

THE UTILISATION OF THE BUDGET AS A STRATEGIC AND MANAGERIAL TOOL

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ABSTRACT

The introduction of the Medium Term Expenditure Framework (MTEF) as a budgeting planning process provides a basis for a more strategic focus on public expenditure planning and management in South Africa. Budget allocation ensures that public sector managers ensure that provision is made for expenditure over a three-year rolling period. The budget for the three-year period is based on the departmental strategic and service delivery plans. The MTEF manifests itself into the departmental annual reports, enhances performance measurement, provides a clear indication of the Departmental core objectives and finally into the annual statements regarding service delivery.

INTRODUCTION

South Africa became a democracy in 1994 and the democratic government introduced measures to address the modernisation of public financial management. These measures were necessary in the light of the constitutional shift from a highly centralised public financial management system towards decentralisation and the devolution of powers to the other spheres of government. The budgeting process in the past was a highly secretive and a centralised activity. Public funds were never explicitly articulated reflecting the glaring inequalities in public spending.

This article will provide an overview of the transformation and the modernisation of the public financial system in South Africa and the legislative framework, which the public officials must operate within. In an effort to address the shortcomings of the other budgeting systems, the Medium Term Budgeting System was introduced. Accountability within the revised budgeting system will also be highlighted.

MODERNISATION OF PUBLIC FINANCIAL MANAGEMENT IN SOUTH AFRICA

The budgetary system that prevailed in South Africa prior to the first democratic elections in 1994 was a secret and highly centralised activity. This meant that the system (Presidential Review Commission, 1998: 157):

- was heavily centralised
- did not allow line managers with the necessary autonomy to make decisions within the broad policies
- did not integrate the strategic plans (if it existed), with operational plans and the financial aspects of the policy processes
- was heavily focused on inputs and outputs and neglected outcomes.

The criteria for the allocation of public funds were never articulated in an accountable and transparent format, thus reflecting the inequities in public spending. The budget allocations were determined by the former Department of State Expenditure and respective function committees. The allocations were based on the fiscal aggregates as determined by the Department of Finance within a short-term (single year) framework. The committees of the Department of State Expenditure consisted of departmental officials, with the responsibility of co-ordinating budget proposals for each area of government's functional expenditure. Furthermore, the role of Parliament in reviewing the budget was a formality where Parliament merely *rubber-stamped* the budget as prepared and compiled by the executive authority. The budget documents were highly inaccessible and were control based over the public funds spent, but did not provide a meaningful explanation on how these funds were spent or whether the budget had been spent effectively and efficiently. Budgeting was an exercise to control government's inputs and it was expected of line managers administer budgets.

The emergence of the new democratic order in South Africa and the political, constitutional and administrative changes are in many respects unique. Despite the challenges faced in transforming the public sector in South Africa, and especially with reference to public sector financial management the following challenges were identified by the Presidential Review Commission (1998: 162-163):

- In many government departments the process of strategic planning and prioritisation, financial planning and resource allocation, and performance management were discrete with little integration and synergy.
- An agreed set of priorities in the form of a clear, integrated statement of overall public sector policy goals and outcomes has often been lacