoices or coerce suppliers to re-submit their invoices at a later date after the services have already been consumed, often in the following financial year. Substantial accruals can thus be accumulated which are not reported in the current year, but which are deducted from the following year's budget, undermining the credibility of those budgets. Pervasive material misstatements corrected during the course of the audit and the extensive use of consultants suggest that audit outcomes may overstate the quality of day-to-day financial management in departments.

(ii) improving the quality of performance information reporting – this should entail a candid discussion about whether the performance indicators and measures currently reported on are useful to the programme managers themselves, or only to national sector departments and the treasuries; and

(iii) reviewing the functioning, structure and performance of Audit Committees, and their relationships with AOs and Executive Authorities, to enhancing the effectiveness of their functioning.

8.3.2.8 Enhancing fiscal accountability

Overall administrative and political accountability cannot be strengthened without further reform in the fiscal domain. The following actions are strongly recommended:

(i) In instances where the AO may have violated the PFMA, but the Executive Authority (national Minister or provincial MEC) fails to initiate an investigation within a reasonable period, the National Treasury should be empowered to act instead through initiating its own investigation or authorising the relevant provincial treasury to do so..

(ii) The definition of financial misconduct should be extended in the PFMA to include Executive Authorities in the same way that section 173(4) and 173(5) of the MFMA criminalises any interference by councillors in financial management or behaviours which would hinder the AO in a municipality from discharging his/her duties.

(iii) When an AO fails to initiate misconduct proceedings against junior officials in his/her department implicated in misconduct, National Treasury or the relevant provincial treasury should investigate promptly and censure the AO if necessary.

(iv) The *Public Service Act*, 1994 must be aligned with the PFMA, as recommended by the National Development Plan 2030. The ability to make HR appointments, which currently rests with the Executive Authority, should be assigned to the AO. This obviates the problem where the Executive Authority chooses not to delegate HR functions to the AO, but the AO still has to account for the personnel budget.

(v) Upon appointment, both the Executive Authorities and AOs (who may not have a financial management background) must attend mandatory induction programmes on their respective PFMA responsibilities.

8.3.2.9 Clarifing roles and responsibilities

In reviewing the PFMA, the following recommendations should be considered:

(i) The National Treasury should formalise in the PFMA the *Office of the Accountant-General* and empower the Office to drive public sector accounting reform further, for example, by rolling out the long-awaited IFMS, assessing the relative costs and benefits of moving further towards accrual accounting, and the merits and demerits of accrual budgeting, if it is decided to incorporate more accruals features.

(ii) Instead of the *status quo* in which National Treasury is jointly accountable with the National School of Government (formerly PALAMA and SAMDI) for PFM training and professional development, an *Office of Public Financial Management Capability* which is solely accountable for this function should be established through revision to the PFMA, and be adequately funded. The role of the Office of Public Financial Management Capability would set competence standards, provide quality assurance for training providers, and administer the accreditation of specialised PFM qualifications, in consultation with the Minister of Public Service and Administration, who is empowered by the *Public Administration Management Act*, 2014 to set compulsory educational and induction requirements for employment. The Office of Financial Management Capability should liaise closely with the National School of Government, professional bodies, institutions of higher learning and private sector providers which would provide the actual education and training programmes.

(iii) *The provincial treasuries* are created by the PFMA statutes, unlike the National Treasury, which was established in terms of the Constitution. The National Treasury should set minimum norms and standards for provincial treasury performance and skills requirements, and monitor their implementation. The National Treasury should also develop a system for secondment of personnel to the provincial treasuries, and vice versa. In consultation with the Department of Public Service and Administration and the relevant national sector department, a system of national recruitment for specialized finance personnel should be implemented.

(iv) *National sector departments* should be strengthened in their ability to design and implement intergovernmental grants, as well as their ability to build capacity in their provincial government counterparts to plan, monitor and evaluate programmes, especially those related to infrastructure delivery.

8.3.2.10 Re-energising a long-term PFM capacity-building programme

The Office of Public Financial Management Capability proposed above, along with existing structures (such as the Government Technical Advisory Centre in the National Treasury) should

(i) systematically evaluate capacity-building initiatives since 2000, focusing on their results, funding streams and the drivers of their success or failure and the lessons learnt;

(ii) review competence requirements for various categories of PFM practitioners in terms of PFMA regulation, bringing them more in line with those in section 82 of the MFMA and its regulations;

(iii) in the light of the high degree of management turnover in the public sector and prolonged vacancies, design holistic capacity building initiatives to include a range of interventions to ensure sustained improvement in beneficiary department PFM capability (depending on the specific department, these may encompass technical support to put in systems, occupation directed training for existing incumbents, mentoring and on the job training against standard operating procedures, good practice sharing, and assistance in recruiting the relevant staff, bursaries and other longer-term structured programmes);

(iv) update existing good practice guidelines, such as the *Guide for Accounting Officers* (National Treasury 2001) and generate new ones, to be made freely available on the National Treasury website;

(v) create specialised professional forums for each of the PFM sub-disciplines in consultation with the relevant professional bodies, such as SCM, management accounting, M&E, or budget analysis; and

(vi) ensure that programmes impart not only technical PFM skills, but also the financial leadership skills, ethics, and values embedded in the PFMA.

8.3.2.11 Clarifying triggers for national intervention into provincial governments in instances of financial crisis

The MFMA is much clearer than the PFMA on when and how national intervention is triggered. PFMA provisions relating to section 100 interventions should be reviewed, drawing on similar formulations in the MFMA, which includes explicit criteria for identifying, and responding to, serious financial problems. Accountability arrangements during. and in the transition after, national intervention into provincial departments should be clarified.

8.3.3 Complementary public service reforms

As scholars such as Prof. Allen Schick (1983, 1988, 1996, 1998a, 1998b, 2001, 2007) have long pointed out, if a public sector does not manage for performance, it is highly unlikely it will budget for performance. One of the main obstacles to the PFM reform in South Africa is that it has not been supported by more general public service reforms. In that light, the following recommendations should be considered:

(i) The PFMA or the *Public Administration Management Act*, 2014 should be amended along the lines of the *Municipal Systems Amendment Act,* 2011, which compels a council to advertise a municipal manager's post or the post of a senior manager reporting directly to the municipal manager nationally, to re-advertise if no applicants meet the competence criteria, and to request a secondment from the provincial MEC. The employment contract of any municipal manager and his/her direct reports would be null and void unless competence criteria have been met.

(ii) Performance agreements between AOs and their Executive Authorities should be signed and the quality of these agreements should reviewed. The existing cumbersome performance management process relating to AOs should be simplified and streamlined.

(iii) HR management in the public sector should be professionalized to ensure that HR personnel assist line managers effectively throughout the entire employment cycle, including recruitment, disciplinary investigations, and skills development.

(iv) In particular, HR management practitioners need to be able to plan, and monitor personnel budgets, and engage in regular, institutionalized coordination with their counterparts in the CFO's office.

(v) Capacity in provincial departments to speedily bring misconduct investigations to a close in a procedurally and substantively fair manner should be strengthened.

(vi) A clear and consistent framework for sanctioning public service officals found guilty of misconduct should be developed and provincial HR practitioners and line managers with HR delegations should be given extensive training in implementing this framework.

(vii) Finance practitioners need to be more insulated from cadre deployment and other forms of political interference, in order to position the public sector as an employer of choice.

8.4 Broader public governance issues shaping PFM reform

The ultimate fate of PFM reform in South Africa cannot be divorced from broader governance trends in the country's democratic journey. These include the political commitment to further PFM reform, the role of Parliament and the provincial Legislatures, and the fate of the provincial governments themselves.

8.4.1 More effective oversight by Parliament and the provincial legislatures

The PFMA was erroneously premised on the assumption that Parliament and the provincial Legislatures would effectively hold Cabinet and the nine Provincial Executive Councils to account. There was consensus among the respondents interviewed in this study that the accountability chain has been broken through ineffectual legislative fiscal oversight. This view is validated by Auditor-General reports on the poor level of assurance given by many committees of the provincial Legislatures. Any attempt to remedy this situation will have to create an incentive for parliamentarians and Members of the Provincial Legislature to hold their political seniors (Ministers and MECs) to account and to ensure that they have the capability to do so (for example, through the research capacity in the newly created Parliamentary Budget Office).

8.4.2 Policy uncertainty on the fate of provincial governments

To date there has been no closure on the review of provincial governments which was initiated more than seven years ago. The fate of provincial governments therefore hangs in the air, with a number of proposals on the table, from reducing the number of provinces to demoting them to administrative regions without provincial Legislatures (in effect a reversion to the old apartheid provincial administrations). A number of sector policy decisions have already been made which are "hollowing out" the provincial governments. These include taking social security up to the national government level, and taking Further Education and Training colleges up to the national level. The proposed National Health Service also implies further centralization of functions. Simultaneously, provincial functions such as providing housing and public transport are being transferred to the metropolitan municipalities in particular. Creating policy certainty on the functional framework of provincial and local governments is critical to devising a stable fiscal framework within which PFM programmes can be rolled out. If the provinces are retained, a critical debate will be whether the functions they perform should be further centralized (possibly through constitutional amendment) or whether their accountability and managerial discretion will be unambiguously affirmed in line with PFMA aspirations.

8.4.3 Political commitment to PFM within the Executive

As noted previously, the initial success of PFM reforms in the first decade after 1994 can be ascribed to the fortuitous confluence of political factors with technical factors, such as administrative leadership and capability in the National Treasury, exposure to new PFM ideas and to international PFM experience after South Africa's re-entry into the global economy.

Many respondents interviewed in this research study identified a distinct change in the degree of political commitment to PFM, a shift in the political culture which is not as supportive of PFMA ideals as in the first decade of reform. Whether through benign neglect or political expediency, the institutions of intergovernmental fiscal relations appear to have degraded and some effort will be required to re-animate them. A review of the PFMA cannot be confined to the plethora of technical enhancements listed above. It will also require political championship in today's governance environment, which is radically different from the 1994 democratic transition. Trust between the citizens and government has been badly eroded due, *inter alia*, to high profile fraud and corruption cases prominently covered by the media, the perception that these crimes are perpetrated with impunity, the failure to improve the quality of public services such as Education and the increase in unemployment and inequality, especially after the 2008 global financial crisis.

The political position of the National Treasury and some of the provincial Treasuries is far less unassailable today than it was in the previous decade of reform, as the National Treasury intervention into the Limpopo Treasury in 2012 illustrates (this was discussed in section 5.6.5 on page 252).

Unless there is the political will to reinvigorate both the formal and informal institutions of the PFMA, compliance with the PFMA will degenerate into superficial compliance rituals, honoured more in the breach than in the spirit. On the other hand, if the PFMA legislation is reviewed, there is no guarantee that it will emerge strengthened, rather than diluted. The PFMA is fundamentally predicated on the principle that politicians will relinquish control over inputs (such as budgets, personnel appointments, etc.) to AOs in order to hold them accountable for results (service delivery outputs), and thereby achieve political objectives. This is diametrically opposed to the prevailing politics of neopatrimonial patronage in many provincial departments, which uses the input side of the budget to achieve political and personal objectives directly, whether it be by awarding tenders to the politically connected who are subverting the SCM system, or by deploying incompetent cadres and subverting the formal HR system.

In the private sector, collusive behaviours, price-fixing, fronting in respect of BEE credentials and other SCM malpractices are rife. This demonstrates that the problems of accountability, probity and integrity are not confined solely to the public sector, but also bedevil private companies, trade unions and NGOs. For legal and technical PFM reforms to succeed, there needs to be widespread social dialogue and re-affirmation of the underlying governance values across the entire spectrum of South African society.

Whether there is likely to be renewed political vigour in the PFM programme in future lies ultimately in the domain of political economy, far beyond the limited scope of this research. International PFM reform experience indicates that certain configurations in the governance environment – severely adverse global economic shocks, domestic economic crises, changing political dynamics, intensified electoral competition, etc. – might well alter the intricate political calculus in a way which re-ignites or stymies future PFM reform.

8.5 Policy insights for other developing countries

It is quite difficult to identify particular lessons learnt from the South African PFM experience which might be of relevance to other developing countries contemplating similar reforms, because the political, administrative, economic and social context of each country is unique. South Africa, for instance, does not face pressures from external donors and multilateral lending institutions funding reform initiatives. The PFMA reforms, however, do yield certain insights which may be useful to consider in the light of specific country circumstances:

1. PFM reforms are not a "quick fix" but require sustained effort over a long time horizon. Fifteen years since the enactment of the PFMA in 1999, PFM reforms remain "work in progress" in South African provincial governments. Despite shortcomings related to PFMA enforcement, capacity and accountability, the National Treasury, supported by the Auditor-General, has been fairly consistent in promoting the PFMA. Starting PFM reforms, then replacing them with new reforms, runs the risk of discrediting the PFM reform process.
2. There has to be a balance between conscious, detailed design of PFM reform, and allowing reform implementation to evolve as implementation progresses, unforeseen circumstances manifest and there are shifts of emphasis in priorities. South Africa's approach of adopting broad underlying principles to guide reform strategy seems to have struck an appropriate balance for its circumstances.
3. South Africa adopted a fairly uniform approach to PFMA implementation across its nine provincial governments despite substantial differences in capacity across the provincial governments and, indeed, across individual provincial departments. Other countries should consider a more asymmetrical, differentiated implementation approach which first ensures that the PFM "basics" are in place (such as the control environment and reporting) before provincial/state/regional administrations and departments graduate to more sophisticated PFM reforms.
4. South Africa's strong constitutional framework and coherent PFMA legislation were compelling success factors. This, especially in the first decade of reform, was underpinned by respect by the Executive branch of government for the governance transformation required by the new constitutional democracy, and enforcement by the highly respected

Constitutional Court. PFM legislation should be reviewed periodically and regulations inconsistent with the primary legislation and the original spirit of the PFM reform should not be allowed to proliferate.

5. The achievement of macro-economic stability created an environment conducive to PFM reform, permitting a certain and predictable funding environment of provincial governments through the Medium Term Expenditure Framework and annual Division of Revenue process. It would be much harder to conduct PFM reforms under economically volatile circumstances.
6. PFM reform is likely to be unsuccessful if not complemented by broader civil service reforms aimed at strengthening accountability, creating a stable political-administrative interface, establishing a professional de-politicized civil service and building strategic human resource management skills to ensure that prolonged vacancies at senior management level do not persist. Sustained lack of capacity may be symptomatic of political appointment of incompetent deployees as well as insufficient PFM skills, ineffective training institutions and the inability of government to compete with the private sector for scarce skills.
7. It is much earlier to change formal PFM institutions such as legislation, regulations, guidelines and reporting templates than it is to change informal institutions (such as administrative culture, public service values and ethics) and day to day PFM behaviours. Often there may be a semblance of compliance without the substance of orientation towards greater value-for-money. Anticipating resistance to change and driving sustained change management processes to change values, attitudes and behaviours is critical.
8. It is tempting to add layers and layers of auditing in "checking" (financial auditing, regularity auditing and performance auditing) but this cannot substitute for good management capability in '"doing" (i.e. managing the daily practice of PFM at departmental level).
9. Incentives are important – not only positive incentives such as recognition and performance-related remuneration but also sanctions and clear and visible consequences for serial and material misconduct, fraud and corruption.
10. The South African PFM system is one of the most transparent in the world, yet this has not increased accountability as much as anticipated. When the compliance requirement of reform far exceeds available skills and capacity, it dilutes accountability as lack of capacity becomes a catch-all excuse for non-performance.
11. It is extremely difficult for supply chain management systems to yield better value-for-money if they are burdened with too many objectives (black economic empowerment, small business promotion, local economic development, industrial policy, environmental sustainability etc.). Increasing complexity of supply chain management regulations foster vulnerability to fraud and corruption. The South African reforms should have placed greater

emphasis on fraud and anti-corruption earlier on in the reform trajectory, and streamlined its SCM regulations earlier, especially in relation to capital infrastructure investment.

12. Poor enforcement of PFM legislation (such as the PFMA) may be a problem of the Executive (e.g. National and provincial Treasuries), but also of poor legislative oversight or the lack of capacity of the judiciary to prosecute white collar crime successfully such as fraud and corruption. If there is a lack of effectiveness, responsiveness, legitimacy and citizen trust in these broader governance institutions, then it is unlikely that PFM reform will be successful over the long term.
13. New Public Management thinking has been highly influential in shaping South African PFM reforms. Yet it is predicated on well-functioning, competitive markets as well as competent civil servants with the ability to monitor and enforce contractual obligations. Many sectors of the South African economy are characterized by high degrees of concentration and collusive and uncompetitive practices. Other sectors are characterised by a high degree of informality. Developing countries with similar characteristics should consider the appropriateness of NPM thinking under their market and governance conditions.
14. Sustaining PFM reform requires active and visible champions, not only at the highest political and administrative level, but at each level of public service delivery (departmental, district level etc). When the enthusiasm of these important sponsors and change agents wanes, it becomes difficult to sustain effective PFM reform. PFM reforms should ideally be institutionalised as early and as thoroughly as possible.

8.6 Concluding remarks

The democratic project of creating a just, prosperous, non-racial, non-sexist society in which all citizens enjoy the rights recognized in the Constitution has always been at the heart of South African PFM reforms. Such reforms still have as much potential to realise the governance vision so powerfully articulated in the National Development Plan 2030 as they had in 1994:

> *Government begins in the home, grows into the community, expands towards the city, flares toward the province, and engulfs the entire land.*
>
> *We know our leaders as we have elected them and pledged them into office:*
>
> - *They are wise in the use of our wealth*
> - *Wise in knowing and understanding our wishes and needs*
> - *Wise in expecting us to express ourselves to them in any appropriate manner we have agreed to be allowable*
> - *Wise in not silencing those who criticise, but enable them, through our rules of engagement, to be even more rigorous in supporting a just society.*

BIBLIOGRAPHY

Abedian, I. 1998. Budget system reform: a pre-condition for effective fiscal management. In Abedian, I. and Biggs, M. (eds). *Economic Globalization and Fiscal Policy*. Cape Town: Oxford University Press, 434-476.

Abedian, I. and Ajam, T. 2009. Fiscal policy beyond 2008: prospects, risks and opportunities. In Parsons, R. (ed.). *Zumanomics: Which Way to Shared Prosperity in South Africa.* Johannesburg: Jacana Media, 79-103.

Abedian, I., Ajam, T. and Walker, L. 1997. *Promises, Plans and Priorities: South Africa's Emerging Fiscal Structures*. Cape Town: IDASA.

Abedian, I., Biggs, M. and Cronje, A. 1995. *Reforming South Africa's Budget Process: Some Lessons from International Experience*. The Budget Project Discussion Paper No 5. Cape Town: School of Economics, University of Cape Town.

Abedian, I. and Standish, B. 1992. *Economic Growth in South Africa: Selected Policy Issues*. Cape Town: Oxford University Press.

Absenteeism record, vide SA teachers set absenteeism record

Adelzadeh, A. 1996. From the RDP to GEAR: The gradual embracing of neo-liberalism in economic policy. *Transformation*, 31:66-95.

African National Congress. 1992. *Ten Proposed Regions for a United South Africa*. Cape Town: Centre for Development Studies, University of the Western Cape.

African National Congress.1993. *ANC Regional Policy*. Available at: http://www.anc.org.za/show.php?id=229 (Accessed on 19/06/2013).

African National Congress. 1994. *The Reconstruction and Development Programme.* Johannesburg: African National Congress.

African National Congress. 2007. *ANC Fifty Second National Conference: Resolutions*. Available at: http://www.anc.org.za/show.php?id=2536 (Accessed on 13/12/2014).

AG, vide Auditor-General

Ajam, T. 1998. The evolution of devolution. In Abedian, I. and Biggs, M. (eds). *Economic Globalization and Fiscal Policy*. Cape Town: Oxford University Press, 54-116.

Ajam, T. 1999. Fiscal federalism in South Africa. In Calitz, E. and Black, P. (eds). *Public Economics for South African Students*. Cape Town: Oxford University Press, 297-319.

Ajam, T. 2001. Intergovernmental fiscal relations in South Africa. In Levy, N. and Tapscott, C. (eds). *Intergovernmental Relations in South Africa: Challenges of Cooperative Government*. Cape Town: IDASA, 125-142.

Ajam, T. 2008. Integrating strategic planning and budgeting: a *Public Finance Management Act* perspective. *South African Journal of Auditing and Accountability Research*, 8:45-56.

Ajam, T. 2009. Budget oversight and poverty alleviation: opportunities and challenges. In Lefko-Everett, K., Mohamed, A., Verwey, L. and Zamisa, M. (eds). *Parliament, the Budget and Poverty in South Africa: A Shift in Power*. Cape Town: IDASA, 43-61.

Ajam, T. and Aron, J. 2007. Fiscal renaissance in a democratic South Africa. *Journal of African Economies*, 16(5):745S-781. doi: 10.1093/jae/ejm014

Ajam, T. and Fourie, D. J. 2014. The role of the provincial treasury in driving budget reform in South Africa's decentralised fiscal system. *Administratio Publica*, 22(3):43-61.

Ajam, T. and Murray, C. 2004. The courts, socio-economic rights and intergovernmental fiscal relations. Paper presented at the Financial and Fiscal Conference *Consolidation for Equity*, Cape Town, 12-14 August 2004. Available at: www.ffc.co.za/index.php/docman-menu-item/conference-papers-1/42-11-2-ajam-t-et-murray-c-the-courts-and-the-intergovernmental-fiscal-relations-system-in-south-africa-315kb (Accessed on 13/12/2014).

Alchian, A. and Demsetz, H. 1972. Production, information costs, and economic organization. *American Economic Review*, 62:777-795.

Allen, M. 2006. Beyond "best practice" and "basics first" in performance budget reform. *Public Administration and Development*, 26:147-161.

Allen, R. 2008. Reforming fiscal institutions: the elusive art of the budget advisor. *OECD Journal on Budgeting*, 3:1-9.

Allen, R. 2009. *The Challenge of Reforming Budgetary Institutions in Developing Countries*. Washington, DC: International Monetary Fund.

ANC, vide African National Congress

Andrews, M. 2005. Performance based budget reform: progress, problems and pointers. In Shah, A. (ed.). *Fiscal Management.* Washington, DC: World Bank, 31-70.

Andrews, M. 2007. What would an ideal public financial management system look like? In Shah, A. (ed.)*. Budgeting and Budget Institutions*. Washington, DC: World Bank, 359-386.

Andrews, M. 2008. The good governance agenda: beyond indicators without theory. *Oxford Development Studies*, 36(4):379-407.

Andrews, M. 2013. *The Limits of Institutional Reform in Development*. New York, NY: Cambridge University Press.

Auditor-General, vide South Africa. Auditor-General

Babbie, E. 2013. *The Practice of Social Research*. International edition. Belmont, CA: Wadworth Cengage Learning.

Bale, M. and Dale, T. 1998. Public sector reform in New Zealand and its relevance to developing countries. *World Bank Research Observer*, 13(1):103-121.

Ballard, C. L., Shoven, J. and Whalley, J. 1985. General equilibrium computations of the marginal welfare cost of taxes in the U.S. *American Economic Review*, 75, March:128-137.

Barberis, P. 2002. The New Public Management and a new accountability. *Public Administration*, Autumn, 76(3):451-470.

Bardill, J. 2000. Towards a culture of good governance: the Presidential Review Commission and public service reform in South Africa. *Public Administration and Development*, 20:103-118.

Barron, C. 2015a. Politics outweighs performance at CIPC. *Sunday Times*, 26 April:9.

Barron, C. 2015b. Where service delivery is not a priority. *Sunday Times*, 26 April:9.

Baumol, W. J. and Bowen, W.G. 1966. *Performing Arts: The Economic Dilemma*. New York, NY: Twentieth Century Fund.

Behn, R. D. 1998. The new public management paradigm and the search for democratic accountability. *International Public Management Journal*, 1(2):131–164.

Behn, R. D. 2002. The psychological barriers to performance management: or why isn't everyone jumping on the bandwagon? *Public Performance and Management Review*, 26(1):5-25.

Black, P., Calitz, E. and Steenekamp, T. J. 2003. *Public Economics for South African Students.* Cape Town: Oxford University Press.

Blondal, J. 2003. Budget reform in OECD Member countries: common trends. *OECD Journal on Budgeting*, 2(4):7-25.

Blumenfeld, J. 1997. From icon to scapegoat: the experience of South Africa's Reconstruction and Development Programme. *Development Policy Review*, 15:65-91.

Borins, S. 1998. Lessons from the New Public Management in Commonwealth nations, *International Public Management Journal*, 1(1):37-58.

Boston, J., Martin, J., Pallot, J. and Walsh, P. 1996. *Public Management: The New Zealand Model.* Auckland: Oxford University Press.

Botha, A. 2006. An update on the work of the Accounting Standards Board. *Institute for Public Finance and Auditing Journal*, 5(4):6-9.

Bovaird, T. and Loffler, E. 2009. *Public Management and Governance*. London: Routledge.

Boyle, D. and Harris, M. 2009. The challenge of co-production: how equal partnerships between professionals and the public are crucial to improving public services, Available at: https://www.nesta.org.uk/sites/default/files/the_challenge_of_co-production.pdf (Accessed 13/12/2012).

Boyne, G. A., Farrell, C., Law, J., Powell, M. and Walker, R. M. 2003. *Evaluating Public Management Reforms*. Buckingham: Open University Press.

Bozeman, B. and Straussman, J.D. 1982. Shrinking budgets and the shrinkage of budget theory. *Public Administration Review*, 42 (September/October):509-515.

Breton, A. 1998. *Competitive Governments: An Economic Theory of Politics and Public Finance*. Cambridge: Cambridge University Press.

Brown, C. V. and Jackson, P. M. 1990. *Public Sector Economics*. Oxford: Blackwell.

Brumby, J. 1999. Chapter 16: Budget reform in OECD Member countries. In Schiavo-Campo, S. and Tommasi, D. (eds). *Managing Government Expenditure.* Manila: Asian Development Bank.

Brynard, P. A. and Hanekom, S. X. 1997. *Introduction to Research in Public Administration*. Pretoria: Van Schaik.

Buchanan, J. M. 1949. The pure theory of government finance: a suggested approach. *Journal of Political Economy*, 57:496-505.

Buchanan, J. M. 1960a. La scienza delle finanze: the Italian tradition in fiscal theory. *Fiscal Theory and Political Economy*. Chapel Hill, NC: University of North Carolina Press, 24-74.

Buchanan, J.M. 1960b. *Fiscal Theory and Political Economy*, Chapel Hill, NC: University of North Carolina Press.

Buchanan, J.M. and Tullock, G. 1962. *The Calculus of Consent*. Ann Arbor, MI: University of Michigan Press.

Budiarso, A. and Mir, M. 2012. The role of leadership in sustainable public sector performance outcomes. *ACRN Journal of Entrepreneurship Perspectives*, 1(2):1-23.

Caiden, N. 1980. Budgeting in poor countries: ten common assumptions re-examined. *Public Administration Review*, 40(1):40-46.

Caiden, N. 1985. The boundaries of public budgeting: issues for education in tumultuous times. *Public Administration Review*, 45(4):495-502.

Caiden, N. and Wildavsky, A. 1970. *Planning and Budgeting in Poor Countries*. New York, NY: Wiley.

Calitz, E. 2000. Fiscal implications of the economic globalisation of South Africa. *South African Journal of Economics*, 68(4):564-606.

Calitz, E. and Siebrits, K. 2003. Fiscal policy in the 1990s. *South African Journal of Economic History*, 18(1&2):50-75.

Cameron, R. and Tapscott, C. 2000. The challenges of state transformation in South Africa. *Public Administration and Development*, 20:81-86.

Campos, E. and Pradhan, S. 1996. *Budgetary Institutions and Fiscal Performance: Binding Governments to Fiscal Performance*. Washington DC: World Bank.

Caperchione, E. 2006. *The New Public Management: A Perspective for Financial Practitioners*. Available at: http://www.fee.be/images/publications/ public_sector/ The_New_Public_Management_A_Perspective_for_Finance_Practitioners _0612112200611033.pdf (Accessed on 13/12/2014).

Carnoy, M., Chisholm, L. and Bagele, C. 2012. *The Low Achievement Trap: Comparing Schools in Botswana and South Africa*. Available at: http://www.hsrcpress.ac.za /product.php?productid=2293&freedownload=1 (Accessed on 14/3/2015).

Chaponda, T., Cole, N., Schoch, M. and Gadsden, C. 2004. Budget reform as a means to strengthen the link between macro and micro policies. *African Development and Poverty Reduction Conference*. 13-15 October 2004. Lord Charles Hotel, Somerset West, South Africa.

Chipkin, I. 2011. Beyond the popular discourse: capacity constraints in the public sector. Available at: http://www.pari.org.za/wp-content/uploads/2011/08/PARI-S-E-3- beyond-popular-discourse-may-2011-web.pdf (Accessed on 10/12/2013).

Chipkin, I. and Meny-Gilbert, S. 2012. Why the past matters: studying public administration in South Africa. *Journal of Public Administration*, March, 47(1):102-112.

Christensen, T. and Laegreid, P. 2004. *The Fragmented State – the Challenges of Combining Efficiency, Institutional Norms and Democracy*. Available at: http://www.ub.uib.no/elpub/rokkan/N/N03-04.pdf (Accessed on 10/10/2013).

CIPFA, 2009. *Public Financial Management and the PFM International Architecture: A Whole Systems Approach*. Available at: http://blog-pfm.imf.org/files/ pfm_ia_whole_system_approach1.pdf (Accessed on 13/12/2014).

Cloete, J. N. and Thornhill, C. 2010. *South African Public Administration and Management.* Van Schaik: Pretoria.

Coase, R. H. 1937. The nature of the firm. *Economica*, 6(16):386-405.

Coase, R.H. 1960. The problem of social cost. *Journal of Law and Economics,* 3(1):1-44.

Commonwealth Secretariat. 2005. *Guidelines for Public Management Reform.* Available at: http://siteresources.worldbank.org/EXTFINANCIALMGMT/ Resources/313217-1196229169083/4441154-1196275288288/4444688-1196275323246/GuidelinesforPFMReform.pdf (Accessed on 10/10/2013).

Connaughton, B. 2006. Reform of politico-administrative relations in the Irish system: clarifying or complicating the doctrine of ministerial responsibility. *Irish Political Studies*, 21(3):257-276.

Cooper , D. J. and Ogata, K. 2005. New Public Management reforms in Canada: success or failure. In Guthrie, J., Humphrey, C., Jones, L.R. and Olson, O. (eds). *International Public Financial Management Reform*. Greenwich, CT: Information Age Publishing, 55-86.

COSATU. 2000a. *Towards a People's Budget – COSATU comments on the Medium term Budget Policy Statement*. Available at: http://www.cosatu.org.za (Accessed on 18/08/2004).

COSATU. 2000b. *Submission on the FFC Recommendations for the 2001/2004 MTEF Cycle and on the 2001/02 MTEF*. Available at: http://www.cosatu.org.za (Accessed on 18/8/2004).

COSATU. 2004. *People's Budget 2005/2005*. Available at: http://www.sacc-ct.org.za/ PBrel04.html (Accessed on 18/01/2007).

Craig, B. 1995. *RDP Fund: a pillar of state policy*. *Budget Watch*, 1(4):4.

Crecine, J. P. 1969. *Government Problem Solving*. Chicago, IL: Rand McNulty.

Davis, O. A., Dempster, M.A.H. and Wildavsky, A. 1966. A theory of budget process. *American Political Science Review,* 60:529-547.

Dean, P. N. 1988. Government financial management systems in developing countries. In: Chan, J. L. and Jones, R.H. (eds). *Government Accounting and Auditing: International Comparison*s. London: Routledge:149-174.

DeLeon, L. and Denhardt, R. B. 2000. The political theory of reinvention*. Public Administration Review*, 60(2):89-97.

Denhart, B. D. and Denhart, J. V. 2000. The new public service: serving rather than steering. *Public Administration Review*, 60(6):549-559.

Denhart, B. D. and Denhart, J. V. 2001. The new public service: putting democracy first. *National Civic Review*, 90(4):391-400.

Department of Basic Education, vide South Africa. Department of Basic Education

Department of Cooperative Government and Traditional Affairs, vide South Africa. Department of Cooperative Government and Traditional Affairs.

Department of Cooperative Government, vide South Africa. Department of Cooperative Government

Department of Economic Development, vide South Africa. Department of Economic Development

Department of Finance, vide South Africa. Department of Finance

Department of Planning, Monitoring and Evaluation, vide South Africa. Department of Planning, Monitoring and Evaluation

Department of Provincial and Local Government, vide South Africa. Department of Provincial and Local Government

Department of Public Service and Administration, vide South Africa. Department of Public Service and Administration

De Villiers, B. 2008. *Review of Provinces and Local Government: Constitutional Foundations and Practice*. Available at: http://www.kas.de/wf/doc/kas_15071-1522-2-30.pdf?090204111036 (Accessed 25/04/2012).

Diamond, J. 2003a. *From Program to Performance Budgeting: The Challenge for Emerging Market Economies*. Washington, DC: International Monetary Fund Working Paper, Fiscal Affairs Department, IMF.

Diamond, J. 2003b. *Performance Budgeting: Managing the Reform Process*. Washington, DC: International Monetary Fund.

Diamond, J. and Khemani, P. 2006. Introducing financial management information systems in developing countries. *OECD Journal on Budgeting*, 5(3):97-132.

Dixit, A. 2000. *The Making of Economic Policy: A Transaction-Cost Politics Perspective*. Cambridge, MA: MIT Press.

Dollery, B. 2001. New institutional economics and the analysis of the public sector. *Policy Studies Review*, 18(1):185-211.

Donaldson, A. 1996. Opportunity to improve financial planning at all levels. *Budget Watch*, June, 2(3):6.

Douglas, J.W. 2000. Budget reform theory: a guideline for successful budget reform. *International Journal of Public Administration*, 23(11):1967-1996.

Du Preez, G. 1996. Need to address financial management issues*.* *Budget Watch*, June, 2(3):1.

Du Toit, D. F. and Van der Walt, G. 1997. *Public Administration and Management: The Grassroots*. Cape Town: Juta.

Dull, M. 2006. Why PART? The institutional politics of presidential budget reform. *Journal of Public Administration Research and Theory*, 16:187-215.

Dye, T. R. 1979. Politics versus economics: the development of the literature on policy. *Policy Studies Journal,* 7(4): 652–662.

Edigheji, O. 2010. Constructing a democratic developmental state in South Africa; potentials and challenges. In Edigheji, O. (ed.). *Constructing a Democratic Developmental State in South Africa*. Cape Town: Human Sciences Research Council, 1-36.

Eggertsson, T. 1990. *Economic Behaviour and Institutions*. Cambridge: Cambridge University Press.

Engela, R. and Ajam, T. 2010*. Implementing a Government-wide Monitoring and Evaluation System in South Africa*. Washington DC: Independent Evaluation Group, World Bank.

English, L. M., Guthrie, J. and Parker, L. D. 2005. Recent public sector financial management change in Australia: implementing the market model. In Guthrie, J., Humphrey, C., Jones, L.R. and Olson, O. (eds.). *International Public Financial Management Reform: Progress, Contradictions and Challenges*. Greenwich, CT: Information Age, 23-54.

Equal Education, 2012. High Court says EE matter is urgent! EE re-opens case against Minister Motshekga for infrastructure norms and standards. Available at: https://www.equaleducation.org.za/article/2013-06-11-high-court-says-ee-matter-is-urgent-ee-re-opens-case-against-minister-motshekga-for-infrastructure-norms-and-standards (Accessed on 13/08/2013).

European Union and World Bank. 2008. *Report on the Use of Country Systems in Public Financial Management*. Accra, Ghana: Joint Venture on Public Financial Management.

Evans, P. 2010. Constructing the 21st century development state: potentialities and pitfalls. In: Edigheji, O. (ed.). *Constructing a Democratic Development State in South Africa*. Pretoria: Human Sciences Research Council, 37-58.

Faltings, B. 2004. *A Budget-balanced, Incentive-compatible Scheme for Social Choice*. Available at: http://academic.research.microsoft.com/Paper/ 2165768.aspx (Accessed on 22/07/2012).

Ferlie, E., Ashburner, L., Fitzgerald, L. and Pettigrew, A. 1996. *The New Public Management in Action*. Oxford: Oxford University Press.

FFC, vide South Africa. Financial and Fiscal Commission

Fitfield, G. 1998. Transformation of the South African public service, 1994-1997. *Public Personnel Management*, Fall, 27(3):385-405.

Folscher, A. and Cole, N. 2006. South Africa: transition offers opportunities for whole system reform. Available at: http://www.oecd.org/dataoecd/24/61/43470149.pdf (Accessed on 13/12/2013).

Fourie, D. 2001. Annual Reports and the PFMA. In: *South African National Health Review*. Durban: Health Systems Trust, 117-138.

Fourie, D. 2002. The *Public Finance Management Act* as a reform to capacitate officials. *South African Journal of Economic and Management Sciences*, 5(1):219-232.

Fourie, D. 2006. An analysis of the utilisation of public-private partnerships in public financial management. *Journal of Public Administration*, 41(1):925-934.

Fourie, D. J. 2009. Institutional mechanisms and good governance: a South African perspective. *Journal of Public Administration*, 44(4):1114-1123.

Fourie, F. C. and Burger, P. 2003. Fiscal sustainability and the South African transformation challenge. *South African Journal of Economics*, 71(4):806-829.

Franks, C. E. 1997. Not anonymous: ministerial responsibility and British accounting officers. *Canadian Public Administration*, Winter, 40(4):626-652.

Fraser-Moleketi, G. 2006. *Public Service Reform in South Africa: An Overview of Selected Case Studies 1994-2004*. Unpublished M.Admin Dissertation, University of Pretoria. Available at: http://upetd.up.ac.za/thesis/available/etd-09062006-172107/ (Accessed on 29/5/2013).

Frey, B. S. and Schneider, F. 1978. An empirical study of politico-economic interaction in the United States. *Review of Economics and Statistics*, 60:174-183.

Fukuyama, F. 2004. Why there is no science of public administration. *Journal of International Affairs*, 58(1):189-201.

Fukuyama, F. 2013. What is governance? Available at: http://www.cgdev.org/content/publications/detail/1426906 (Accessed on 19/07/2013).

Gauteng Department of Finance, vide South Africa. Gauteng Department of Finance

Gelb, S. 2003. Inequality in South Africa: nature, causes and responses. Available at: http://www.tips.org.za/events/forum2004/Papers/Gelb_Inequality _in_SouthAfrica.pdf (Accessed on 10/04/2006).

Gilmour, J. 2007. Implementing OMB's Program Assessment Rating Tool (PART): meeting the challenges of integrating budget and performance. *OECD Journal on Budgeting*, 7(1):1-40.

Glicksman, B. 2007. The role of Accounting Officers: a perspective from the United Kingdom. *Canadian Parliamentary Review,* (Autumn):22-26. Available at: http://www.revparl.ca/30/3/30n3_07e_Glicksman.pdf (Accessed on 4/6/2014).

Gomomo, J. 1997. *Address to the Second NEDLAC Summit* presented by John Gomomo, COSATU President, on behalf of COSATU, NACTU and FEDUSA. Available at: http://www.sahistory.org.za/archive/address-second-nedlac-summit-presented-john-gomomo-cosatu-president-behalf-cosatu-nactu-and- (Accessed on 12/08/2013).

Gosling, M. 2015. How red tape killed an industry. Available at: http://www.iol.co.za/scitech/science/news/how-red-tape-killed-an-industry-1.1807758 (Accessed on 27/01/2015).

Government of the Republic of South Africa and Others v Grootboom and Others, 2000 (11) BCLR 1169 (CC)

Gray, A. and Jenkins, W. 2004. Government and administration: too much checking, too little doing. *Parliamentary Affairs*, 57(2):269-287.

Green, M. T. and Thompson, F. 2002. Organizational process models of budgeting. Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=671183 (Accessed on 13/12/2014).

Green, P. 2008. *Choice, Not Fate: The Life and Times of Trevor Manuel*. Johannesburg: Penguin (South Africa).

Gregory, R. 1998. A New Zealand tragedy: problems of political responsibility. *Governance*, 11(2):231-240.

Grindle, M. 2004. Good enough governance: poverty reduction and reform in developing countries. *Governance: An International Journal of Policy, Administration, and Institutions*, 17(4):525-548.

Guthrie, J., Olson, O. and Humphrey, C. 1999. Debating developments in New Public Financial Management: the limits of global theorising and some new ways forward. *Financial Accountability and Management*, 15(3):209-228.

Guthrie, J., Humphrey, C., Jones, L. R. and Olson, O. 2005. *International Public Financial Management Reform: Progress, Contradictions and Challenges*. Greenwich, Connecticut: New Age Publishers.

Harris, B., Goudge, J., Ataguba, J.E., McIntyre, D., Nxumalo, N., Jikwana, S. and Chersich, M. 2011. Inequities in access to health care in South Africa. *Journal of Public Health Policy*, 32:S102–S123. doi:10.1057/jphp.2011.35

Harris, J. 2013. Following the pound: the Accounting Officer in central government. Available at: http://www.instituteforgovernment.org.uk/sites/default/files/publications/ Following%20the%20pound%20%20accounting%20officers%20in%20central%20governme nt.pdf (Accessed on 2/2/2015).

Harrison, D. 2010. An overview of health and health care in South Africa 1994 – 2010: priorities, progress and prospects for new gains. Available at: http://ftp.bhfglobal.com/ files/bhf/overview1994-2010.pdf (Accessed on 22/9/2012).

Harmon, M. M. and Mayer, R.T. 1986. *Organization Theory for Public Administration*. Boston, MA.: Little, Brown and Company.

Hartzenberg, T. 1995. Clarity needed for function committees. *Budget Watch*, 1(5):4.

Havemann, R. H. and Margolis, J. 1983. *Public Expenditure and Policy Analysis*. Boston, MA: Houghton Mifflin.

Health Systems Trust. 2011. South African Health Review 2011. Available at: http://www.hst.org.za/publications/south-african-health-review-2011 (Accessed on 10/10/2013).

Health Systems Trust. 2013. South African Health Review 2012/13. Available at: http://www.hst.org.za /publications/south-african-health-review-2012/13 (Accessed on 23/7/2014).

Hogwood, B. W. and Gunn, L. A. 1984. *Policy Analysis for the Real World*. New York, NY: Oxford University Press.

Hood, C. 1995. The "New Public Management" in the 1980s: variation on a theme. *Accounting, Organizations and Society*, 30(2/3):93-109.

Hood, C. 2002. Control, bargains and cheating: the politics of public service reform. *Journal of Public Administration Research and Training*, 12(3):309-332.

Horn, M. 1995. *The Political Economy of Public Administration*. Cambridge: Cambridge University Press.

Humphrey, C., Guthrie, J., Jones, L. R. and Olson, O. 2005. The dynamics of public financial management change. In: Humphrey, C., Guthrie, J., Jones, L.R. and Olson, O. (eds). *International Public Financial Management Reform: Progress, Contradictions and Challenges*. Greenwich, CT: Information Age, 1-22.

Humphries, R. 1997. Gauteng: watershed budget presents new choices. *Budget Watch*, 3(1):2.

Humphries, R. and Shubane, K. 1993. *A delicate balance: reconstructing regionalism in South Africa*. Johannesburg: Centre for Policy Studies, CPS Transition Series, Report 24.

Hyslop, J. 2005. Political corruption: before and after apartheid. *Journal of Southern African Studies*, December, 31(4):773-789.

IDASA, vide Institute for Democracy in South Africa

Institute for Democracy in South Africa. 2009. *Parliament, the Budget and Poverty: Aspects of the South African Context*. Cape Town: Institute for Democracy in South Africa.

International Budget Partnership. 2012. *Open Budget Index Report 2012*. Available at: http://survey.internationalbudget.org/#timeline (Accessed on 12/08/2013).

International Monetary Fund. 2007. *Performance Budgeting: Linking Funding and Results*. Basingstoke, UK: Palgrave McMillan.

International Monetary Fund. 2014. *Government Finance Statistics Manual.* Available at: http://www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf 12/2/2015) (Accessed o 12/2/2015).

Irvine, D. 2010. Interview on the Commission on Provincial Government with Douglass Irvine conducted by Itumeleng Makgetla, Princeton University Innovations for Successful Societies Oral History Interview. Available at: http://www.princeton.edu/successfulsocieties/content/data/oral_history/N4_Douglas_Irvine_id243/Douglas_Irvine.pdf (Accessed on 13/05/2013).

Jackson, A. and Lapsley, I. 2003. The diffusion of accounting practices in the new "managerial" public sector. *International Journal of Public Sector Management,* 16(5):359-372.

Jacobs, D. 2009. *South Africa: Restructuring of the Ministry of Finance*. International Monetary Fund. blog-pfm.imf.org/files/case-study-zaf-mof2.doc (Accessed on 27/06/2013).

Jacobs, D., Helis, J. and Bouley, D. 2009. *Budget Classification*. Washington, DC: International Monetary Fund.

Jarvis, M. D. 2009. The adoption of the accounting officer system in Canada: changing relationships. *Canadian Public Administration*, December, 52(4):525-547.

Jeffery A. 2015. Draft BEE regulations must be rejected – pushing SA over a fiscal cliff, Available at: https://www.biznews.com/thought-leaders/2015/07/22/draft-bee-regulations-must-be-rejected-pushing-sa-over-a-fiscal-cliff/ (Accessed on 4/8/2015).

Jenkins, C. 1997. Economic objectives, public-sector deficits and macroeconomic stability in Zimbabwe*.* Available at: http://www.csae.ox.ac.uk/workingpapers/pdfs/9714text.pdf (Accessed on 11/10/2013).

Jensen, M. C. and Meckling, W. H. 1976. Theory of the firm: managerial behavior, agency costs and ownership structure, *Journal of Financial Economics*, 3(4): 305–360

Jha, R. 1998. *Modern Public Economics.* London: Routledge.

Kahlo, T. and Fourie, D. J. 2006. Transforming and modernising South African Public Financial Management to Accelerate Delivery. *Journal of Public Administration*, Conference Proceedings, September 2006.

Kalema, R. 2000. Intergovernmental relations in South Africa: a comparative perspective. Available at: http://www.kas.de/wf/doc/kas_4883-1522-2-30.pdf?040622163250 (Accessed on 3.11.2012).

Key, V. O. 1940. The lack of a budgetary theory. *American Political Science Review*, December:1137-1144.

Khosa and Others v Minister of Social Development and Others, Unreported judgment, 4 March 2004, CCT 13/03

Kolthoff, E., Huberts, L. and Van den Heuwel, H. 2007. The ethics of New Public Management: is integrity at stake? *Public Administration Quarterly*, 30 (4):399-439.

Kraan, D. 2007. Programme budgeting in OECD countries*. OECD Journal on Budgeting*, 7(4):1-41.

Krafchik, W. and Abedian, I. 1997. Budget reform: progress, but at what price? *Budget Watch*, June 3(2):1-8.

Kuhlmann, S. and Fedele, P. 2010. New Public Management in Continental Europe: local government modernization in Germany, France and Italy from a comparative perspective. In Wollmann, H. and Marcou, G. (eds). *The Provision of Public Services in Europe*. Cheltenham: Elgar, 419-474.

Kusi, N. 2006. *Perspectives on Financial Management Reforms in South Africa*, Unpublished speech by the Superintendent General of the Eastern Cape Provincial Treasury, 23 June 2009. Port Elizabeth.

Kuye, J. O. 2006. Public sector reforms 1995-2005. *Journal of Public Administration*, 41(2):290-309.

Kuye, J.O. and Ajam, T. 2012. The South African development state debate: leadership, governance and a dialogue in public sector finance. *African Journal of Public Affairs*, 5(2):48-68.

KwaZulu-Natal Department of Education, vide South Africa. KwaZulu-Natal Department of Education

Ladd, H. 1994. Measuring disparities in fiscal conditions of local government. In Anderson, J. (ed.). *Fiscal Equalization for State and Local Government*. New York, NY: Praeger, 21-55.

Laking, R. 1998. Don't try this at home? A New Zealand approach to public management in Mongolia. *International Public Management*, 2(2A):217-235.

Lane, J. E. 2000. *New Public Management*. London: Routledge.

Langrod, G. 1961. *Some Current Problems of Administration in France Today*. San Jose: University of Puerto Rico School of Public Administration.

Lapsley, I. and Pallot, J. 2000. Accounting, management and organizational change: a comparison of local governments. *Management Accounting Research*, 11:213-229.

Larkey, P. D. 1979*. Evaluating Public Programs: The Impact of General Revenue Sharing on Municipal Government*. Princeton, NJ: Princeton University Press.

Layman, T. 2003. *Intergovernmental Relations and Service Delivery in South Africa*. Pretoria: Presidency.

Leedy, P. D. and Ormrod, J. E. 2013. *Practical Research: Planning and Design*. Tenth edition. Boston, MA: Pearson.

LeLoup, L. T. 1978. The myth of incrementalism: analytical choices in budgetary theory. *Polity*, 10(4):488-509.

LeLoup, L. T. 1988. From micro-budgeting to macro-budgeting: evolution in theory and practice. In: Rubin, I. (ed). *New Directions in Budget Theory*. New York, NY: State University of New York, 19-43.

Levy, N. and Tapscott, C. 2001. *Intergovernmental Relations in South Africa: The Challenges of Co-operative Government*. Cape Town: IDASA.

Lewis, V. B. 1952.Towards a Theory of Budgeting. *Public Administration Review*, 12 (Winter):43-45.

Liebenstein, H. 1966. Allocative efficiency vs. x-efficiency. *American Economic Review*, 56(3):392-415.

Lindbeck, A. and Weibull, J. W. 1987. Balanced-budget redistribution as the outcome of political competition. *Public Choice*, 52:273-297.

Lindblom, C. 1959. The science of muddling through. *Public Administration Review*, 19 (Spring):79-88.

Llewellyn, S. 1998. Pushing budgets down the line: ascribing financial responsibility in the UK social services. *Accounting Auditing and Accountability Journal*, 11(3):292-308.

Lodge, T. 2005. Provincial government and state authority in South Africa. *Journal of Southern African Studies*, 31(4):737-753.

Luton, L. S. 2010. *Qualitative Research Approaches for Public Administration*. New York, NY: M.E. Sharpe.

Maasdorp, G. 1993. Drawing the lines: the economic implications of regional restructuring in South Africa. *Optima*, May:25-29.

Madubula, N. and Dawood, G. 2013. Managing the provincial wage bill to contain fiscal stress and build a capable state. In: *Technical Report on the FFC Submission for the 2014/15 Division of Revenue*. Midrand: Financial and Fiscal Commission, 93-109.

Malan, L. 2005. Intergovernmental relations and co-operative government: the ten year review. *Politeia*, 24(2):226-243.

Maphiri, D. 2011. Integrated in-year management system: a synthesis of seemingly unrelated issues. *South African Journal of Auditing and Accountability*, 11:35-45.

Marais, H. 1996. All GEARed up. Available at: http://www.sacp.org.za/main.php?ID=2375#STORY6 (Accessed on 13/12/ 2013).

Marais, H. 2001. The RDP: Is there life after GEAR? D*evelopment Update: Quarterly Journal of the South African National NGO Coalition and INTERFUND*, 1(1):10-12.

Maserumule, M. H. 2007. Reflections on South Africa as a developmental state. *Journal of Public Administration*, 42(3):212-219.

Maserumule, M. H. 2010. Consolidating a developmental state agenda: a governance problem. In Kondlo, K. and Maserumule, M.H. (eds.). *The Zuma Administration: The Critical Challenges*. Pretoria: Human Sciences Research Council Press, 16-49.

Meyers, R. T. 1996. Is there a key to the normative budget lock? *Policy Sciences*, 29(3):171-188.

Miller, G. J. 1994. What is financial management? Are we inventing a new field here? *Public Administration Review*, 54(2):209-213.

Mingus, M. S. 2007. The New Public Management and democracy in Canada: a recipe for scandal? *Leading the Future of the Public Sector The Third Transatlantic Dialogue*, 31 May–2 June 2007, Newark, DE. Available at http://www.ipa.udel.edu/3tad/papers/workshop6/Mingus.pdf (Accessed on 12/04/2013).

Ministry of Finance, vide South Africa. Ministry of Finance

Mkhize, N. and Ajam, T. 2006. The new budgeting approach in South Africa: a critical assessment. *Journal of Public Administration*, 41(4):761-775.

Mokgoro, J. 2000. Provincial experiences in managing national policies on the transformation of the public service. *Public Administration and Development*, 20:141-153.

Moore, M. 1994. Public value as the focus of strategy. *Australian Journal of Public Administration*, 53(3):296–303.

Murray, C. and Simeon, R. 2010. Promises unmet: multi-sphere government in South Africa. Available at: http://www.publiclaw.uct.ac.za/usr/public_law/staff/South%20Africa_Promises%20Unmet,%20Multilevel%20Government%20in%20South%20Africa.pdf (Accessed on 15/07/2013)

Musgrave, R. A. 1959. *The Theory of Public Finance*. New York, NY: McGraw-Hill.

Musgrave, R. A. and Peacock, A. 1964. *Classics in the Theory of Public Finance*. London: St Martins Press.

Nair, J. 2008. Progress with the Implementation of the PFMA. *Auditing South Africa*, Summer 2007/8:7-10.

National Treasury, vide South Africa. National Treasury

Nattrass, N. 1995. RDP fund: Is this a game of musical chairs. *Budget Watch*, 1(4):4.

Nattrass, N. 1997. Economic policy debate in South Africa. In: Nattrass, N. (ed.). *Macroeconomics: Theory and Policy in South Africa*. Cape Town: David Phillip 264-280.

Ncholo, P. 2000. Reforming the public service in South Africa. *Public Administration and Development*, 20:87-102.

Neuby, B. L. 1997. On the lack of a budget theory. *Public Administration Quarterly*, 21(2):131-142.

Newberry, S. and Pallot, J. 2005. New Zealand public management and accounting reforms: the hidden agenda. In Guthrie, J., Humphrey, C., Jones, L.R. and Olson, O. (eds). *International Public Financial Management Reforms*. Greenwich, CT: Information Age, 169-194.

Ngakwe, C. C. 2012. Public sector financial accountability and service delivery. *Journal of Public Administration*, 47(1.1):311-329.

Nkoana, J. and Bokoda, P. 2007. Towards performance budgeting. *South African Journal of Accounting and Auditing Research*, 9:49-55.

Nkoana, J.N. 2006. Paradigm shift in budget planning and financial management in post-apartheid South Africa*. Institute of Public Finance and Auditing Journa*l, 5(4):9-12.

Nordhaus, W. D. 1975. The political business cycle. *Review of Economic Studies*, 42:169-190.

NPC, vide South Africa. National Planning Commission

Oates, W. 1994. Federalism and government finance. In Quigley, J. and Smolensky, E. *Modern Public Finance*. Cambridge, MA: Harvard University Press, 125-151.

OECD, vide Organisation for Economic Cooperation and Development

O'Flynn, J. 2007. From New Public Management to public value: paradigmatic change and managerial implications. *Australian Journal of Public Administration*, 66(3):353-366.

Olowo-Okere, E. and Tomkins, C. 1998. Understanding the evolution of government financial control systems. *Accounting, Auditing and Accountability Journal*, 11(3):309-331.

Onumah, J. N. and Simpson, S. N. Y. 2008. The Accounting discipline and the government budgeting concept. *International Journal on Government Financial Management*, 8(2):1-18.

Organisation for Economic Cooperation and Development.1995. *Governance in Transition: Public Management Reforms in OECD Countries*. Paris: OECD.

Otenyo, E. E. 2006. Vincent Ostrom's Democratic Administration and New Public Management in East Africa. Available at: http://www.indiana.edu/~voconf/papers/ otenyo_voconf.pdf (Accessed on 23/07/2014).

Overseas Development Institute. 2007. *Tales of the Unexpected: Public Financial Reform in Difficult Environments*. London: Centre for Aid and Public Expenditure.

Padgett, J. F. 1980. Bounded rationality in budgetary research. *American Political Science Review*, 74:354-372.

Parliamentary Monitoring Group. 2013. Occupational Specific Dispensation: Health Department briefing to the NCOP Social Services Committee. Available at: http://www.pmg.org.za/report/20090818-occupational-specific-dispensation-health-department-briefing (Accessed on 17/10/2014).

Paton, C.2013. Black business in call for procurement reforms. *Business Day*, 7 October 2013. Available at: http://www.bdlive.co.za/business/2013/10/07/black-business-in-call-for-procurement-reforms?service=print (Accessed on 15/6/2015).

Paul, E. and Robinson, M. 2007. Performance budgeting, motivation and incentives. In Robinson, M. (ed.). *Performance Budgeting: Linking Funding and Results*. Basingstoke, UK: International Monetary Fund, 330-375.

PEFA. 2006. *Public Financial Management Performance Measurement Framework*. Washington, DC: World Bank.

Persson, T. P. and Tabellini, G. 2000. *Political Economics: Explaining Economic Policy*. Harvard, MA: MIT Press.

Petersen, S. 2006. *Automating Public Financial Management in Developing Countries*, Faculty Research Working Papers Series RWP06-043, Cambridge, MA: Harvard University.

Pickard, L. 2005. *The State of the State: Institutional Transformation, Capacity and Political Change in South Africa*. Johannesburg: Wits University Press.

Pigou, A. C. 1920. *The Economics of Welfare*. Fourth edition. London: Macmillan.

Pigou, A. C. 1928. *A Study in Public Finance*. London: Macmillan.

Pillay, P. 1995. Financial and Fiscal Commission: finding a formula. *Budget Watch*, 1(5):2-3.

Pioggiolini, J. 2006. The impact of GRAP on public entities. *Institute for Public Finance and Auditing Journal*, 5(4):1-5.

Pliscoff, C. 2009. *New Public Management in Chile (1990 – 2008): Exploring its Impact on Public Employees*. Unpublished Ph.D. thesis. University of South California. Available at: http://www.academia.edu/368006/NEW_PUBLIC_MANAGEMENT _IN_CHILE_1990_2008_EXPLORING_ITS_IMPACT_ON_PUBLIC_EMPLOYEES (Accessed on 17/04/2013).

Pollitt, C. 1995. Justification by works of by faith? Evaluating the New Public Management. *Evaluation*, 1(2):133-154.

Pollitt, C., 2001. Integrating financial management and performance management. *OECD Journal on Budgeting*, 1(2):7-38.

Pollitt, C., Girre, X., Lonsdale, J., Mul, R., Summa, H. and Waerness, M. 2002. Performance or compliance? *Performance Audit and Public Management in Five Countries*. Oxford: Oxford University Press.

Pollitt, C. and Bouckaert, G. 2011. *Public Management Reform A Comparative Analysis: New Public Management, Governance and the Neo-Weberian State*. Oxford: Oxford University Press.

Posel, D. 1999. Whiteness and power in the South African civil service: paradoxes of the apartheid state. *Journal of Southern African Studies*, March 25(1):99-119.

Poterba, J. M. and von Hagen, J. 1999. *Fiscal Institutions and Fiscal Performance*. Chicago, IL: University of Chicago Press.

Premchand, A. 1983. *Government Budgeting and Expenditure Controls*. Washington, DC: International Monetary Fund.

Presidency, vide South Africa. Presidency

Presidential Review Commission, vide South Africa. Presidential Review Commission

Propper, C., Burgess, S. and Abraham, D. 2002. Competition and quality: evidence from the NHS internal market 1991-1999. Available at: http://www.bristol.ac.uk/media-library/sites/cmpo/migrated/documents/wp77.pdf (Accessed on 13/6/2012)

PSC, vide South Africa. Public Service Commission.

Quist, R. E., Certan, C. and Dendura, J. 2008. *Republic of South Africa Public expenditure and Financial Accountability: Public Financial Management Performance Assessment Report.* Available at: ECORYShttp://www.treasury.gov.za/ publications/other/Final%20PEFA%20Report%20-%2029%20Sept%202008.pdf (Accessed on 12/08/2013).

Rakabe, E. 2013. Chapter 13: Effective intergovernmental planning and budgeting for better outcomes. In: *Technical Report on the Financial and Fiscal Commission Submission for the 2014-15 Division of Revenue*. Available at: http://www.ffc.co.za/ index.php/component/docman/doc_download/574-2014-2015-tr-chapter-13-effective-intergovernmental-planning-and-budgeting-for-better-outcomes?Itemid= (Accessed on 1/09/2013), 319-339.

Rantete, A. 1997. Free State: Development strategy needed to guide allocations. *Budget Watch*, 3(1):10.

Republic of South Africa, vide South Africa (Republic)

Ridder, H., Bruns, H. and Spier, F. 2006. Managing implementation processes. *Public Management Review*, 8(1):87-118.

Robinson, M. and Van Eden, H. 2007. Program classification. In Robinson, M. (ed.) *Performance Budgeting: Linking Funding to Results*. Basingstoke, UK: Palgrave MacMillan, 63-87.

Rouban, L. 1995. The civil service culture and administrative reform. In Peters, B. G. (ed.). *Governance in a Changing Environment*. Montreal and Kingston: Canadian Centre for Management Development and McGill-Queen’s University Press, 23-54.

Roux, N. 2005. Unrest in the local sphere of government: unrealistic expectations or inability to implement policies? Available at: http://repository.up.ac.za/bitstream/handle/2263/4212/Roux_Unrest%282005%29.pdf?sequence=1 (Accessed on 10/10/2012).

Roy, J. 1998. Beyond Westminster governance: bringing politics and public service into the networked era. *Canadian Public Administration*, 51(4), December:541-565.

Rubin, I. 1989. Aaron Wildavsky and the demise of incrementalism. *Public Administration Review*, 19(1):78-81.

Rubin, I. S. 1988. Introduction. In Rubin, I. S. (ed.). *New Directions in Budget Theory*. New York, NY: State University of New York Press, 1-18.

Rubin, I. S. 1990. Budget theory and budget practice: how good is the fit? *Public Administration Review*, 50(2):179-189.

Ryan, N., Parker, R. and Brown, K. (2000) Purchaser-provider split in a traditional public service environment: three case studies of managing change. *Public Policy and Administration Jour*nal, 9(1):206-221.

SA teachers set absenteeism record. 2013. *News24*. 26/2/2013. Available at: http://www.news24.com/SouthAfrica/News/SA-teachers-set-absentee-record-20130226 (Accessed on 12/4/2015).

Schiavo-Campo, S. 2005. Building Country Capacity for Monitoring and Evaluation in the Public Sector: Selected Lessons of International Experience. Available at: http://documents.worldbank.org/curated/en/2005/06/6051704/evaluation-capacity-development-building-country-capacity-monitoring-evaluation-public-sector-selected-lessons-international-experience (Accessed on 18/11/2012).

Schiavo-Campo, S. and Tommasi, D. 1999. *Managing Government Expenditure*. Manila: Asian Development Bank.

Schick, A. 1966. The road to PPB: the stages of budget reform. *Public Administration Review*, 26, December:243-258.

Schick, A. 1983. Incremental budgeting in a decremental age. *Policy Sciences*, 16:1-25.

Schick, A. 1988. Inquiry into the possibility of a budget theory. In Rubin, I. S. (ed.). *New Directions in Budget Theory*. New York, NY: State University of New York, 59-69.

Schick, A. 1996. *The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change*. Wellington, New Zealand: State Services Commission.

Schick, A. 1998a. *A Contemporary Approach to Public Expenditure Management.* Washington, DC: Economic Development Institute of the World Band.

Schick, A. 1998b. Why most developing countries should not try New Zealand reforms. *World Bank Research Observer*, February, 13(1):123-131.

Schick, A. 2001. The changing role of the central budget office. *OECD Journal on Budgeting*, 1(1):9-26.

Schick, A. 2004. Twenty-five years of budget reform. *OECD Journal on Budgeting*, 4(1):81-102.

Schick, A. 2007. Performance Budgeting and Accrual Budgeting: Decision Rules or Analytical Tools. *OECD Journal on Public Budgeting*, 7(2):109-138.

Schlemmer, L. 1994. Regionalism in South Africa: opportunities missed? In De Villiers, B. (ed). *Birth of a Constitution*. Cape Town: Juta, 242-255.

Schumpeter, J. A. 1918. *The Crisis of the Tax State*. Graz, Leipzig : Leuschner and Lubensky.

Schwartz, H. 1997. Reinvention and retrenchment: lessons from the application of the New Zealand Model to Alberta, Canada. *Journal of Public Policy Analysis and Management*, 16(3):405-422.

Sennoga, E. and Matovu, J. 2012. Public spending composition and public sector efficiency: implications for growth and poverty reduction in Uganda. Available at: http://elibrary.acbfpact.org/cgi-bin/acbf?a=p&p=redirect&acbfurl=HASHc00e.dir/doc.pdf&acbfurltitle=PUBLIC+SPENDING+COMPOSITION+AND+PUBLIC+SECTOR+EFFICIENCY%3a+IMPLICATIONS+FOR+GROWTH+AND+POVERTY+REDUCTION+IN+UGANDA (Accessed on 06/03/2011).

Shah, A. 2005. On getting the giant to kneel: approaches to change in the bureaucratic culture. In: A. Shah (ed.). *Fiscal Management*. Washington DC: World Bank, 211-228.

Shah, A. 2007. *Budgeting and Budgetary Institutions*. Washington, DC: World Bank.

Shand, D. 2007. Performance auditing and performance budgeting. In Robinson, M. (ed) *Performance Budgeting: Linking Funding and Results*. Basingstoke: Palgrave MacMillan, 88-109.

Simeon, R. and Murray, C. 2004. Multi-sphere government in South Africa: an interim assessment. *Publius*, 31(4):65-94.

Simeon, R. and Murray, C. 2009. Reforming multilevel government in South Africa. *Canadian Journal of African Studies*, 43(3):536-571.

Simkins, C. 1995. Aims and challenges: public economics of SA development. *Budget Watch*, 1(5):3.

Simon, H. A. 1955. A behavioural model of rational choice. *Quarterly Journal of Economics*, 69:99-118.

Siswana, B. 2007. *Leadership and governance in the South African public sector: an overview of the public finance management system.* Unpublished PhD thesis. University of Pretoria. Available at: http://upetd.up.ac.za/thesis/available/etd-09192007-111857/unrestricted/03chapter4.pdf (Accessed on 13/9/2011).

Siverbo, S. 2003. Purchaser-provider split in principle and practice. Available at: http://spa.gu.se/digitalAssets/1109/1109559_SPA_WP5.pdf (Accessed on 23/10/2014).

Smit, H. 1995. Reforming budget process: Department of State Expenditure agrees but .... *Budget Watch*, December, 1(5):1.

Smith, A. 2008. The accountability of Accounting Officers before Parliamentary Committees. Parliament of Canada. Available at: http://www.parl.gc.ca/Content/LOP/ResearchPublications/2008-18-e.pdf (accessed on 23/3/2011)

South Africa (Republic). *Income Tax Act,* 1962 (Act 58 of 1962). Pretoria: Government Printer.

South Africa (Republic). *State Tender Board Act*, 1968 (Act 86 of 1968). Pretoria: Government Printer.

South Africa (Republic). *Exchequer Act*, 1975 (Act 66 of 1975). Pretoria: Government Printer.

South Africa (Republic). 1993. *Constitution of the Republic of South Africa* (Act 200 of 1993). Pretoria: Government Printer.

South Africa (Republic), 1994a. *Public Service Act*, 1994 (Proclamation 103 of 1994). Pretoria: Government Printer.

South Africa (Republic), 1994b. *Public Service Commission Act*, 1994 (Proclamation 103 of 1994). Pretoria: Government Printer.

South Africa (Republic), 1994c. *Public Service Labour Relations Act,* 1994 (Proclamation 103 of 1994. Pretoria: Government Printer

South Africa (Republic). 1995. *White Paper on the Transformation of the Public Service*. Pretoria: Government Printer.

South Africa (Republic), 1996a. *Constitution of the Republic of South Africa* (Act 108 of 1996). Pretoria: Government Printer.

South Africa (Republic). 1996b. *South African Schools Act*, 1996 (Act 84 of 1996). Pretoria: Government Printer.

South Africa (Republic). 1996c. *Borrowing Powers of Provincial Government Act*, 1996 (Act 48 of 1996). Pretoria: Government Printer.

South Africa (Republic). 1997a. *White Paper on Transforming Public Service Delivery: Batho Pele, People First*. Pretoria: Government Printer.

South Africa (Republic). 1997b. *Public Service Laws Amendment Act* (Act 47 of 1997). Pretoria: Government Printer.

South Africa (Republic). 1997c. *Intergovernmental Fiscal Relations Act*, 1997 (Act 97 of 1997). Pretoria: Government Printer.

South Africa. (Republic).1998. *Treasury Control Bill*, 1998 (Bill 119 of 1998). As introduced in the National Assembly. Available at: http://www.gov.za/sites/ www.gov.za/files/b119-98.pdf (Accessed on 12/7/2013).

South Africa (Republic), 1999*. Public Finance Management Act*, 1999 (Act 1 of 1999). Pretoria: Government Printer.

South Africa (Republic). 2000a. *Preferential Procurement Policy Framework Act*, 2000 (Act 5 of 2000). Pretoria: Government Printer.

South Africa (Republic). 2000b *Protected Disclosures Act*, 2000 (Act 26 of 2000). Pretoria: Government Printer.

South Africa (Republic). 2001a. *Provincial Tax Regulation Process Act* (Act 53 of 2001), Pretoria: Government Printer.

South Africa (Republic). 2001b. *Public Service Regulations, 2001* (Notice R.441 of 25 May 2001), Pretoria: Government Printer.

South Africa (Republic). 2003a. *National Health Act*, 2003 (Act 61 of 2003). Pretoria: Government Printer.

South Africa (Republic). 2003b. *Municipal Finance Management Act*, 2003 (Act 56 of 2003). Pretoria: Government Printer.

South Africa (Republic). 2003c. *Broad Based Black Economic Empowerment Act*, (Act 53 of 2003). Pretoria: Government Printer.

South Africa (Republic). 2004a *Public Audit Act*, 2004 (Act 25 of 2004). Pretoria: Government Printer.

South Africa (Republic). 2004b. *Prevention and Combating of Corrupt Activities Act*, 2004 (Act 12 of 2004). Pretoria: Government Printer.

South Africa (Republic). 2005. *Intergovernmental Relations Act*, 2005 (Act 13 of 2005). Pretoria: Government Printer.

South Africa (Republic). 2007. *Government Immovable Asset Management Act*, 2007 (Act 19 of 2007). Pretoria: Government Printer.

South Africa (Republic). 2008. *Prevention of Organized Crime Act*, 2008 (Act 121 of 2008). Pretoria: Government Printer.

South Africa (Republic). 2009. *Money Bills Amendment Procedures and Related Matters Act*, 2009 (Act 9 of 2009). Pretoria: Government Printer.

South Africa (Republic). 2011. *Municipal Systems Amendment Act*, 2011 (Act 7 of 2011). Pretoria: Government Printer.

South Africa (Republic). 2014. *Public Administration Management Act*, 2014 (Act 11 of 2014). Pretoria: Government Printer.

South Africa. Auditor-General. 2008a. *Gauteng general report on the audit outcomes of provincial government for the financial year 2007-08*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2008b. *Limpopo general report on the audit outcomes of provincial government for the financial year 2007-08*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 22/02/2015).

South Africa. Auditor-General. 2009a*. Free State general report on the audit outcomes of provncial government for the financial year 2008-09.* Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/03/2015).

South Africa. Auditor-General. 2009b. *Northern Cape general report on the audit outcomes of provincial government for the financial year 2008-09*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2009c. *North West general report on the audit outcomes of provincial government for the financial year 2008-09*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2009d. *Gauteng general report on the audit outcomes of provincial government for the financial year 2008-09*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/01/2012).

South Africa. Auditor-General. 2009e. *KwaZulu-Natal general report on the audit outcomes of provincial government for the financial year 2009-10*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 13/09/2012).

South Africa. Auditor-General. 2009f. *Western Cape general report on the audit outcomes of provincial government for the financial year 2008-09*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2009g. *Eastern Cape general report on the audit outcomes of provincial government for the financial year 2008-09*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2009i. *Mpumalanga general report on the audit outcomes of provincial government for the financial year 2008-09*. http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 22/02/2015).

South Africa. Auditor-General. 2010a. *Northern Cape general report on the audit outcomes of provincial government for the financial year 2009-10*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 27/02/2015).

South Africa. Auditor-General. 2010b. *Limpopo general report on the audit outcomes of provincial government for the financial year 2009-10*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2010c. *Gauteng general report on the audit outcomes of provincial government for the financial year 2009-10*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2010d. *Mpumalanga general report on the audit outcomes of provincial government for the financial year 2009-10*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2010e. *North West general report on the audit outcomes of provincial government for the financial year 2009-10*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2010f. *Western Cape general report on the audit outcomes of provincial government for the financial year 2009-10*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2010g. *Free State general report on the audit outcomes of provincial government for the financial year 2009-10*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2010h. *Eastern Cape general report on the audit outcomes of provincial government for the financial year 2009-10*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2011).

South Africa. Auditor-General. 2011a. *Consolidated General Report on Provincial Audit Outcomes 2010-11*. Available at: http://41.193.80.205/Portals/1/Reports/97308_CONSOLIDATED%20PFMA%20REPORT.pdf (Accessed on 04/12/2013

South Africa. Auditor-General. 2011b. *KwaZulu Natal general report on the audit outcomes of provincial government for the financial year 2010-11*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 12/06/2014).

South Africa. Auditor-General. 2011c. *Northern Cape general report on the audit outcomes of provincial government for the financial year 2010-11*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2011d. *North West general report on the audit outcomes of provincial government for the financial year 2010-11.* Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2011e. *Western Cape general report on the audit outcomes of provincial government for the financial year 2010-11*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2011f. *Free State general report on the audit outcomes of provincial government for the financial year 2010-11*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2011g. *Eastern Cape general report on the audit outcomes of provincial government for the financial year 2010-11*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2011h. *Limpopo general report on the audit outcomes of provncial government for the financial year 2010-11*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2011i*. Gauteng general report on the audit outcomes of provincial government for the financial year 2010-11*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2011j. *Mpumalanga general report on the audit outcomes of provincial government for the financial year 2010-11*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 22/02/2015).

South Africa. Auditor-General. 2011k. *Report of the Auditor-General of South Africa on a Performance Audit of the Infrastructure Delivery Process at the Provincial Departments of Education and Healt*h, Pretoria: Government Printer.

South Africa. Auditor-General. 2012a. *Consolidated General Report on National and Provincial Audit Outcomes 2011-12*. Pretoria: Government Printer.

South Africa. Auditor-General. 2012b*. Free State general report on the audit outcomes of provincial government for the financial year 2011-12*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2012c. *Gauteng general report on the audit outcomes of provincial government for the financial year 2011-12*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 22/10/2014).

South Africa. Auditor-General. 2012d. *Limpopo general report on the audit outcomes of provincial government for the financial year 2011-12*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 20/03/2015).

South Africa. Auditor-General. 2012e. *Western Cape general report on the audit outcomes of provincial government for the financial year 2011-12*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 22/02/2015).

South Africa. Auditor-General. 2012f. *KwaZulu-Natal general report on the audit outcomes of provincial government for the financial year 2011-12*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 22/02/2015).

South Africa. Auditor-General. 2013a*. Consolidated General Report on the National and Provincial Audit Outcomes 2012-13*. Available at: http://www.agsa.co.za/ Documents/Auditreports/ (Accessed on 21/02/2015).

South Africa. Auditor-General. 2013b. *Limpopo general report on the audit outcomes of provincial government for the financial year 2012-13*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed 28/02/2015).

South Africa. Auditor-General. 2013c. *North West general report on the audit outcomes of provincial government for the financial year 2012-13*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2013d. *Western Cape general report on the audit outcomes of provincial government for the financial year 2012-13*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015).

South Africa. Auditor-General. 2013e. *Eastern Cape general report on the audit outcomes of provincial government for the financial year 2012-13*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/02/2015):

South Africa. Auditor-General. 2013f. *Free State general report on the audit outcomes of provincial government for the financial year 2012-13*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 28/05/2014).

South Africa. Auditor-General. 2013g. *Gauteng general report on the audit outcomes of provincial government for the financial year 2012-13*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 22/02/2015).

South Africa. Auditor-General. 2013h*. KwaZulu-Natal general report on the audit outcomes of provincial government for the financial year 2012-13*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.asp (Accessed on 22/02/2015).

South Africa. Auditor-General. 2013i. *Report of the Auditor-General to the Limpopo Provincial Legislature: Vote 3 Department of Education*. Pretoria: Government Printer.

South Africa. Auditor-General. 2013j*. Northern Cape general report on the audit outcomes of provincial government for the financial year 2012-13*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 22/02/2015).

South Africa. Auditor-General. 2014a. PFMA 2013-14 *Audit outcomes of national and provincial government Year ended 31 March 2014*. Available at: http://www.agsa.co.za/LinkClick.aspx?fileticket=wwkVCYmQ5J4%3dandtabid=273andportalid=0andmid=946 (Accessed on 24/01/2014).

South Africa. Auditor-General. 2014b. *Free State general report on the audit outcomes of provincial government for the financial year 2013-14*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 20/03/2015).

South Africa. Auditor-General. 2014c*. Eastern Cape general report on the audit outcomes of provincial government for the financial year 2013-14.* Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 22/02/2015).

South Africa. Auditor-General. 2014d. *KwaZulu-Natal general report on the audit outcomes of provincial government for the financial year 2013-14*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 14/03/2015).

South Africa. Auditor-General. 2014e. *Limpopo general report on the audit outcomes of provincial government for the financial year 2013-14*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 22/02/2015).

South Africa. Auditor-General. 2014f. *Northern Cape general report on the audit outcomes of provincial government for the financial year 2013-14*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 22/02/2015).

South Africa. Auditor-General. 2014g. *North West general report on the audit outcomes of provincial government for the financial year 2013-14*. Available at: http://www.agsa.co.za/Documents/Auditreports/PFMAgeneralreportsprovincial.aspx (Accessed on 22/03/2015).

South Africa. Commission of Inquiry into Certain Aspects of the Tax Structure of South Africa, 1998. *Seventh Interim Report: Synthesis of Policy Recommendations in regard to Taxation*. Available at: http://www.treasury.gov.za/publications/other/katz/7.pdf. (Accessed on 27/5/2014):

South Africa. Department of Basic Education. 2011a. *Macro Indicators Trends for Schooling 2011 Summary Report*. Available at: http://www.education.gov.za/Documents Library/Reports/tabid/358/Default.aspx (Accessed on 18/12/2012).

South Africa. Department of Basic Education. 2011b. *Action Plan to 2014: Towards the Realisation of Schooling 2025.* Available at: http://www.education.gov.za/LinkClick.aspx?fileticket=XZGwrpV9gek%3d&tabid=418&mid=1211 (Accessed on 13/11/2014).

South Africa. Department of Basic Education. 2013a. *Report on the National Senior Certificate*. Available at: http://www.education.gov.za/Documents Library/Publications/tabid/93/Default.aspx (Accessed on 08/10/2014).

South Africa. Department of Basic Education.2013b. South African Schools Act: Minimum uniform norms and standards for public school infrastructure. Available at: http://www.gov.za/documents/south-african-schools-act-minimum-uniform-norms-and-standards-public-school-infrastructure (Accessed on 23/9/2014).

South Africa. Department of Basic Education. 2013c. *Education Statistics in South Africa.* Available at: http://www.education.gov.za/EMIS/StatisticalPublications/tabid/462/Default.aspx (Accessed on 25/3/2014).

South Africa. Department of Basic Education. 2014. *School Realities 2014*. Available at: http://www.education.gov.za/DocumentsLibrary/Publications/tabid/93/Default.aspx (Accessed on 07/09/2014).

South Africa. Department of Economic Development. 2012. *The New Growth Path*. Available at: http://www.info.gov.za/view/DownloadFileAction?id=135748 (Accessed on 10/08/2013).

South Africa. Department of Finance. 1996*. Growth, Employment and Redistribution: A Macroeconomic Strategy*. Available at: http://www.treasury.gov.za/publications/other/gear/chapters.pdf (Accessed on 01/08/2013).

South Africa. Department of Finance. 1997a. *Budget Review 1997*. Government Printer: Pretoria.

South Africa. Department of Finance and Department of Public Works. 1997. *Green Paper on Public Sector Procurement Reform in South Africa. (*Notice 691 of 1997). Available at: http://www.polity.org.za/polity/govdocs/green_papers/procgp.html (Accessed 5/11/2012).

South Africa. Department of Finance. 1998. *Budget Review 1998*, Pretoria: Government Printer.

South Africa. Department of Planning, Monitoring and Evaluation. 2014. *The State of Management Practices in the Public Service 2013*. Available at: http://www.the presidency-dpme.gov.za/keyfocusareas/mpatSite/Pages/MPAT-2013.aspx (Accessed on 24/07/2014).

South Africa. Department of Provincial and Local Government. 1999. *The Intergovernmental Relations Audit: Towards a Culture of Cooperative Government*. Pretoria: Government Printer.

South Africa. Department of Provincial and Local Government. 2007. *Policy Process on Provincial and Local Government.* Pretoria: Government Printer.

South Africa. Department of Public Service and Administration. 1997*. Provincial Review Report*. Available at: http://www.info.gov.za/otherdocs/1997/provrept.htm (Accessed on 31/05/2013).

South Africa. Department of Public Service and Administration. 2015. IFMS overview and progress report to the Portfolio Committee on Public Service and Administration. Available at: https://pmg.org.za/committee-meeting/20109/ (Accessed on 01/04/2015).

South Africa. Financial and Fiscal Commission.1995 *Framework Document for Intergovernmental Fiscal Relations in South Africa.* Available at: http://www.ffc.co.za/index.php/docman-menu-item/ffc-general/635-framework-document-for-igfr-in-sa (Accessed on 01/04/2015).

South Africa. Financial and Fiscal Commission. 2000. *Annual Submission on the Division of Revenue 2001-2004 MTEF*. Available at: http://www.ffc.co.za/docs/submissions/dor/2001/dor-2001.pdf (Accessed on 20/04/2015).

South Africa. Financial and Fiscal Commission. 2013*. Annual Submission for the 2014-15*. Available at: http://www.ffc.co.za/index.php/submissions/commission-submissions/submission-chapters (Accessed on 12/03/2015)

South Africa. Gauteng Department of Finance. 2011. Remarks made by Mr. Mandla Nkomfe, Gauteng MEC for Finance, at the Gautrain Loan Signing Ceremony 9 September 2011. Available at: http://www.treasury.gpg.gov.za/media/speeches/Documents/Remarks%20by%20Mr.%20Mandla%20Nkomfe,%20Gauteng%20MEC%20for%20Finance,%20at%20the%20Gautrain%20Loan%20Signing%20Ceremony,%20Hyatt%20Regency,%2009%20September%202.doc (Accessed on 21/04/2015).

South Africa. KwaZulu-Natal Department of Education. 2011. *Annual Report 2010/11*. Available at: http://www.kzneducation.gov.za/Portals/0/Circulars/ General/ 2012/AR%202010-11%20from%20Art%20Printers.pdf (Accessed on 13/12/2014).

South Africa. Ministry of Finance. 2013. *Budget Speech*. Available at: http://www.treasury.gov.za/documents/national%20budget/2013/default.aspx (Accessed on 10/08/2013).

South Africa. National Planning Commission. 2011. *Institutional and Governance Diagnostic*. Pretoria: Government Printer.

South Africa. National Planning Commission. 2012. *National Development Plan 2030: Our Future - Make it Work*. Available at: http://www.npconline.co.za/MediaLib/Downloads/Downloads/NDP%202030%20-%20Our%20future%20-%20make%20it%20work.pdf (Accessed on 01/05/2014).

South Africa. National Treasury. 1997. *Budget Review 1997*. Pretoria: Government Printer.

South Africa. National Treasury. 1998*. Budget Review* 1998. Pretoria: Government Printer.

South Africa. National Treasury. 1999. *Budget Review 1999*. Pretoria: Government Printer.

South Africa. National Treasury. 2000. *Guide for Accounting Officers: Public Finance Management Act*. Available at: http://www.treasury.gov.za/legislation/pfma/guidelines/Accounting%20Officers%20Guide%20to%20the%20PFMA.pdf (Accessed on 10/08/2013).

South Africa. National Treasury. 2001a. *Budget Review 2001*. Pretoria: Government Printer.

South Africa. National Treasury. 2001b. *Intergovernmental Fiscal Review 2001.* Pretoria: Government Printer.

South Africa. National Treasury. 2002. *Budget Review 2002*. Pretoria: Government Printer.

South Africa. National Treasury. 2003a. *Intergovernmental Fiscal Review 2003*. Pretoria: Government Printer.

South Africa. National Treasury. 2003b. *Framework for Supply Chain Management.* Available at http://www.treasury.gov.za/legislation/pfma/regulations/gazette_25767.pdf (Accessed on 5/3/2011).

South Africa. National Treasury. 2004a. *Trends in Intergovernmental Finances 200/01-2006/07*. Pretoria: Government Printer.

South Africa. National Treasury. 2004b. *Supply Chain Management: A Guide for Accounting Officers*. Available at: (http://www.treasury.gov.za/divisions/sf/sc/Guidelines/SCM%20Jan900-Guidelines.pdf (Accessed on 08/08/2013).

South Africa. National Treasury. 2004c. *General Procurement Guidelines*. Available at: http://www.treasury.gov.za/divisions/sf/sc/Guidelines/GENERAL%20PROCUREMENT%20GUIDELINES%20-%202.pdf (Accessed on 08/08/2013).

South Africa. National Treasury. 2005a. *Budget Review 2005*. Pretoria: Government Printer.

South Africa. National Treasury. 2005b. *Treasury Regulations for Departments, Constitutional Institutions and Public Entities in terms of the Public Finance Management Act of 1999*. Available at: http://www.treasury.gov.za/legislation/ pfma/regulations/gazette_27388.pdf (Accessed on 08/08/2013).

South Africa. National Treasury. 2007a. *Budget Review 2007*. Pretoria: Government Printer.

South Africa. National Treasury. 2007b. *Framework for the Management of Performance Information*. Available at: http://www.treasury.gov.za/publications/guidelines/FMPI.pdf (Accessed on 22/10/2010).

South Africa. National Treasury. 2009a. *Guide to Implementing the Economic Reporting Format*. Available at: http://scoa.treasury.gov.za/Documents/Reference%20Guide%20to%20the%20Economic%20Reporting%20Format%20September%202009%20version.pdf(Accessed on 23/07/2014).

South Africa. National Treasury. 2010. *Guide to Budget Programmes*. Available at: http://www.treasury.gov.za/publications/guidelines/2008-10/ (Accessed on 27/06/2012).

South Africa. National Treasury. 2011. *Budget Review 2011*. Pretoria: Government Printer.

South Africa. National Treasury. 2012b. *Progress Report on the Improvement of Financial Management*. Report to the Standing Committee on Public Accounts. 16 May 2012. Cape Town.

South Africa. National Treasury. 2013a. *Budget Review 2013*. Pretoria: Government Printer.

South Africa. National Treasury. 2013b. *Status of IFMS*. 29 May 2013. Cape Town: Presentation to the Portfolio Committee on Public Services, Parliament.

South Africa. National Treasury. 2014*. Annexure W1. Budget Review.* Available at: http://www.treasury.gov.za/documents/national%20budget/2014/review/Annexure%20W1.pdf *(*Accessed on 2/2/2015*).*

South Africa. National Treasury. 2015a. *Annexure W1. Budget Review.* Available at: http://www.treasury.gov.za/documents/national%20budget/2015/review/Annexure%20W1.pdf (Accessed on 4/5/2015).

South Africa. National Treasury. 2015b. *2015 Public Sector Supply Chain Management Review*. Available at: http://www.treasury.gov.za/publications/other/SCMR%20 REPORT%202015.pdf (Accessed on 31/03/2015).

South Africa. Presidency. 2003. *Towards a Ten Year Review*. Available at: http://www.info.gov.za/otherdocs/2003/10year.pdf: (Accessed on 03/06/2013).

South Africa. Presidency. 2006. *Accelerated and Shared Growth Initiative for South Africa*. Available at: http://www.info.gov.za/asgisa/asgisa.htm (Accessed on 07/08/2013).

South Africa. Presidency. 2007a. *Towards a Fifteen Year Review*. Available at: http://www.thepresidency.gov.za/docs/reports/15year_review/gov-admin.pdf (Accessed on 03/06/2013).

South Africa. Presidency. 2007b*. Governance and Administration Towards a Fifteen Year Review Thematic Report*. Available at: http://www.thepresidency.gov.za/docs/ reports/15year_review/gov-admin.pdf (Accessed on 02/06/2013).

South Africa. Presidency. 2007c. *Policy Framework for the Government-wide Monitoring and Evaluation system*. Available at: http://www.thepresidency-dpme.gov.za/ dpmewebsite/_admin/Images/ProductDocuments/Policy%20Framework%20for%20the%20GWME%20system.pdf (Accessed on 10/08/2013).

South Africa. Presidency. 2009. *Improving Government Performance: Our Approach*. Pretoria: Government Printer.

South Africa. Presidency. 2012. *Mid-term Review of the Priorities of Government.* Available at: http://www.thepresidency-dpme.gov.za/dpmewebsite/Page.aspx?Id=152 (Accessed on 11/06/2013).

South Africa. Presidency. 2013. *Millennium Development Goals 2013*. Available at: http://www.za.undp.org/content/dam/south_africa/docs/Reports/The_Report/MDG_October-2013.pdf (Accessed on 10/10/2014).

South Africa. Presidential Review Commission. 1998. Developing a Culture of Good Governance: Report of the PRC. Available at: http://www.info.gov.za/otherdocs/1998/ prc98/index.html: (Accessed on 31/05/2013).

South Africa. Public Service Commission. 1997. The Rationalization of Public Administration in the Republic of South Africa 1994-1996. Available at: http://www.polity.org.za/polity/govdocs/reports/pscrep.html (Accessed on 30/05/2013).

South Africa. Public Service Commission. 2008a. *The Turnover Rate of Heads of Department and the Implications for the Public Service*. Pretoria: Government Printer.

South Africa. Public Service Commission. 2008b. Evaluation of the Consistency of Sanctions Imposed for Misconduct in the Public Service. Available at: http://www.info.gov.za/view/DownloadFileAction?id=88577 (Accessed on 12/08/2013).

South Africa. Public Service Commission. 2013. Public Service Commission Presentation at the Round Table on Financial Misconduct, 28 February 2013. Available at: http://www.psc.gov.za/home.asp (Accessed on 12/05/2013).

South African Reserve Bank. *Quarterly Bulletin, various editions. Available at:* https://www.resbank.co.za/Publications/QuarterlyBulletins/Pages/QuarterlyBulletins-Home.aspx (Accessed on 25/6/2015).

Statistics South Africa*. Quarterly Labour Force Survey, various statistical releases.* Available at: http://www.statssa.gov.za (Accessed on 23.5.2015).

Stevens, M. 2004*. Institutional and Incentive Issues in Public Financial Management Reform in Poor Countries*. Washington, DC: World Bank.

Takian, A., Rashidian A. and Doshmangi, L. 2015. The experience of purchaser–provider split in the implementation of family physician and rural health insurance in Iran: an institutional approach, Health Policy and Planning 2015: 1–11. doi:10.1093/heapol /czu135

Ter Bogt, H. J. and Van Heerden, G. J. 2005. A reflection on accounting reforms in Dutch government. In Guthrie, J., Humphrey, C., Jones, L.R. and Olson, O. (eds). *International Public Financial Management Reform.* Greenwich, CT: Information Age, 247-281.

Timmel. S. 1996. Public should participate in budget reform process. *Budget Watch*, June, 2(3):4.

Transparency International. 2012*. Corruption Perceptions Index 2012*. Available at: http://www.transparency.org/whatwedo/publications: (Accessed on 11/06/2013).

Twala, C. 2014. The African National Congress (ANC) and the cadre deployment policy in the post-apartheid South Africa: a product of democratic centralisation or a recipe for a Constitutional Crisis? *Journal of Social Sciences*, 41(2):159-165

UNCDF, 2006. *Achieving Results: Performance Budgeting in Least Developed Countries*. Washington, DC: United Nations Capital Development Fund.

Van der Berg, S. 2001. Trends in racial fiscal incidence in South Africa. *South African Journal of Economics*, 69(2):243-268.

Van Wyk, H. A. 2003. *A Performance Measurement Approach to Improve Financial Management in Provincial Governments in South Africa*. Unpublished PhD thesis: University of Pretoria. Available at: http://etd.uovs.ac.za/ETD-db/theses/available/etd-11152011-135549/unrestricted/VanWykHA.pdf (Accessed on 16/03/2013).

Van Wyk, H. A. 2006. Implementing accrual accounting in the public sector - easier said than done. *Journal of Public Administration*, 1(2):22-31.

Van Wyk, H. A. 2007. Is the transformation of public sector financial reporting in South Africa's provincial governments on track? *Meditari Accountancy Research*, 15(2): 65-75.

Van Wyk, H. A. 2011. Are the financial procurement policies for outsourcing government functions adequate? *Journal of Public Administration*, 46(4):1338-1350.

Van Zyl, A. 2003. *Operationalising the MTEF as a Tool for Poverty Reduction*. London: Overseas Development Institute.

Verwey, L. 2009. Pro-poor budgeting: general reflections and the South African Situation. In Lefko-Everett, K., Mohamed, A., Verwey, L. and Zamisa, M. (eds.). *Parliament, the Budget and Poverty in South Africa: A Shift in Power*. Cape Town: Idasa:6-25.

Von Holdt, K. 2010. The South African post-apartheid bureaucracy: inner workings, contradictory rationales and the development state. In Edigheji, O. (ed.). *Constructing a Democratic Development State in South Africa.* Pretoria: Human Sciences Research Council Press, 241-260.

Von Mises, L. 1944. *Bureaucracy*. New Haven: Yale University Press.

Wallis, J. 1999. Understanding the role of leadership in economic policy reform. *World Development*, 27(1):39-53.

Wehner, J. 2000. Fiscal federalism in South Africa. *Publius*, 30:47-72.

Wehner, J. 2009. South Africa's new parliamentary budget process: an initial assessment. In Lefko-Everett, K., Mohamed, A., Verwey, L. and Zamisa, M. (eds). *Parliament, the Budget and Poverty in South Africa: A Shift in Power.* Cape Town: IDASA, 26-41.

Wescott, C. G. 2008. *World Bank Support for Public Financial Management: Conceptual Roots and Evidence of Impact*. Washington, DC: Independent Evaluation Group - World Bank.

Working Group on the Accountability of Secretaries General and Accounting Officers. 2002. Mullarkey Report - Report of the Working Group on the Accountability of Secretaries General and Accounting Officers. Available at: http://www.finance.gov.ie /sites/default/files/Mullarkey%20Report%202002.pdf (Accessed on 17/9/2012).

Wildavsky, A. 1961. Political implications of budget reforms*. Public Administration Review*, 21, Autumn:183-190.

Wildavsky, A. 1964. *The Politics of the Budgetary Process*. Boston, MA: Little, Brown.

Wildavsky, A. 1978. A budget for all seasons? Why the traditional budget lasts. *Public Administration Review*, 38:501-509.

Wildeman, R. and Jogo, W. 2012. *Implementing the Public Finance Management Act in South Africa: How Far Are We?* Pretoria: IDASA Economic Governance Programme. Available at: http://us-cdn.creamermedia.co.za/assets/articles/attachments/37341_ print_version_of_the_idasa_pfma_paper.pdf (Accessed on 14/10/2014).

Williamson, O. 1964. *The Economics of Discretionary Behavior: Managerial Objectives in a Theory of the Firm*. Englewood Cliffs, USA: Prentice Hall.

Wittenberg, M. and McIntosh, A. 1993. Regionalism: a hall of mirrors. *Indicator SA*, 10(2): 41-65.

Wolf, C. 1979. A theory of nonmarket failure: framework for implementation analysis. *Journal of Law and Economics*, 22(1):107-139.

Wynne, A. 2009. Accrual accounting for the public sector: in need of a re-think. *Auditing South Africa*, Summer 2009/10:17-19.

Zuma vs National Director of Public Prosecution, case 8652\08, Pietermaritzburg High Court

ANNEXURE 1: AGGREGATE PROVINCIAL FISCAL DATA

Table 60: Revenue (receipts) by province, 1997/98 to 2014/15 (actual audited)

	R billion	1997/98	1998/99	1999/00	2000/1	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Eastern Cape	**Provincial receipts**	**15.51**	**16.29**	**17.09**	**18.71**	**19.65**	**24.66**	**19.39**	**21.81**	**25.44**	**28.18**	**31.40**	**36.94**	**42.83**	**49.21**	**53.38**	**57.03**	**60.50**	**62.55**
	Equitable share	14.34	14.49	15.24	16.75	18.17	22.26	16.65	18.31	22.20	24.64	27.34	32.13	37.31	41.02	44.32	47.21	49.88	51.74
	Conditional grants	0.95	1.37	1.47	1.57	0.92	1.76	2.20	3.18	2.56	2.73	3.05	3.85	4.75	7.44	8.21	8.71	9.34	9.52
	Own Revenue	0.22	0.42	0.37	0.39	0.56	0.64	0.54	0.32	0.68	0.80	1.01	0.97	0.77	0.75	0.85	1.10	1.28	1.29
Free State	**Provincial receipts**	**6.19**	**6.62**	**7.04**	**7.99**	**8.48**	**9.84**	**9.33**	**10.26**	**11.04**	**12.03**	**13.61**	**16.24**	**18.97**	**21.17**	**23.42**	**24.98**	**27.17**	**27.70**
	Equitable share	5.77	5.36	5.96	6.54	5.77	6.53	7.84	8.31	8.97	9.73	10.92	12.71	14.79	16.22	17.66	18.66	20.02	20.71
	Conditional grants	0.16	1.01	0.86	1.15	2.40	2.91	1.10	1.54	1.62	1.81	2.15	2.93	3.53	4.14	4.89	5.46	6.28	6.02
	Own Revenue	0.26	0.25	0.22	0.31	0.32	0.41	0.40	0.41	0.45	0.49	0.55	0.59	0.65	0.81	0.87	0.86	0.88	0.97
Gauteng	**Provincial receipts**	**15.21**	**16.18**	**17.39**	**18.82**	**21.09**	**24.96**	**23.65**	**25.56**	**27.21**	**34.26**	**41.26**	**47.80**	**56.82**	**62.97**	**69.32**	**74.85**	**81.81**	**90.48**
	Equitable share	13.49	12.08	12.93	14.52	16.03	18.84	17.91	19.66	20.81	23.36	28.46	33.81	40.37	45.87	50.97	55.21	61.71	68.81
	Conditional grants	0.82	3.17	3.41	3.14	3.76	3.57	4.18	4.22	4.49	8.74	10.04	11.64	13.84	14.00	14.73	15.65	15.75	17.03
	Own Revenue	0.90	0.93	1.05	1.17	1.30	2.55	1.56	1.68	1.91	2.16	2.76	2.35	2.62	3.10	3.62	3.99	4.35	4.63
KwaZulu-Natal	**Provincial receipts**	**18.73**	**19.28**	**21.06**	**22.63**	**25.00**	**28.58**	**25.18**	**27.67**	**33.06**	**37.48**	**44.10**	**53.19**	**62.68**	**72.03**	**78.97**	**85.23**	**91.00**	**96.61**
	Equitable share	16.26	15.98	17.87	19.69	21.71	25.16	21.35	23.60	28.40	32.05	37.43	44.22	51.97	57.63	63.58	68.64	73.93	78.14
	Conditional grants	1.82	2.87	2.49	2.03	2.30	2.36	2.70	2.90	3.43	3.98	5.12	7.27	8.85	12.35	12.66	13.95	14.30	15.60
	Own Revenue	0.64	0.43	0.70	0.90	0.99	1.07	1.14	1.17	1.23	1.45	1.56	1.70	1.86	2.04	2.73	2.64	2.77	2.88
Limpopo	**Provincial receipts**	**11.27**	**12.05**	**13.06**	**14.06**	**15.42**	**18.54**	**16.98**	**19.11**	**20.66**	**23.02**	**25.52**	**30.35**	**35.80**	**40.25**	**43.41**	**46.82**	**47.80**	**51.72**
	Equitable share	10.81	10.81	11.70	12.87	14.18	16.53	15.02	17.15	18.18	20.57	22.55	26.45	30.92	33.71	36.45	38.89	41.14	42.90
	Conditional grants	0.26	0.98	1.12	0.87	0.95	1.59	1.62	1.60	2.09	2.00	2.52	3.36	4.33	5.98	6.37	7.23	5.82	7.43
	Own Revenue	0.20	0.26	0.25	0.32	0.29	0.42	0.33	0.35	0.39	0.45	0.44	0.54	0.55	0.56	0.60	0.70	0.85	1.39

	R billion	1997/98	1998/99	1999/00	2000/1	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Mpumalanga	**Provincial receipts**	**5.49**	**6.02**	**6.69**	**6.88**	**8.72**	**9.74**	**9.27**	**10.30**	**11.67**	**12.71**	**16.41**	**19.83**	**23.86**	**26.86**	**29.54**	**31.18**	**34.13**	**37.07**
	Equitable share	5.03	5.37	5.79	6.45	7.58	8.72	8.00	9.06	10.37	11.13	14.31	16.81	20.21	22.18	23.79	25.12	27.66	29.79
	Conditional grants	0.20	0.46	0.54	0.41	0.77	0.84	0.81	0.90	0.96	1.19	1.63	2.51	3.16	4.15	5.18	5.39	5.71	6.54
	Own Revenue	0.26	0.19	0.36	0.03	0.37	0.18	0.46	0.34	0.35	0.39	0.47	0.51	0.50	0.53	0.56	0.67	0.77	0.74
Northern Cape	**Provincial receipts**	**2.23**	**2.27**	**2.68**	**2.64**	**2.92**	**3.40**	**3.02**	**3.59**	**3.82**	**4.50**	**6.04**	**7.06**	**8.37**	**9.76**	**10.67**	**11.56**	**12.83**	**13.32**
	Equitable share	2.05	2.01	2.30	2.30	2.56	3.00	2.49	2.87	3.14	3.45	4.64	5.46	6.40	7.20	7.79	8.23	9.62	9.62
	Conditional grants	0.08	0.18	0.30	0.25	0.22	0.30	0.42	0.60	0.57	0.92	1.26	1.43	1.79	2.34	2.65	3.06	3.36	3.41
	Own Revenue	0.10	0.08	0.08	0.09	0.14	0.10	0.10	0.11	0.11	0.14	0.14	0.17	0.18	0.22	0.23	0.27	0.28	0.30
North West	**Provincial receipts**	**7.54**	**8.01**	**8.48**	**9.23**	**9.70**	**11.33**	**10.30**	**11.73**	**13.13**	**15.14**	**14.97**	**17.86**	**20.21**	**21.88**	**24.17**	**25.49**	**30.04**	**32.57**
	Equitable share	6.94	7.03	7.41	8.01	6.74	7.85	9.03	10.15	11.16	12.80	11.97	14.36	16.50	17.38	19.30	20.42	23.90	25.99
	Conditional grants	0.29	0.67	0.75	0.85	2.70	3.18	0.94	1.21	1.48	1.81	2.48	2.87	3.09	3.90	4.15	4.12	5.36	5.62
	Own Revenue	0.30	0.30	0.32	0.36	0.26	0.31	0.34	0.37	0.49	0.53	0.51	0.62	0.61	0.60	0.72	0.94	0.79	0.96
Western Cape	**Provincial receipts**	**10.17**	**10.73**	**11.28**	**11.91**	**13.04**	**14.43**	**13.59**	**15.13**	**16.76**	**18.43**	**21.56**	**24.99**	**30.00**	**34.60**	**37.01**	**39.60**	**43.42**	**48.19**
	Equitable share	9.16	8.20	8.50	9.24	9.87	11.29	10.04	11.24	12.30	13.46	15.48	18.24	21.76	24.46	27.02	29.08	31.88	35.59
	Conditional grants	0.44	2.00	2.05	1.91	2.22	2.02	2.22	2.43	2.74	3.28	4.06	4.81	6.30	8.08	7.76	8.19	9.07	10.19
	Own Revenue	0.56	0.53	0.73	0.76	0.95	1.12	1.33	1.46	1.71	1.69	2.02	1.94	1.94	2.07	2.23	2.33	2.47	2.41
ALL	**Total receipts**	**92.33**	**97.45**	**104.76**	**112.86**	**124.03**	**145.48**	**130.71**	**145.16**	**162.79**	**185.75**	**214.87**	**254.27**	**299.55**	**338.73**	**369.88**	**396.74**	**428.71**	**460.22**
	Equitable share	***83.85***	***81.33***	***87.70***	***96.36***	***102.60***	***120.18***	***108.33***	***120.35***	***135.53***	***151.21***	***173.11***	***204.20***	***240.23***	***265.66***	***290.88***	***311.47***	***339.72***	***363.29***
	Conditional grants	***5.03***	***12.73***	***12.98***	***12.17***	***16.23***	***18.52***	***16.19***	***18.58***	***19.93***	***26.45***	***32.31***	***40.68***	***49.63***	***62.40***	***66.61***	***71.76***	***74.98***	***81.37***
	Own Revenue	***3.46***	***3.40***	***4.08***	***4.33***	***5.19***	***6.78***	***6.19***	***6.23***	***7.32***	***8.09***	***9.45***	***9.39***	***9.68***	***10.67***	***12.39***	***13.51***	***14.44***	***15.56***

Note: Due to the shift of the social security function to the national sphere in 2003/4, revenue data have been made comparable by removing social security related conditional grants from receipts.
Note: Figures for 2014/15 are unaudited revised estimates of spending.

Source: National Treasury provincial database, National Treasury Provincial Budget and Expenditure Reviews (various issues)

Table 61: Expenditure (payments) by province in R billions, 1997/98 to 2014/15 (actual audited)

	R billions	1997/98	1998/99	1999/00	2000/1	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Eastern Cape	**Total payments**	**16.49**	**15.62**	**16.19**	**18.16**	**19.60**	**24.72**	**21.71**	**21.59**	**23.73**	**26.89**	**30.21**	**39.07**	**45.65**	**48.33**	**52.73**	**55.12**	**60.07**	**61.87**
	Education	*6.76*	*6.59*	*6.84*	*7.19*	*7.86*	*9.15*	*10.16*	*10.65*	*11.52*	*12.87*	*14.49*	*17.52*	*21.16*	*22.58*	*24.17*	*25.19*	*26.78*	*27.61*
	Health	*3.03*	*3.05*	*3.50*	*3.79*	*3.89*	*4.49*	*5.24*	*5.18*	*6.12*	*7.26*	*8.01*	*10.50*	*12.09*	*13.27*	*14.89*	*15.60*	*17.05*	*17.81*
	Social Development	*3.76*	*3.63*	*3.86*	*4.07*	*4.66*	*6.43*	*0.49*	*0.42*	*0.54*	*0.73*	*0.89*	*1.32*	*1.43*	*1.56*	*1.68*	*1.74*	*1.93*	*2.15*
	Other functions	*2.93*	*2.35*	*2.00*	*3.11*	*3.18*	*4.65*	*5.83*	*5.33*	*23.73*	*6.03*	*6.82*	*9.72*	*10.96*	*10.92*	*11.99*	*12.59*	*14.32*	*14.29*
Free State	**Total payments**	**6.95**	**7.08**	**6.69**	**7.43**	**8.23**	**9.71**	**8.92**	**9.70**	**10.68**	**12.30**	**13.27**	**16.08**	**18.77**	**20.97**	**23.31**	**25.20**	**27.01**	**28.62**
	Education	*2.54*	*2.61*	*2.79*	*2.99*	*3.17*	*3.52*	*4.05*	*4.40*	*4.92*	*5.35*	*5.80*	*6.71*	*7.85*	*8.46*	*9.26*	*10.06*	*10.56*	*11.30*
	Health	*1.66*	*1.69*	*1.59*	*1.78*	*1.95*	*2.19*	*2.54*	*2.79*	*3.12*	*3.46*	*3.83*	*4.45*	*5.21*	*6.02*	*6.81*	*7.61*	*7.78*	*8.13*
	Social Development	*1.13*	*1.16*	*1.16*	*1.26*	*1.48*	*2.10*	*0.28*	*0.29*	*0.38*	*0.44*	*0.43*	*0.54*	*0.67*	*0.71*	*0.80*	*0.87*	*0.96*	*0.97*
	Other functions	*1.63*	*1.62*	*1.16*	*1.40*	*1.62*	*1.90*	*2.04*	*2.21*	*2.26*	*3.05*	*3.22*	*4.37*	*5.05*	*5.78*	*6.43*	*6.66*	*7.71*	*8.23*
Gauteng	**Total payments**	**15.74**	**16.26**	**16.77**	**18.11**	**20.30**	**24.47**	**23.65**	**24.57**	**27.06**	**34.70**	**41.74**	**51.88**	**59.05**	**61.45**	**66.23**	**72.16**	**76.11**	**86.81**
	Education	*5.87*	*6.06*	*6.31*	*6.81*	*7.27*	*8.07*	*9.47*	*9.83*	*10.41*	*11.62*	*13.83*	*16.69*	*20.05*	*22.25*	*24.60*	*26.73*	*29.21*	*32.26*
	Health	*5.30*	*5.48*	*5.60*	*5.94*	*6.84*	*7.69*	*8.20*	*8.58*	*9.97*	*11.11*	*13.09*	*15.68*	*18.40*	*20.48*	*23.67*	*26.83*	*27.42*	*31.97*
	Social Development	*2.21*	*2.30*	*2.42*	*2.63*	*3.02*	*3.97*	*0.67*	*0.79*	*0.82*	*1.01*	*1.34*	*1.74*	*1.90*	*1.93*	*2.35*	*2.52*	*2.90*	*3.42*
	Other functions	*2.36*	*2.43*	*2.43*	*2.73*	*3.17*	*4.74*	*5.31*	*5.38*	*27.06*	*10.95*	*13.49*	*17.77*	*18.70*	*16.79*	*15.61*	*16.07*	*16.59*	*19.15*
KwaZulu-Natal	**Total payments**	**19.95**	**19.11**	**19.39**	**21.80**	**25.06**	**28.77**	**25.48**	**28.01**	**33.31**	**36.88**	**44.48**	**55.53**	**63.81**	**67.39**	**77.65**	**84.61**	**91.61**	**96.50**
	Education	*7.28*	*7.13*	*7.29*	*8.17*	*9.17*	*10.29*	*11.82*	*13.03*	*15.03*	*16.22*	*18.41*	*22.99*	*26.23*	*28.75*	*32.81*	*27.39*	*37.16*	*39.09*
	Health	*4.81*	*4.90*	*5.11*	*5.77*	*7.03*	*7.50*	*8.24*	*8.95*	*10.56*	*11.66*	*14.96*	*17.10*	*20.35*	*20.73*	*24.79*	*27.39*	*29.53*	*30.92*
	Social Development	*3.74*	*3.98*	*4.04*	*4.33*	*5.05*	*6.87*	*0.51*	*0.54*	*0.75*	*0.94*	*1.02*	*1.23*	*1.36*	*1.42*	*1.93*	*1.99*	*2.33*	*2.49*
	Other functions	*4.12*	*3.10*	*2.93*	*3.52*	*3.82*	*4.12*	*4.90*	*5.49*	*6.98*	*8.06*	*10.10*	*14.20*	*15.87*	*16.49*	*18.12*	*27.84*	*22.59*	*24.00*
Limpopo	**Total payments**	**11.70**	**12.16**	**12.58**	**14.49**	**15.66**	**18.78**	**16.50**	**18.72**	**20.70**	**23.85**	**24.69**	**30.56**	**35.53**	**41.32**	**42.38**	**44.81**	**45.86**	**51.88**
	Education	*5.55*	*5.80*	*5.85*	*6.37*	*6.67*	*7.35*	*8.26*	*9.61*	*10.36*	*11.37*	*11.81*	*14.70*	*17.86*	*20.20*	*20.31*	*21.01*	*22.65*	*24.94*
	Health	*1.95*	*2.08*	*2.22*	*2.52*	*2.66*	*3.17*	*3.63*	*4.17*	*4.79*	*5.83*	*6.13*	*7.96*	*9.02*	*10.51*	*11.37*	*12.83*	*13.14*	*14.73*
	Social Development	*1.80*	*2.03*	*2.33*	*2.64*	*2.97*	*4.29*	*0.14*	*0.34*	*0.36*	*0.40*	*0.42*	*0.70*	*0.77*	*1.00*	*1.17*	*1.20*	*1.32*	*1.48*
	Other functions	*2.40*	*2.25*	*2.18*	*2.95*	*3.35*	*3.98*	*4.47*	*4.60*	*5.19*	*6.26*	*6.32*	*7.20*	*7.87*	*9.61*	*9.53*	*9.78*	*8.75*	*10.73*

	R billions	1997/98	1998/99	1999/00	2000/1	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Mpumalanga	**Total payments**	**6.11**	**6.11**	**6.34**	**6.86**	**8.51**	**9.86**	**9.05**	**10.05**	**11.69**	**12.68**	**16.27**	**19.85**	**23.66**	**26.21**	**28.93**	**30.85**	**33.41**	**37.18**
	Education	*2.51*	*2.62*	*2.81*	*3.00*	*3.33*	*3.89*	*4.53*	*4.87*	*5.78*	*6.27*	*7.82*	*9.31*	*10.93*	*11.60*	*12.56*	*13.86*	*14.65*	*15.97*
	Health	*1.05*	*1.06*	*1.15*	*1.12*	*1.46*	*1.69*	*1.95*	*2.26*	*2.67*	*3.01*	*3.66*	*4.32*	*5.62*	*6.35*	*7.01*	*7.48*	*8.05*	*9.13*
	Social Development	*0.98*	*1.09*	*1.19*	*1.32*	*1.53*	*2.04*	*0.17*	*0.22*	*0.25*	*0.32*	*0.46*	*0.66*	*0.72*	*0.82*	*0.93*	*0.93*	*1.14*	*1.22*
	Other functions	*1.58*	*1.34*	*1.20*	*1.42*	*2.20*	*2.24*	*2.40*	*2.70*	*2.98*	*3.07*	*4.33*	*5.57*	*6.39*	*7.45*	*8.43*	*8.57*	*9.57*	*10.86*
Northern Cape	**Total payments**	**2.40**	**2.39**	**2.49**	**2.62**	**2.89**	**3.47**	**3.14**	**3.33**	**3.95**	**4.57**	**5.93**	**7.09**	**8.18**	**9.30**	**10.74**	**11.13**	**13.06**	**13.61**
	Education	*0.84*	*0.90*	*0.88*	*0.97*	*1.02*	*1.17*	*1.29*	*1.40*	*1.56*	*1.64*	*2.29*	*2.79*	*3.10*	*3.42*	*3.97*	*4.13*	*4.49*	*4.77*
	Health	*0.38*	*0.39*	*0.43*	*0.47*	*0.52*	*0.61*	*0.83*	*0.84*	*1.10*	*1.41*	*1.56*	*1.74*	*2.21*	*2.54*	*3.01*	*3.17*	*3.40*	*3.92*
	Social Development	*0.65*	*0.67*	*0.69*	*0.65*	*0.70*	*0.91*	*0.13*	*0.15*	*0.18*	*0.22*	*0.30*	*0.36*	*0.42*	*0.48*	*0.52*	*0.53*	*0.60*	*0.66*
	Other functions	*0.53*	*0.43*	*0.49*	*0.53*	*0.65*	*0.78*	*0.89*	*0.95*	*1.12*	*1.30*	*1.79*	*2.20*	*2.45*	*2.86*	*3.24*	*3.31*	*4.56*	*4.26*
North West	**Total payments**	**7.85**	**7.85**	**8.24**	**9.22**	**9.91**	**1154**	**10.19**	**11.11**	**13.14**	**15.14**	**15.35**	**17.69**	**20.36**	**21.87**	**24.04**	**25.10**	**29.90**	**32.78**
	Education	*3.24*	*3.20*	*3.41*	*3.70*	*3.97*	*4.38*	*4.84*	*5.18*	*5.95*	*6.69*	*6.21*	*7.18*	*8.39*	*9.10*	*9.88*	*10.42*	*11.67*	*12.59*
	Health	*1.38*	*1.34*	*1.38*	*1.56*	*1.70*	*2.01*	*2.26*	*2.59*	*2.97*	*3.48*	*3.85*	*4.49*	*5.20*	*5.72*	*6.38*	*7.01*	*8.39*	*8.61*
	Social Development	*1.07*	*1.37*	*1.49*	*1.78*	*1.98*	*2.62*	*0.27*	*0.26*	*0.32*	*0.32*	*0.41*	*0.54*	*0.61*	*0.75*	*0.88*	*0.92*	*1.05*	*1.25*
	Other functions	*2.16*	*1.94*	*1.96*	*2.18*	*2.26*	*2.54*	*2.81*	*3.07*	*3.89*	*4.65*	*4.89*	*5.49*	*6.17*	*6.31*	*6.90*	*6.74*	*8.79*	*10.32*
Western Cape	**Total payments**	**10.79**	**10.55**	**10.40**	**11.51**	**12.52**	**14.51**	**13.11**	**14.59**	**16.75**	**18.85**	**21.52**	**25.61**	**30.11**	**34.06**	**36.38**	**39.35**	**43.28**	**48.39**
	Education	*3.91*	*3.82*	*3.81*	*4.00*	*4.39*	*4.80*	*5.30*	*5.69*	*6.45*	*6.92*	*7.74*	*9.19*	*10.61*	*11.96*	*12.79*	*13.65*	*15.11*	*16.61*
	Health	*2.94*	*3.03*	*3.11*	*3.34*	*3.70*	*3.95*	*4.55*	*5.17*	*5.72*	*6.42*	*7.50*	*8.66*	*10.37*	*12.34*	*13.39*	*14.60*	*15.92*	*17.34*
	Social Development	*2.21*	*2.21*	*2.19*	*2.21*	*2.38*	*3.14*	*0.52*	*0.60*	*0.65*	*0.72*	*0.90*	*1.22*	*1.17*	*1.22*	*1.32*	*1.40*	*1.58*	*1.76*
	Other functions	*1.73*	*1.48*	*1.29*	*1.97*	*2.04*	*2.62*	*2.74*	*313*	*3.93*	*4.79*	*5.39*	*6.55*	*7.96*	*8.54*	*8.88*	*9.69*	*10.67*	*12.68*
ALL	**TOTAL**	**97.97**	**97.13**	**99.08**	**110.19**	**122.67**	**145.82**	**131.74**	**141.68**	**160.99**	**185.86**	**213.47**	**263.37**	**305.12**	**330.92**	**362.39**	**388.32**	**420.31**	**457.63**
	Education	***38.49***	***38.72***	***39.99***	***43.20***	***46.86***	***52.61***	***59.72***	***64.67***	***71.98***	***78.95***	***88.39***	***107.08***	***126.19***	***138.31***	***150.36***	***152.44***	***172.27***	***185.14***
	Health	***22.48***	***23.02***	***24.09***	***26.29***	***29.75***	***33.30***	***37.45***	***40.53***	***47.02***	***53.65***	***62.58***	***74.90***	***88.46***	***97.96***	***111.31***	***122.53***	***130.67***	***142.57***
	Social Development	***17.55***	***18.44***	***19.38***	***20.89***	***23.77***	***32.37***	***3.18***	***3.62***	***4.25***	***5.11***	***6.16***	***8.31***	***9.05***	***9.90***	***11.59***	***12.10***	***13.81***	***15.40***
	Other functions	***19.43***	***16.94***	***5.62***	***19.81***	***22.28***	***27.55***	***31.39***	***32.86***	***77.13***	***48.15***	***56.35***	***73.08***	***81.42***	***84.75***	***89.13***	***101.25***	***103.55***	***114.52***

Note: Due to the shift of the social security function to the national sphere in 2003/4, expenditure data from 2004/5 does not include social security spending, only social development services which remained in the provincial sphere.

Figures for 2014/15 are unaudited revised estimates of spending.

Source: National Treasury provincial database, National Treasury Provincial Budget and Expenditure Reviews (various issues

Table 62: Basic education expenditure (payments) by province in R billions, 1997/98 to 2014/15 (actual audited)

	R billions	1997/98	1998/99	1999/00	2000/1	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Eastern Cape	**Education payments**	**6.76**	**6.59**	**6.84**	**7.19**	**7.86**	**9.15**	**10.16**	**10.65**	**11.52**	**12.87**	**14.49**	**17.52**	**21.16**	**22.58**	**24.17**	**25.19**	**26.78**	**27.61**
	Compensation of employees	*5.85*	*6.03*	*6.49*	*6.77*	*7.17*	*8.04*	*8.70*	*9.32*	*9.92*	*10.71*	*11.72*	*13.76*	*17.11*	*18.86*	*19.78*	*20.48*	*21.41*	*22.24*
	Transfers & subsidies	*0.28*	*0.08*	*0.01*	*0.03*	*0.20*	*0.36*	*0.63*	*0.35*	*0.36*	*0.46*	*0.52*	*0.98*	*1.27*	*1.54*	*2.32*	*2.15*	*2.31*	*2.28*
	Capital payments	–	–	*0.05*	*0.06*	*0.03*	*0.12*	*0.11*	*0.32*	*0.34*	*0.52*	*0.45*	*0.94*	*0.87*	*0.40*	*0.99*	*1.04*	*1.34*	*1.17*
	Other	*0.63*	*0.48*	*0.29*	*0.33*	*0.47*	*0.63*	*0.71*	*0.67*	*0.91*	*1.18*	*1.79*	*1.84*	*1.91*	*1.79*	*1.08*	*1.52*	*1.72*	*1.92*
Free State	**Education payments**	**2.54**	**2.61**	**2.79**	**2.99**	**3.17**	**3.52**	**4.05**	**4.40**	**4.92**	**5.35**	**5.80**	**6.71**	**7.85**	**8.46**	**9.26**	**10.06**	**10.56**	**11.30**
	Compensation of employees	*2.26*	*2.39*	*2.47*	*2.66*	*2.78*	*3.02*	*3.39*	*3.60*	*3.90*	*4.15*	*4.52*	*5.34*	*6.09*	*6.78*	*7.27*	*7.84*	*8.41*	*8.86*
	Transfers & subsidies	*0.03*	*0.02*	*0.04*	*0.09*	*0.08*	*0.15*	*0.2*	*0.37*	*0.63*	*0.51*	*0.56*	*0.57*	*0.73*	*1.07*	*1.09*	*1.05*	*1.29*	*1.42*
	Capital payments	–	–	*0.01*	*0.05*	*0.10*	*0.12*	*0.15*	*0.11*	*0.06*	*0.20*	*0.23*	*0.33*	*0.44*	*0.16*	*0.41*	*0.49*	*0.34*	*0.41*
	Other	*0.25*	*0.20*	*0.26*	*0.19*	*0.21*	*0.23*	*0.27*	*0.33*	*0.33*	*1.07*	*0.49*	*0.46*	*0.58*	*0.45*	*0.48*	*0.67*	*0.52*	*0.60*
Gauteng	**Education payments**	**5.87**	**6.06**	**6.31**	**6.81**	**7.27**	**8.07**	**9.47**	**9.83**	**10.41**	**11.62**	**13.83**	**16.69**	**20.05**	**22.25**	**24.60**	**26.73**	**29.21**	**32.26**
	Compensation of employees	5.15	5.29	5.45	5.89	6.14	6.65	7.27	7.70	8.27	8.96	10.53	12.69	15.28	17.36	18.51	20.03	21.81	24.01
	Transfers & subsidies	0.23	0.21	0.19	0.29	0.47	0.53	0.66	0.80	0.72	0.86	1.51	1.55	1.63	2.06	2.25	2.38	3.00	3.41
	Capital payments	0.09	0.15	017	0.17	0.19	0.32	0.55	0.69	0.52	0.75	0.52	0.64	0.87	0.73	1.38	1.39	1.04	1.37
	Other	0.40	0.41	0.51	0.46	0.47	0.55	0.99	0.65	0.90	1.06	1.27	1.82	2.27	2.11	2.46	2.94	3.35	3.47
KwaZulu-Natal	**Education payments**	**7.28**	**7.13**	**7.29**	**8.17**	**9.17**	**10.29**	**11.82**	**13.03**	**15.03**	**16.22**	**18.41**	**22.99**	**26.23**	**28.75**	**32.81**	**34.56**	**37.16**	**39.09**
	Compensation of employees	6.53	6.50	6.85	7.61	8.22	9.16	10.05	10.86	11.88	12.95	14.65	18.04	20.86	22.61	26.21	27.56	29.93	32.20
	Transfers & subsidies	0.09	0.08	0.09	0.13	0.13	0.16	0.33	0.65	0.75	0.93	1.21	1.63	1.60	1.72	1.35	1.55	1.67	1.83
	Capital payments	0.16	0.09	0.03	0.08	0.34	0.39	0.56	0.49	0.74	0.75	0.95	1.23	1.41	1.92	2.12	2.58	2.38	1.76
	Other	0.50	0.46	0.33	0.35	0.48	0.57	0.89	1.04	1.66	1.59	1.60	2.10	2.36	2.49	3.14	2.87	3.18	3.31

	R billions	1997/98	1998/99	1999/00	2000/1	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Limpopo	**Education payments**	**5.55**	**5.80**	**5.85**	**6.37**	**6.67**	**7.35**	**8.26**	**9.61**	**10.36**	**11.37**	**11.81**	**14.70**	**17.86**	**20.20**	**20.31**	**21.01**	**22.65**	**24.94**
	Compensation of employees	4.99	5.47	5.44	5.87	6.12	6.61	7.09	7.86	8.76	9.26	9.65	11.85	14.17	15.91	16.65	17.55	18.71	20.10
	Transfers & subsidies	0.03	0.04	0.09	0.03	0.04	0.05	0.08	0.17	0.18	0.53	0.75	0.92	1.00	1.12	0.67	0.79	1.08	1.30
	Capital payments	0.02	0.03	0.04	0.05	0.10	0.21	0.33	0.46	0.38	0.48	0.42	0.72	0.99	1.07	1.24	0.57	1.14	1.37
	Other	0.51	0.26	0.29	0.41	0.41	0.48	0.77	1.12	1.05	1.10	0.99	1.20	1.71	2.10	1.76	2.09	1.72	2.17
Mpumalanga	**Education payments**	**2.51**	**2.62**	**2.81**	**3.00**	**3.33**	**3.89**	**4.53**	**4.87**	**5.78**	**6.27**	**7.82**	**9.31**	**10.93**	**11.60**	**12.56**	**13.86**	**14.65**	**15.97**
	Compensation of employees	2.29	2.43	2.59	2.79	2.96	3.24	3.56	3.87	4.33	4.75	6.00	7.36	8.42	9.25	10.12	10.91	11.62	12.54
	Transfers & subsidies	0.02	0.03	0.02	0.02	0.02	0.05	0.12	0.17	0.21	0.26	0.34	0.37	0.63	0.76	0.54	0.66	0.73	0.87
	Capital payments	0.06	0.05	0.06	0.03	0.07	0.12	0.24	0.14	0.18	0.30	0.27	0.39	0.33	0.42	0.64	0.65	0.70	1.04
	Other	0.13	0.11	0.14	0.15	0.28	0.47	0.61	0.69	1.07	0.96	1.22	1.19	1.56	1.16	1.26	1.64	1.61	1.52
Northern Cape	**Education payments**	**0.84**	**0.90**	**0.88**	**0.97**	**1.02**	**1.17**	**1.29**	**1.40**	**1.56**	**1.64**	**229**	**2.79**	**3.10**	**3.42**	**3.97**	**4.13**	**4.49**	**4.77**
	Compensation of employees	0.73	0.75	0.79	0.81	0.86	0.91	1.01	1.15	1.23	1.31	1.80	2.23	2.49	2.72	2.89	3.11	3.44	3.71
	Transfers & subsidies	0.02	0.02	0.02	0.08	0.09	0.12	0.11	0.10	0.15	0.16	0.19	0.28	0.31	0.36	0.36	0.42	0.38	0.42
	Capital payments	0.01	0.04	0.00	0.00	0.00	0.02	0.04	0.02	0.03	0.02	0.06	0.06	0.10	0.11	0.30	0.26	0.34	0.33
	Other	0.08	0.09	0.07	0.08	0.07	0.12	0.12	0.12	0.15	0.15	0.24	0.22	0.20	0.23	0.43	0.34	0.33	0.30
North West	**Education payments**	**3.24**	**3.20**	**3.41**	**3.70**	**3.97**	**4.38**	**4.84**	**5.18**	**5.95**	**6.69**	**6.21**	**7.18**	**8.39**	**9.10**	**9.88**	**10.42**	**11.67**	**12.59**
	Compensation of employees	2.88	3.02	3.12	3.40	3.61	3.92	4.24	4.47	4.93	5.25	4.94	5.66	6.50	7.08	7.64	8.30	9.00	9.68
	Transfers & subsidies	0.04	0.06	0.07	0.06	0.07	0.08	0.11	0.15	0.15	0.28	0.35	0.54	0.69	0.98	0.86	0.91	1.00	1.11
	Capital payments	0.16	0.02	0.04	0.05	0.05	0.14	0.14	0.14	0.26	0.35	0.16	0.24	0.31	0.24	0.55	0.31	0.68	0.72
	Other	0.16	0.10	0.18	0.18	0.24	0.24	0.35	0.41	0.61	0.80	0.74	0.74	0.89	0.79	0.83	0.91	0.98	1.09

	R billions	1997/98	1998/99	1999/00	2000/1	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Western Cape	**Education payments**	**3.91**	**3.82**	**3.81**	**4.00**	**4.39**	**4.80**	**5.30**	**5.69**	**6.45**	**6.92**	**7.74**	**9.19**	**10.61**	**11.96**	**12.79**	**13.65**	**15.11**	**16.61**
	Compensation of employees	3.41	3.37	3.37	3.57	3.72	3.96	4.32	4.57	4.96	5.25	5.90	7.09	8.21	9.19	9.73	10.46	11.27	12.17
	Transfers & subsidies	0.08	0.09	0.18	0.19	0.27	0.31	0.40	0.47	0.66	0.77	0.92	1.08	1.16	1.26	1.18	1.33	1.59	1.59
	Capital payments	0.08	0.05	0.02	0.00	0.09	0.10	0.14	0.15	0.29	0.23	0.15	0.21	0.32	0.45	0.65	0.57	0.74	1.19
	Other	0.34	0.31	0.24	0.23	0.33	0.43	0.45	0.51	0.53	0.66	0.76	0.82	0.91	1.05	1.23	1.28	1.52	1.67
ALL	**Education payments**	**38.49**	**38.72**	**39.9**	**43.20**	**46.86**	**52.61**	**59.72**	**64.67**	**71.98**	**78.95**	**88.39**	**107.08**	**126.19**	**138.31**	**150.36**	**159.60**	**172.27**	**185.4**
	Compensation of employees	***34.09***	***35.25***	***36.55***	***39.38***	***41.58***	***45.53***	***49.62***	***53.41***	***58.17***	***62.59***	***69.71***	***84.01***	***99.14***	***109.76***	***118.80***	***126.25***	***135.61***	***145.50***
	Transfers & subsidies	***0.82***	***0.6***	***0.71***	***0.93***	***1.36***	***1.80***	***2.67***	***3.22***	***3.79***	***4.76***	***6.36***	***7.91***	***9.03***	***10.87***	***10.61***	***11.24***	***13.05***	***14.22***
	Capital payments	***0.57***	***0.44***	***0.42***	***0.50***	***0.97***	***1.55***	***2.27***	***2.50***	***2.81***	***3.61***	***3.22***	***4.76***	***5.64***	***5.50***	***8.27***	***7.85***	***8.68***	***9.37***
	Other	***3.01***	***2.41***	***2.31***	***2.39***	***2.96***	***3.73***	***5.16***	***5.53***	***7.21***	***8.57***	***9.10***	***10.40***	***12.39***	***12.18***	***12.68***	***14.27***	***14.92***	***16.05***

Note: Figures for 2014/15 are unaudited revised estimates of spending.

Source: National Treasury provincial database, National Treasury Provincial Budget and Expenditure Reviews (various issues)

Table 63: Health expenditure (payments) by province in R billions, 1997/98 to 2014/15 (actual audited)

	R billions	1997/8	1998/9	1999/0	2000/1	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/4	2014/15
Eastern Cape	**Health payments**	**3.03**	**3.05**	**3.50**	**3.79**	**3.89**	**4.49**	**5.24**	**5.18**	**6.12**	**7.26**	**8.01**	**10.50**	**12.09**	**13.27**	**14.89**	**15.60**	**17.05**	**17.81**
	Compensation of employees	1.84	1.99	2.46	2.39	2.43	2.49	2.82	3.23	3.45	3.86	4.56	6.08	7.40	8.39	9.48	9.83	10.70	11.69
	Transfers & subsidies	0.35	0.39	0.35	0.62	0.50	0.69	0.74	0.45	0.73	0.29	0.42	0.62	0.52	0.55	0.31	0.39	0.39	0.39
	Capital payments	0.05	0.01	0.08	0.01	0.02	0.11	0.53	0.37	0.36	0.56	0.80	0.82	0.93	0.74	1.07	0.87	1.07	1.19
	Other	0.78	0.66	0.60	0.78	0.94	1.21	1.17	1.13	1.58	2.55	2.23	2.97	3.25	3.59	4.03	4.51	4.89	4.54
Free State	**Health payments**	**1.66**	**1.69**	**1.59**	**1.78**	**1.95**	**2.19**	**2.54**	**2.79**	**3.12**	**3.46**	**3.83**	**4.45**	**5.21**	**6.02**	**6.81**	**7.61**	**7.78**	**8.13**
	Compensation of employees	0.99	1.13	1.10	1.18	1.24	1.38	1.50	1.68	1.85	2.01	2.35	2.88	3.14	3.77	4.37	4.94	5.15	5.66
	Transfers & subsidies	0.15	0.12	0.11	0.11	0.10	0.12	0.09	0.11	0.09	0.07	0.07	0.08	0.09	0.09	0.13	0.15	0.12	0.08
	Capital payments	0.04	0.01	0.01	0.03	0.06	0.04	0.14	0.18	0.23	0.25	0.30	0.33	0.34	0.43	0.55	0.73	0.53	0.59
	Other	0.48	0.43	0.38	0.46	0.55	0.66	0.82	0.83	0.95	1.13	1.10	1.17	1.64	1.72	1.76	1.78	1.97	1.80
Gauteng	**Health payments**	**5.30**	**5.48**	**5.60**	**5.94**	**6.84**	**7.69**	**8.20**	**8.58**	**9.97**	**1.11**	**13.09**	**15.68**	**18.40**	**20.48**	**23.67**	**26.83**	**27.42**	**31.97**
	Compensation of employees	3.14	3.28	3.30	3.41	3.66	3.91	4.22	4.45	4.69	5.35	6.52	8.16	9.88	12.22	14.16	15.24	17.10	18.82
	Transfers & subsidies	0.43	0.42	0.01	0.52	0.49	0.61	0.70	0.81	0.87	0.74	0.78	0.75	0.92	0.85	0.98	2.02	1.42	1.50
	Capital payments	0.11	0.15	0.13	0.25	0.49	0.47	0.49	0.37	0.97	0.92	1.08	1.31	0.93	1.10	1.04	0.94	0.83	1.25
	Other	1.62	1.63	2.16	1.76	2.20	2.70	2.79	2.95	3.44	4.10	4.70	5.47	6.66	6.30	7.48	8.63	8.06	10.40
KwaZulu-Natal	**Health payments**	**4.81**	**4.90**	**5.11**	**5.77**	**7.03**	**7.50**	**8.24**	**8.95**	**10.56**	**11.66**	**14.96**	**17.10**	**20.35**	**20.73**	**24.79**	**27.39**	**29.53**	**30.92**
	Compensation of employees	*3.02*	*3.19*	*3.27*	*3.58*	*4.21*	*4.42*	*4.74*	*5.41*	*5.87*	*6.63*	*8.64*	*10.08*	*11.37*	*12.94*	*15.12*	*16.89*	*18.68*	*20.11*
	Transfers & subsidies	*0.25*	*0.28*	*0.30*	*0.32*	*0.43*	*0.46*	*0.48*	*0.28*	*0.38*	*0.37*	*0.35*	*0.45*	*0.50*	*0.56*	*0.52*	*0.49*	*0.74*	*0.86*
	Capital payments	*0.35*	*0.37*	*0.34*	*0.38*	*0.67*	*0.46*	*0.51*	*0.59*	*0.94*	*0.94*	*1.07*	*1.19*	*1.55*	*1.18*	*1.90*	*2.16*	*1.87*	*1.51*
	Other	*1.18*	*1.06*	*1.20*	*1.49*	*1.71*	*2.16*	*2.52*	*2.67*	*3.36*	*3.73*	*4.90*	*5.39*	*6.94*	*6.06*	*7.26*	*7.86*	*8.25*	*8.44*
Limpopo	**Health payments**	**1.95**	**2.08**	**2.22**	**2.52**	**2.66**	**3.17**	**3.63**	**4.17**	**4.79**	**5.83**	**6.13**	**7.96**	**9.02**	**10.51**	**11.37**	**12.83**	**13.14**	**14.73**
	Compensation of employees	*1.14*	*1.40*	*1.51*	*1.63*	*1.74*	*1.95*	*2.38*	*2.61*	*2.85*	*3.31*	*4.04*	*4.69*	*5.59*	*6.62*	*7.74*	*8.69*	*9.38*	*10.40*
	Transfers & subsidies	*0.16*	*0.08*	*0.05*	*0.09*	*0.09*	*0.13*	*0.02*	*0.08*	*0.10*	*0.13*	*0.12*	*0.29*	*0.28*	*0.38*	*0.38*	*0.46*	*0.51*	*0.53*
	Capital payments	*0.07*	*0.06*	*0.14*	*0.23*	*0.22*	*0.29*	*0.32*	*0.40*	*0.39*	*0.74*	*0.52*	*0.79*	*0.75*	*0.93*	*0.94*	*1.11*	*0.31*	*0.36*
	Other	*0.59*	*0.54*	*0.52*	*0.58*	*0.88*	*0.80*	*0.91*	*1.08*	*1.45*	*1.65*	*1.45*	*2.19*	*2.39*	*2.57*	*2.32*	*2.57*	*2.94*	*3.45*

	R billions	1997/8	1998/9	1999/0	2000/1	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/4	2014/15
Mpumalanga	**Health payments**	**1.05**	**1.06**	**1.15**	**1.12**	**1.46**	**1.69**	**1.95**	**2.26**	**2.67**	**3.01**	**3.66**	**4.32**	**5.62**	**6.35**	**7.01**	**7.48**	**8.05**	**9.13**
	Compensation of employees	*0.57*	*0.64*	*0.72*	*0.97*	*0.79*	*0.87*	*1.06*	*1.15*	*1.45*	*1.63*	*2.04*	*2.60*	*3.07*	*3.61*	*4.07*	*4.46*	*4.97*	*5.58*
	Transfers & subsidies	*0.02*	*0.05*	*0.02*	*–*	*0.05*	*0.05*	*0.05*	*0.12*	*0.09*	*0.08*	*0.11*	*0.09*	*0.11*	*0.14*	*0.20*	*0.20*	*0.28*	*0.26*
	Capital payments	*0.13*	*0.12*	*0.03*	*0.01*	*0.07*	*0.12*	*0.05*	*0.19*	*0.25*	*0.24*	*0.22*	*0.39*	*0.69*	*0.59*	*0.69*	*0.64*	*0.55*	*0.54*
	Other	*0.33*	*0.25*	*0.37*	*0.13*	*0.54*	*0.65*	*0.79*	*0.80*	*0.88*	*1.06*	*1.29*	*1.24*	*1.75*	*2.00*	*2.05*	*2.19*	*2.24*	*2.75*
Northern Cape	**Health payments**	**0.38**	**0.39**	**0.43**	**0.47**	**0.52**	**0.61**	**0.83**	**0.84**	**1.10**	**1.41**	**1.56**	**1.74**	**2.21**	**2.54**	**3.01**	**3.17**	**3.40**	**3.92**
	Compensation of employees	*0.20*	*0.22*	*0.27*	*0.30*	*0.32*	*0.37*	*0.43*	*0.47*	*0.52*	*0.62*	*0.79*	*0.89*	*1.03*	*1.28*	*1.43*	*1.58*	*1.79*	*1.95*
	Transfers & subsidies	*0.08*	*0.07*	*0.03*	*0.02*	*0.02*	*0.02*	*0.03*	*0.02*	*0.02*	*0.03*	*0.02*	*0.03*	*0.06*	*0.06*	*0.07*	*0.06*	*0.08*	*0.13*
	Capital payments	*0.01*	*0.01*	*0.01*	*0.01*	*0.03*	*0.04*	*0.04*	*0.08*	*0.17*	*0.30*	*0.23*	*0.20*	*0.38*	*0.34*	*0.52*	*0.55*	*0.50*	*0.59*
	Other	*0.10*	*0.10*	*0.12*	*0.14*	*0.14*	*0.19*	*0.34*	*0.27*	*0.38*	*0.46*	*0.52*	*0.62*	*0.73*	*0.86*	*0.99*	*0.98*	*1.03*	*1.25*
North West	**Health payments**	**1.38**	**1.34**	**1.38**	**1.56**	**1.70**	**2.01**	**2.26**	**2.59**	**2.97**	**3.48**	**3.85**	**4.49**	**5.20**	**5.72**	**6.38**	**7.01**	**8.39**	**8.61**
	Compensation of employees	*0.89*	*0.97*	*0.99*	*1.08*	*1.16*	*1.27*	*1.41*	*1.59*	*1.76*	*1.91*	*1.98*	*2.54*	*2.88*	*3.27*	*3.79*	*4.12*	*4.86*	*5.45*
	Transfers & subsidies	*0.08*	*0.05*	*0.06*	*0.07*	*0.04*	*0.05*	*0.05*	*0.07*	*0.11*	*0.17*	*0.12*	*0.10*	*0.13*	*0.14*	*0.17*	*0.18*	*0.12*	*0.13*
	Capital payments	*0.10*	*0.02*	*0.02*	*0.08*	*0.11*	*0.20*	*0.13*	*0.19*	*0.19*	*0.30*	*0.47*	*0.49*	*0.52*	*0.54*	*0.59*	*0.60*	*1.04*	*0.63*
	Other	*0.31*	*0.29*	*0.32*	*0.34*	*0.39*	*0.49*	*0.68*	*0.74*	*0.90*	*1.09*	*1.27*	*1.36*	*1.67*	*1.83*	*1.83*	*2.11*	*2.37*	*2.40*
Western Cape	**Health payments**	**2.94**	**3.03**	**3.11**	**3.34**	**3.70**	**3.95**	**4.55**	**5.17**	**5.72**	**6.42**	**7.50**	**8.66**	**10.37**	**12.34**	**13.39**	**14.60**	**15.92**	**17.34**
	Compensation of employees	*1.98*	*2.00*	*1.95*	*2.07*	*2.21*	*2.37*	*2.44*	*2.80*	*2.98*	*3.42*	*4.14*	*4.88*	*5.78*	*6.81*	*7.67*	*8.44*	*9.24*	*10.13*
	Transfers & subsidies	*0.24*	*0.27*	*0.41*	*0.43*	*0.41*	*0.41*	*0.47*	*0.47*	*0.50*	*0.38*	*0.41*	*0.43*	*0.55*	*0.72*	*0.75*	*0.78*	*0.88*	*1.00*
	Capital payments	*0.04*	*0.01*	*0.02*	*0.05*	*0.18*	*0.12*	*0.22*	*0.33*	*0.35*	*0.41*	*0.47*	*0.47*	*0.70*	*0.97*	*0.90*	*0.88*	*0.84*	*0.71*
	Other	*0.68*	*0.75*	*0.72*	*0.80*	*0.89*	*1.05*	*1.41*	*1.57*	*1.89*	*2.21*	*2.47*	*2.88*	*3.34*	*3.84*	*4.07*	*4.50*	*4.96*	*5.50*
ALL	**Health payments**	**22.48**	**23.02**	**24.09**	**26.29**	**29.75**	**33.30**	**37.45**	**40.53**	**47.02**	**53.65**	**62.58**	**74.90**	**88.46**	**97.96**	**111.31**	**122.53**	**130.67**	**142.57**
	Compensation of employees	***13.77***	***14.83***	***15.56***	***16.59***	***17.76***	***19.02***	***20.98***	***23.40***	***25.42***	***28.74***	***35.07***	***42.80***	***50.15***	***58.91***	***67.82***	***74.19***	***81.86***	***89.79***
	Transfers & subsidies	***1.75***	***1.73***	***1.34***	***2.18***	***2.14***	***2.54***	***2.61***	***2.40***	***2.90***	***2.26***	***2.40***	***2.82***	***3.17***	***3.51***	***3.50***	***4.74***	***4.55***	***4.87***
	Capital payments	***0.90***	***0.77***	***0.79***	***1.05***	***1.87***	***1.83***	***2.43***	***2.69***	***3.84***	***4.67***	***5.17***	***5.97***	***6.78***	***6.83***	***8.19***	***8.48***	***7.55***	***7.37***
	Other	***6.06***	***5.70***	***6.40***	***6.47***	***8.25***	***9.90***	***11.43***	***12.04***	***14.85***	***17.98***	***19.93***	***23.30***	***28.36***	***28.78***	***31.80***	***35.13***	***36.72***	***40.54***

Note: Figures for 2014/15 are unaudited revised estimates of spending.

Source: National Treasury provincial database, National Treasury Provincial Budget and Expenditure Reviews (various issues)

ANNEXURE 2: PFMP INDEX VARIABLES FOR PROVINCIAL EDUCATION DEPARTMENTS

EASTERN CAPE	WEIGHT	2007/8		2008/9		2009/10		2010/11		2011/12		2012/13		2013/14	
Compensation of Employees budget deviation	*10%*	1.1%	5	0.0%	5	-5.3%	4	-2.9%	5	-1.8%	5	1.3%	5	0.2%	5
Goods and services budget deviation	*10%*	-21.6%	2	2.6%	5	4.3%	5	21.4%	2	-1.5%	5	1.8%	5	-1.7%	5
Transfer budget deviation	*10%*	12.2%	3	-1.5%	5	4.8%	5	9.3%	4	-1.5%	5	8.5%	4	-4.0%	5
Capital budget deviation	*10%*	23.7%	2	0.2%	5	7.5%	4	56.2%	0	29.5%	1	-6.7%	4	10.9%	3
Financial audit opinion	*20%*	A	1	A	1	D	1	D	1	D	1	Q	2	Q	2
Audits of Predetermined Objectives	*10%*	CUR	1	T	1	CURT	0	UR	2	UR	2	CU	2	UR	2
Irregular expenditure (R million)	*10%*	131.0	2	1551.0	0	658.0	0	3938.0	0	858.6	0	631.9	0	149.3	2
Fruitless and wasteful expenditure (R million)	*10%*	18.1	4	47.9	4	0	5	90.5	3	54.5	3	631.3	0	51.4	3
Leadership, governance and financial management and performance controls	*10%*	LGF	0	LGF	0	LGF	0	LGF	0	LGF	0	LGF	0	LGF	0
PFMP INDEX	*100%*		**2.1**		**2.7**		**2.5**		**1.8**		**2.3**		**2.4**		**2.9**

FREE STATE	WEIGHT	2007/8		2008/9		2009/10		2010/11		2011/12		2012/13		2013/14	
Compensation of Employees budget deviation	*10%*	-2.2%	5	-6.7%	4	1.1%	5	1.3%	5	0.6%	5	-0.8%	5	-5.1%	4
Goods and services budget deviation	*10%*	-2.4%	5	29.5%	1	8.7%	4	5.4%	4	3.3%	5	0.9%	5	9.1%	4
Transfer budget deviation	*10%*	1.9%	5	11.1%	3	2.9%	5	5.2%	4	-0.7%	5	3.5%	5	1.1%	5
Capital budget deviation	*10%*	6.7%	4	19.0%	2	3.4%	5	38.6%	1	2.2%	5	1.6%	5	13.3%	3
Financial audit opinion	*20%*	FUWF	3	FUWF	3	Q	2	Q	2	FUWF	3	FUWF	3	Q	2
Audits of Predetermined Objectives	*10%*	-	4	C	3	CUR	1	CR	2	CUR	1	UR	2	R	3
Irregular expenditure	*10%*	0.1	4	138.8	2	93	3	115.5	2	82.8	3	361.8	1	269.0	1
Fruitless and wasteful expenditure	*10%*	0.0	5	4.1	4	18.901	4	13.8	4	0.04	4	0.01	4	3.6	4
Leadership, governance and financial management and performance controls	*10%*	LGF	0	LGF	0	F	2	LF	1	GF	1	F	2	LF	1
PFMP INDEX			**3.8**		**2.5**		**3.3**		**2.7**		**3.5**		**3.5**		**2.9**

GAUTENG	WEIGHT	2007/8		2008/9		2009/10		2010/11		2011/12		2012/13		2013/14	
Compensation of Employees budget deviation	*10%*	2.2%	5	-2.8%	5	-1.8%	5	-3.0%	5	0.1%	5	0.2%	5	-0.6%	5
Goods and services budget deviation	*10%*	31.6%	1	16.0%	2	9.1%	4	37.2%	1	33.1%	1	0.6%	5	6.8%	4
Transfer budget deviation	*10%*	0.2%	5	2.1%	5	1.2%	5	-0.4%	5	1.4%	5	4.0%	5	3.7%	5
Capital budget deviation	*10%*	-2.3%	5	-4.5%	5	-2.4%	5	-20.5%	2	-258.3%	0	5.0%	5	9.6%	4
Financial audit opinion	*20%*	Q	2	Q	2	FUWF	3	FUWF	3	FUWF	3	FUWF	3	FUWF	3
Audits of Predetermined Objectives	*10%*	C	3	-	4	-	4	-	4	-	4	-	4	-	4
Irregular expenditure	*10%*	0	5	0	5	108.6	2	6.1	4	1.4	4	233.3	2	1772.0	0
Fruitless and wasteful expenditure	*10%*	0	5	7.2	4	15.7	4	5.9	4	9.7	4	2.8	4	1.2	4
Leadership, governance and financial management and performance controls	*10%*	LGF	0	F	2	GF	1	F	2	F	2	F	2	LF	1
PFMP INDEX			**3.3**		**3.6**		**3.6**		**3.3**		**3.1**		**3.8**		**3.3**

KWAZULU-NATAL	WEIGHT	2007/8		2008/9		2009/10		2010/11		2011/12		2012/13		2013/14	
Compensation of Employees budget deviation	*10%*	2.5%	5	-3.7%	5	-0.5%	5	0.5%	5	-5.8%	4	-1.8%	5	-1.0%	5
Goods and services budget deviation	*10%*	4.6%	5	1.7%	5	-4.0%	5	18.6%	2	3.1%	5	11.3%	3	3.7%	5
Transfer budget deviation	*10%*	-2.9%	5	-5.9%	4	-1.2%	5	4.9%	5	18.1%	2	4.9%	5	4.5%	5
Capital budget deviation	*10%*	8.6%	4	3.4%	5	2.4%	5	8.8%	4	14.4%	3	4.3%	5	5.1%	4
Financial audit opinion	*20%*	FUWF	3	FUWF	3	FUWF	3	Q	2	Q	2	Q	2	Q	2
Audits of Predetermined Objectives	*10%*	-	4	-	4	C	3	-	4	R	3	UR	2	UR	2
Irregular expenditure	*10%*	54.9	3	751.9	0	974.0	0	84.4	3	187.3	2	358.4	1	2680.0	0
Fruitless and wasteful expenditure	*10%*	0	5	0.6	4	19.9	4	0	5	4.2	4	0.8	4	9.5	4
Leadership, governance and financial management and performance controls	*10%*	LF	1	GF	1	F	2	0	3	0	3	LG	1	LF	1
PFMP INDEX			**3.8**		**3.4**		**3.5**		**3.5**		**3.0**		**3.0**		**3.0**

LIMPOPO DEPARTMENT	WEIGHT	2007/08		2008/09		2009/10		2010/11		2011/12		2012/13		2013/14	
Compensation of Employees budget deviation	*10%*	0.0%	5	-3.9%	5	-3.9%	5	-3.9%	5	-4.1%	5	-0.7%	5	0.8%	5
Goods and services budget deviation	*10%*	10.5%	3	19.7%	2	3.6%	5	3.6%	5	5.5%	4	8.2%	4	22.5%	2
Transfer budget deviation	*10%*	2.7%	5	2.1%	5	-1.7%	5	-1.7%	5	-0.4%	5	-27.3%	1	-2.3%	5
Capital budget deviation	*10%*	-4.8%	5	-1.6%	5	-6.1%	4	-6.1%	4	1.1%	5	4.0%	5	-6.2%	4
Financial audit opinion	*20%*	Q	2	Q	2	D	1	Q	2	D	1	D	1	D	1
Audits of Predetermined Objectives	*10%*	-	4	CU	1	CUR	1	UR	2	CUR	1	UR	2	UR	2
Irregular expenditure	*10%*	0	5	0	5	171.0	2	696.0	0	162.7	2	1221.8	0	2209.4	0
Fruitless and wasteful expenditure	*10%*	0	5	0	5	5.3	4	60.0	3	95.0	3	320.7	1	168.6	2
Leadership, governance and financial management and performance controls	*10%*	LF	1	0	3	F	2	LGF	0	LF	1	LGF	0	LGF	0
PFMP INDEX			**3.7**		**3.5**		**3.0**		**2.8**		**2.8**		**2.0**		**2.2**

MPUMALANGA	WEIGHT	2007/8		2008/9		2009/10		2010/11		2011/12		2012/13		2013/14	
Compensation of Employees budget deviation	*10%*	-0.7%	5	-6.0%	4	-1.6%	5	-0.1%	5	0.7%	5	0.7%	5	0.7%	5
Goods and services budget deviation	*10%*	11.5%	3	19.9%	2	-12.8%	3	10.0%	4	1.7%	5	-7.0%	4	0.9%	5
Transfer budget deviation	*10%*	4.2%	5	8.4%	4	2.9%	5	0.4%	5	0.4%	5	-1.2%	5	0.1%	5
Capital budget deviation	*10%*	37.5%	1	14.8%	3	10.6%	3	36.0%	1	11.6%	3	-5.1%	4	8.9%	4
Financial audit opinion	*20%*	Q	2	Q	2	Q	2	FUWF	3	FUWF	3	FUWF	3	FUWF	3
Audits of Predetermined Objectives	*10%*	-	4	UR	2	R	3	R	3	R	3	UR	2	-	4
Irregular expenditure	*10%*	50.9	3	414.0	1	158.0	2	140.0	2	72.0	3	40.0	4	55.9	3
Fruitless and wasteful expenditure	*10%*	0	5	0	5	0	5	0	5	1.3	4	3.0	4	2.2	4
Leadership, governance and financial management and performance controls	*10%*	GF	1	F	1	LF	1	F	2	0	3	LF	1	-	3
PFMP INDEX			**3.1**		**2.6**		**3.1**		**3.3**		**3.7**		**3.5**		**3.9**

NORTHERN CAPE	WEIGHT	2007/8		2008/9		2009/10		2010/11		2011/12		2012/13		2013/14	
Compensation of Employees budget deviation	*10%*	-1.3%	5	-11.4%	3	-0.4%	5	0.0%	5	0.4%	5	0.1%	5	0.0%	5
Goods and services budget deviation	*10%*	2.0%	5	19.2%	2	-2.4%	5	0.8%	5	0.0%	5	1.1%	5	-8.2%	4
Transfer budget deviation	*10%*	8.6%	4	-4.5%	5	0.9%	5	0.2%	5	0.6%	5	0.0%	5	-6.6%	4
Capital budget deviation	*10%*	0.0%	5	2.6%	5	0.0%	5	0.6%	5	5.3%	4	16.5%	2	5.1%	4
Financial audit opinion	*20%*	D	1	D	1	Q	2	Q	2	Q	2	Q	2	Q	2
Audits of Predetermined Objectives	*10%*	-	4	-	4	R	1	UR	2	UR	2	UR	2	R	3
Irregular expenditure	*10%*	0	5	47.5	4	57.9	3	116.8	2	388.0	1	393.4	1	348.8	1
Fruitless and wasteful expenditure	*10%*	0	5	75.0	3	0	5	0.2	4	1	4	0.7	4	0.3	4
Leadership, governance and financial management and performance controls	*10%*	LGF	0	LGF	0	LGF	0	LGF	0	LF	1	0	3	LP	1
PFMP INDEX			**3.5**		**2.8**		**3.3**		**3.2**		**3.1**		**3.1**		**3.0**

NORTH WEST	WEIGHT	2007/8		2008/9		2009/10		2010/11		2011/12		2012/13		2013/14	
Compensation of Employees budget deviation	*10%*	-3.9%	5	0.0%	5	1.5%	5	0.0%	5	2.6%	5	0.1%	5	-1.9%	5
Goods and services budget deviation	*10%*	4.7%	5	5.0%	4	3.0%	5	0.8%	5	7.8%	4	7.2%	4	2.9%	5
Transfer budget deviation	*10%*	0.3%	5	-5.8%	4	-3.0%	5	-0.3%	5	0.0%	5	-3.6%	5	-1.8%	5
Capital budget deviation	*10%*	18.1%	2	8.7%	4	-9.3%	4	21.8%	2	1.4%	5	10.2%	3	-12.1%	5
Financial audit opinion	*20%*	Q	2	FUWF	3	D	1	Q	2	Q	2	Q	2	FUWF	3
Audits of Predetermined Objectives	*10%*	-	4	R	3	R	3	UR	2	UR	2	UR	2	R	3
Irregular expenditure	*10%*	230.6	2	11.2	4	31.7	4	140.7	2	9.0	4	25.6	4	54.1	3
Fruitless and wasteful expenditure	*10%*	0	5	0	5	0.3	4	1.1	4	0	5	0.4	4	0.1	4
Leadership, governance and financial management and performance controls	*10%*	LGF	0	F	2	LF	1	LF	1	LF	1	LF	1	LGF	0
PFMP INDEX			**3.2**		**3.7**		**3.3**		**3.0**		**3.5**		**3.2**		**3.6**

WESTERN CAPE	WEIGHT	2007/8		2008/9		2009/10		2010/11		2011/12		2012/13		2013/14	
Compensation of Employees budget deviation	*10%*	0.3%	5	0.0%	5	0.0%	5	0.1%	5	0.0%	5	0.0%	5	0.0%	5
Goods and services budget deviation	*10%*	2.8%	5	0.4%	5	1.0%	5	2.1%	5	0.4%	5	3.9%	5	0.8%	5
Transfer budget deviation	*10%*	2.4%	5	-0.1%	5	0.6%	5	0.2%	5	0.1%	5	0.1%	5	0.0%	5
Capital budget deviation	*10%*	14.3%	3	5.3%	4	12.7%	3	2.7%	5	1.0%	5	2.3%	5	16.8%	2
Financial audit opinion	*20%*	FUWF	3	FUWF	3	FUWF	3	FUWF	3	Q	2	FUWF	3	FUWF	3
Audits of Predetermined Objectives	*10%*	-	4	-	4	CUR	1	-	4	-	4	-	4	-	4
Irregular expenditure	*10%*	0	5	0	5	380.6	1	18.7	4	36.0	4	6.9	4	4.7	4
Fruitless and wasteful expenditure	*10%*	0	5	0	5	0	5	0	5	0	5	0.04	4	2.4	4
Leadership, governance and financial management and performance controls	*10%*	LGF	0	F	2	0	3	F	2	LF	1	F	2	-	3
PFMP INDEX			**3.8**		**4.1**		**3.4**		**4.1**		**3.8**		**4.0**		**3.8**

:

NATIONAL AVERAGE			**3.4**		**3.2**		**3.2**		**3.1**		**3.2**		**3.2**		**3.2**

Notes:
Negative deviations indicate overspending as a percentage of total expenditure, positive deviations indicate underspending as a percentage of total expenditure

Financial audit opinion codes:
A = adverse, D = disclaimer, Q = Qualified, FUWF = Unqualified with findings, FU = financially unqualified

Audits of Predetermined Objectives findings codes *:*
T = not submitted by legislated date, C = compliance finding, U = performance information not useful, R = performance information not reliable
Leadership and governance findings:
L = leadership not fulfilling roles, G = governance weaknesses e.g. in internal audit or audit committee, F=financial controls weaknesses

Source: Own calculation using financial and non-financial data from departmental annual reports in the National Treasury database and Auditor-General reports

ANNEXURE 3: PFMP INDEX VARIABLES FOR PROVINCIAL HEALTH DEPARTMENTS

EASTERN CAPE	WEIGHT	2007/8		2008/9		2009/10		2010/11		2011/12		2012/13		2013/14	
Compensation of Employees budget deviation	*10%*	-0.8%	5	1.2%	5	-15.5%	2	-1.6%	5	-3.2%	5	1.3%	5	0.1%	5
Goods and services budget deviation	*10%*	-1.3%	5	-4.5%	5	5.4%	4	1.6%	5	0.6%	5	1.8%	5	1.1%	5
Transfer budget deviation	*10%*	0.2%	5	-56.2%	0	21.3%	2	5.5%	4	7.3%	4	8.5%	4	3.0%	5
Capital budget deviation	*10%*	13.1%	3	53.6%	0	28.3%	1	45.7%	1	15.6%	2	-6.7%	4	4.7%	5
Financial audit opinion	*20%*	A	1	A	1	D	1	Q	2	Q	2	Q	2	Q	2
Audits of Predetermined Objectives	*10%*	CUR	1	UR	2	CUR	1	CURT	0	UR	2	UR	2	R	3
Irregular expenditure (R millions)	*10%*	678.5	0	730	0	1000	0	278.32	1	426.00	1	304.00	1	149.3	2
Fruitless and wasteful expenditure (R millions)	*10%*	0	5	0	5	0	5	24.917	4	84.7	3	128.50	2	51.4	3
Leadership, governance and financial management and performance controls	*10%*	LGF	0	LGF	0	LGF	0	LGF	0	LGF	0	GF	1	LF	1
PFMP INDEX			2.6		1.9		1.7		2.4		2.6		2.8		3.3

FREE STATE	WEIGHT	2007/8		2008/9		2009/10		2010/11		2011/12		2012/13		2013/14	
Compensation of Employees budget deviation	*10%*	-4.0%	5	-2.9%	5	0.3%	5	0.4%	5	-0.8%	5	-2.1%	5	0.2%	5
Goods and services budget deviation	*10%*	0.5%	5	-1.2%	5	8.1%	4	1.1%	5	0.8%	5	-0.3%	5	1.7%	5
Transfer budget deviation	*10%*	-0.2%	5	15.0%	2	5.5%	4	-0.2%	5	-17.1%	2	-8.5%	4	3.4%	5
Capital budget deviation	*10%*	-1.0%	5	22.9%	2	30.2%	1	37.0%	1	25.8%	1	26.2%	1	24.2%	5
Financial audit opinion	*20%*	Q	2	Q	2	D	1	Q	2	Q	2	Q	2	Q	2
Audits of Predetermined Objectives	*10%*	0	4	0	4	UT	2	CR	2	UR	2	R	3	R	3
Irregular expenditure (R millions)	*10%*	116.804	2	157	2	274	1	318.543	1	45.30	4	143.70	2	1102.90	0
Fruitless and wasteful expenditure (R millions)	*10%*	4.93	4	0.525	4	22.262	4	21.115	4	16.1	4	3.20	4	12.50	4
Leadership, governance and financial management and performance controls	*10%*	GF	1	GF	1	LGF	0	LGF	0	LGF	0	LGF	0	LGF	0
PFMP INDEX			3.5		2.9		2.3		2.7		2.7		2.8		3.1

GAUTENG	WEIGHT	2007/8		2008/9		2009/10		2010/11		2011/12		2012/13		2013/14	
Compensation of Employees budget deviation	*10%*	-5.4%	4	-7.1%	4	-2.9%	5	-12.1%	3	-5.4%	4	0.2%	5	-0.6%	5
Goods and services budget deviation	*10%*	-10.5%	3	-10.8%	3	-38.2%	1	4.4%	5	-7.5%	4	-2.9%	5	7.4%	4
Transfer budget deviation	*10%*	-0.8%	5	6.2%	4	6.6%	4	23.6%	2	28.6%	1	-1.1%	5	3.1%	5
Capital budget deviation	*10%*	11.7%	3	16.0%	2	48.1%	1	38.5%	1	36.5%	1	38.8%	1	48.0%	1
Financial audit opinion	*20%*	Q	2	D	1	D	1	Q	2	Q	2	Q	2	Q	2
Audits of Predetermined Objectives	*10%*	CUR	1	C	3	R	3	CU	2	UR	2	R	3	R	3
Irregular expenditure (R millions)	*10%*	0	5	2	4	456	1	2246.12	0	2500.00	0	1525.20	0	233.90	2
Fruitless and wasteful expenditure (R millions)	*10%*	0	5	2.199	4	5.15349	4	217.978	2	10	4	449.40	1	161.60	2
Leadership, governance and financial management and performance controls	*10%*	LGF	0	LGF	0	LGF	0	LGF	0	LGF	0	LF	1	LF	1
PFMP INDEX			**3.0**		**2.6**		**2.1**		**1.9**		**2**		**2.5**		**2.7**

KWAZULU-NATAL	WEIGHT	2007/08		2008/09		2009/10		2010/11		2011/12		2012/13		2013/14	
Compensation of Employees budget deviation	*10%*	-9.2%	4	-10.6%	3	-8.7%	4	2.3%	5	-0.3%	5	0.0%	5	0.0%	5
Goods and services budget deviation	*10%*	-15.0%	3	-9.1%	4	-21.4%	2	9.2%	4	-3.7%	5	-2.2%	5	-4.0%	5
Transfer budget deviation	*10%*	4.3%	5	-2.9%	5	5.0%	4	1.0%	5	4.4%	5	10.3%	3	4.4%	5
Capital budget deviation	*10%*	22.9%	2	8.5%	4	0.9%	5	28.7%	1	7.5%	4	0.5%	5	0.6%	5
Financial audit opinion	*20%*	FUWF	3	Q	2	Q	2	Q	2	Q	2	Q	2	Q	2
Audits of Predetermined Objectives	*10%*	0	4	0	4	R	3	R	3	R	3	UR	2	R	3
Irregular expenditure (R millions)	*10%*	0	5	1182	0	344	1	562.33	0	2038.00	0	2719.20	0	1219.7	0
Fruitless and wasteful expenditure (R millions)	*10%*	0	5	0	5	0	5	0	5	0.02	4	0.11	4	0.7	4
Leadership, governance and financial management and performance controls	*10%*	LF	1	F	2	LGF	0	F	2	0	3	LF	1	LF	1
PFMP INDEX			**3.5**		**3.1**		**2.8**		**2.9**		**3.3**		**2.9**		**3.2**

LIMPOPO	WEIGHT	2007/8		2008/9		2009/10		2010/11		2011/12		2012/13		2013/14	
Compensation of Employees budget deviation	*10%*	0.0%	5	0.1%	5	0.7%	5	0.0%	5	-1.4%	5	-1.3%	5	0.2%	5
Goods and services budget deviation	*10%*	0.5%	5	-2.3%	5	5.2%	4	1.4%	5	3.0%	5	1.8%	5	2.5%	5
Transfer budget deviation	*10%*	18.4%	2	6.5%	4	0.2%	5	0.2%	5	12.9%	3	-0.9%	5	8.6%	4
Capital budget deviation	*10%*	1.2%	5	2.0%	5	9.4%	4	9.5%	4	23.3%	2	9.7%	4	39.9%	1
Financial audit opinion	*20%*	Q	2	Q	2	Q	2	D	1	D	1	D	1	Q	2
Audits of Predetermined Objectives	*10%*	0	4	CR	2	CR	2	UR	2	UR	2	UR	2	UR	2
Irregular expenditure (R millions)	*10%*	0	5	0	5	0	4	401	1	625.60	0	571.00	0	870.0	0
Fruitless and wasteful expenditure (R millions)	*10%*	0	5	0	5	59.946	3	161	2	8	4	18.40	4	33.8	4
Leadership, governance and financial management and performance controls	*10%*	GF	1	0	3	F	2	LF	1	LF	1	LF	1	LGF	0
PFMP INDEX			**3.6**		**3.8**		**3.3**		**2.7**		**2.4**		**2.8**		**2.5**

MPUMALANGA	WEIGHT	2007/8		2008/9		2009/10		2010/11		2011/12		2012/13		2013/14	
Compensation of Employees budget deviation	*10%*	-0.4%	5	-0.1%	5	2.1%	5	-1.0%	5	3.9%	5	0.2%	5	0.2%	5
Goods and services budget deviation	*10%*	-7.6%	4	3.5%	5	26.3%	1	-1.3%	5	2.7%	5	-0.1%	5	-0.8%	5
Transfer budget deviation	*10%*	-5.9%	4	7.6%	4	6.6%	4	-9.1%	4	-3.3%	5	1.3%	5	-16.0%	2
Capital budget deviation	*10%*	13.1%	3	53.6%	0	28.3%	1	45.7%	1	15.6%	2	-6.7%	4	16.0%	2
Financial audit opinion	*20%*	Q	2	Q	2	Q	2	Q	2	Q	2	Q	2	Q	2
Audits of Predetermined Objectives	*10%*	U	3	UR	2	R	3	R	3	R	3	UR	2	UR	2
Irregular expenditure (R millions)	*10%*	8.9	4	2	4	35	4	15.281	4	285.06	1	123.10	2	818.4	0
Fruitless and wasteful expenditure (R millions)	*10%*	4.8	4	0	5	0	5	0	5	1.096	4	2.00	4	0.33	4
Leadership, governance and financial management and performance controls	*10%*	GF	1	LGF	0	LF	1	0	3	F	2	LGF	0	LF	1
PFMP INDEX			**3.2**		**2.9**		**2.8**		**3.4**		**3.1**		**3.1**		**2.5**

NORTHERN CAPE	WEIGHT	2007/8		2008/9		2009/10		2010/11		2011/12		2012/13		2013/14	
Compensation of Employees budget deviation	*10%*	0.9%	5	5.2%	4	0.0%	5	-6.5%	4	0.1%	5	0.0%	5	0.0%	5
Goods and services budget deviation	*10%*	-20.9%	2	-7.5%	4	0.6%	5	8.7%	4	-3.1%	5	4.6%	5	0.1%	5
Transfer budget deviation	*10%*	12.1%	3	35.6%	1	-21.9%	2	-10.0%	3	5.8%	4	10.3%	3	-10.7%	3
Capital budget deviation	*10%*	31.1%	1	64.4%	0	21.9%	2	25.7%	1	5.4%	4	4.6%	5	14.2%	3
Financial audit opinion	*20%*	D	1	D	1	D	1	D	1	D	1	Q	2	Q	2
Audits of Predetermined Objectives	*10%*	0	4	0	4	CUR	1	UR	2	UR	2	UR	2	UR	2
Irregular expenditure (R millions)	*10%*	42	4	154	2	492	1	1074.86	0	942.00	0	1064.50	0	1003.1	0
Fruitless and wasteful expenditure (R millions)	*10%*	0	5	0	5	0	5	1.508	4	22	4	2.10	4	20.2	4
Leadership, governance and financial management and performance controls	*10%*	LGF	0	LGF	0	LGF	0	LGF	0	LF	1	LF	1	LGF	0
PFMP INDEX			**2.6**		**2.2**		**2.3**		**2.0**		**2.7**		**2.9**		**2.6**

NORTH WEST	WEIGHT	2007/8		2008/9		2009/10		2010/11		2011/12		2012/13		2013/14	
Compensation of Employees budget deviation	*10%*	0.0%	5	-3.7%	5	0.3%	5	-1.1%	5	0.1%	5	0.2%	5	0.0%	5
Goods and services budget deviation	*10%*	1.6%	5	2.4%	5	-0.5%	5	0.4%	5	-0.1%	5	0.3%	5	-2.0%	5
Transfer budget deviation	*10%*	3.2%	5	6.4%	4	11.0%	3	1.0%	5	1.3%	5	0.2%	5	-6.0%	4
Capital budget deviation	*10%*	8.7%	4	2.2%	5	-1.4%	5	2.5%	5	4.8%	5	7.4%	4	1.1%	5
Financial audit opinion	*20%*	Q	2	Q	2	FUWF	3	FUWF	3	Q	2	FUWF	3	FUWF	3
Audits of Predetermined Objectives	*10%*	0	4	R	3	R	3	UR	2	UR	2	UR	2	R	3
Irregular expenditure (R millions)	*10%*	0	5	92	3	514	0	949.487	0	1726.00	0	5.70	4	725.1	0
Fruitless and wasteful expenditure (R millions)	*10%*	0	5	0	5	0	5	246	2	1	4	0.17	4	8.8	4
Leadership, governance and financial management and performance controls	*10%*	GF	1	GF	1	0	3	LF	1	LF	1	LF	2	LGF	0
PFMP INDEX			**3.8**		**3.5**		**3.5**		**3.1**		**3.1**		**3.7**		**3.2**

WESTERN CAPE	WEIGHT	2007/8		2008/9		2009/10		2010/11		2011/12		2012/13		2013/14	
Compensation of Employees budget deviation	*10%*	-2.3%	5	-0.8%	5	-0.6%	5	0.5%	5	0.2%	5	0.5%	5	0.5%	5
Goods and services budget deviation	*10%*	-0.8%	5	-0.8%	5	-0.7%	5	-0.2%	5	0.4%	5	0.0%	5	-0.9%	5
Transfer budget deviation	*10%*	0.4%	5	6.3%	4	0.9%	5	2.7%	5	5.2%	4	3.3%	5	1.3%	5
Capital budget deviation	*10%*	7.7%	4	34.5%	1	16.8%	2	1.9%	5	-3.7%	5	8.3%	4	10.1%	3
Financial audit opinion	*20%*	FUWF	3	FUWF	3	FUWF	3	FUWF	3	FUWF	3	FUWF	3	FUWF	3
Audits of Predetermined Objectives	*10%*	0	4	0	4	CUR	1	0	4	0	4	0	4	0	4
Irregular expenditure (R millions)	*10%*	40.693	4	4	4	640	0	119.194	2	74.00	3	86.70	3	88.0	3
Fruitless and wasteful expenditure (R millions)	*10%*	0	5	0	5	0	5	0	5	6	4	0.06	4	0	5
Leadership, governance and financial management and performance controls	*10%*	GF	1	GF	1	F	2	F	2	F	2	0	3	F	2
PFMP INDEX			**3.9**		**3.5**		**3.1**		**3.9**		**3.8**		**3.9**		**3.8**
NATIONAL AVERAGE			**3.3**		**2.9**		**2.7**		**2.8**		**2.9**		**3.0**		**3.0**

Notes:
Financial audit opinion codes:
A = adverse, D = disclaimer, Q = Qualified, FUWF = Unqualified with findings, FU = financially unqualified
Audits of Predetermined Objectives findings codes *:*
T = not submitted by legislated date, C = compliance finding, U = performance information not useful, R = performance information not reliable

Source: Own calculation using financial and non-financial data from departmental annual reports in the National Treasury database and Auditor-General reports

ANNEXURE 4: QUESTIONNAIRE

PUBLIC FINANCIAL MANAGEMENT (PFM) REFORMS FOR VALUE-FOR-MONEY (VFM) IN SOUTH AFRICAN PROVINCIAL GOVERNMENTS

RESPONDENT INFORMATION

Surname		First Name	
Department		Date of interview	
Job title		Province	
No of years with current Department		No of years in PFM	

GENERAL PFMA PERSPECTIVES

1. In your opinion, what were the objectives of PFM reforms in South Africa?	1 Strongly disagree	2. Disagree	3. Agree	4. Strongly agree	5. Don't know
1.1 Regulatory compliance and control	○	○	○	○	○
1.2 Effective management of revenues, expenditures, assets and liabiliites	○	○	○	○	○
1.3 Improved value for money (VFM)	○	○	○	○	○
1.4 Cost saving and expenditure reduction	○	○	○	○	○
1.5 Improved service delivery	○	○	○	○	○
1.6 Enhanced accountability	○	○	○	○	○
1.7 Anti-corruption and fraud	○	○	○	○	○
1.8 Uniform treasury norms & standards	○	○	○	○	○
Were there other objectives not mentioned above? If so, please state and rate.					
1.9	○	○	○	○	○
Comments	`				

2. Please rate the following as factors triggering PFM reforms in South Africa	1 Strongly disagree	2. Disagree	3. Agree	4. Strongly agree	5. Don't know
2.1 Global economic pressures	○	○	○	○	○
2.2 Internal political pressures of a new democracy	○	○	○	○	○
2.3 Restoring macroeconomic stability	○	○	○	○	○
2.4 Social and demographic changes	○	○	○	○	○
2.5 New Public Management thinking	○	○	○	○	○
2.6 Pressure from citizens	○	○	○	○	○
2.7 Other:	○	○	○	○	○
Comments					

3. In your opinion, which the objectives of PFM reforms in South Africa have been achieved?	1 Strongly disagree	2. Disagree	3. Agree	4. Strongly agree	5. Don't know
3.1 Regulatory compliance and control	◌	◌	◌	◌	◌
3.2 Effective management of revenues, expenditures, assets and liabiliites	◌	◌	◌	◌	◌
3.3 Improved value for money VFM	◌	◌	◌	◌	◌
3.4 Cost saving and expenditure reduction	◌	◌	◌	◌	◌
3.5 Improved service delivery	◌	◌	◌	◌	◌
3.6 Enhanced accountability	◌	◌	◌	◌	◌
3.7 Anti-corruption and fraud	◌	◌	◌	◌	◌
3.8 Uniform treasury norms and standards	◌	◌	◌	◌	◌
3.9 What evidence have you based this conclusion on?					
Comments					

PFMA REFORM IN YOUR DEPARTMENT/PROVINCE

4. In relation to your department /provinces over the last 5 years, which of the following statements are true	1 Strongly disagree	2. Disagree	3. Agree	4. Strongly agree	5. Don't know
4.1 Overspending and unauthorised expenditure has substantially decreased.	◌	◌	◌	◌	◌
4.2 Underspending, especially of capital budgets, has decreased.	◌	◌	◌	◌	◌
4.3 Fruitless and wasteful expenditure has decreased	◌	◌	◌	◌	◌
4.4 Programme and sub-programme budgets are closely aligned with planning priorities	◌	◌	◌	◌	◌
4.5 Increased value for money is being obtained	◌	◌	◌	◌	◌
4.6 The incidence of corruption and fraud has decreased	◌	◌	◌	◌	◌
4.7 Transparency of budgets and financial statements has increased	◌	◌	◌	◌	◌
4.8 Financial accountability has improved substantially	◌	◌	◌	◌	◌
4.9 Managers have become more VFM conscious in their decisions	◌	◌	◌	◌	◌
4.10 The Dept/Province controls its personnel spending within budgeted limits	◌	◌	◌	◌	◌
4.11 What evidence have you based this conclusion on?					
Comments					

5. What are the main underlying factors (positive and negative) which either supported or hindered PFMA reform outcomes in your department/province over the last 5 years?		
Positive factors:		Negative factors
Comments		

6. In relation to the status quo in your Department/Province, please rate the following statements	1 Strongly disagree	2. Disagree	3. Agree	4. Strongly agree	5. Don't know
6.1 The PFMA is fully implemented, right down to the lowest delivery unit	○	○	○	○	○
6.2 PFMA roles and responsibilities are fully understood by senior management	○	○	○	○	○
6.3 PFMA roles and responsibilities are fully understood by middle management	○	○	○	○	○
6.4 Non-financial line managers (especially those in institutions) understand their PFMA roles and responsibiliites	○	○	○	○	○
6.5 The Chief Financial Officer (CFO) reports directly to the Accounting Officer	○	○	○	○	○
6.6 The CFO's Office has an adequate number of staff to meet PFMA requirements	○	○	○	○	○
6.7 The CFO's Office staff have appropriate skills to meet PFMA requirements	○	○	○	○	○
6.8 The quality of financial information has improved substantially.	○	○	○	○	○
6.9 The quality of non-financial information has improved substantially.	○	○	○	○	○
6.10 Managers routinely use financial information in their decision-making	○	○	○	○	○
6.11 Managers routinely use performance information in their decision-making	○	○	○	○	○
6.12 Electronic systems for financial management (e.g. BAS) generate information about VFM	○	○	○	○	○
6.13 There is a close link between Annual Performance Plans and Budgets	○	○	○	○	○
6.14 Value-for-money (VFM) is considered in planning and budgeting	○	○	○	○	○
6.15 The Medium Term Expenditure Framework (MTEF) outer years create predictability in budgets	○	○	○	○	○

6.16 The MTEF promotes Value for Money (VFM)	○	○	○	○	○
6.17 Costing of programmes and projects has improved	○	○	○	○	○
6.18 The unit costs of delivering service delivry outputs are determined regularly	○	○	○	○	○
6.19 All supply chain management process comply with the PFMA	○	○	○	○	○
6.20 Supply chain management processes promote value for money	○	○	○	○	○
6.21 Managers use in-year management reports to increase value for money.	○	○	○	○	○
7. In relation to the status quo in your Department /Province, please rate the following statements	1 Strongly disagree	2. Disagree	3. Agree	4. Strongly agree	5. Don't know
7.1 Internal audit promotes value for money not just compliance	○	○	○	○	○
7.2 Audits of Predetermined Objectives are useful for increasing value for money	○	○	○	○	○
7.3 Staff members support PFMA implementation and ongoing reforms	○	○	○	○	○
7.4 Staff members are overwhelmed by continuous reforms	○	○	○	○	○
7.5 The organisational culture support a value for money-orientation not only compliance	○	○	○	○	○
7.6 Since PFMA implementation, managers' mindsets have been oriented to value for money.	○	○	○	○	○
7.8 Achieving value-for-money is recognised and rewarded.	○	○	○	○	○
7.9 There are consequences and sanctions for wasteful spending	○	○	○	○	○
8. What would be the three most important things to be done to promote PFMA implentation?	1				
	2				
	3				
9. What lessons have you learnt from your PFM reform experience relevant for other depts/provinces/ countries contemplating simlar reforms					

THANK YOU FOR SHARING YOUR VALUABLE INSIGHTS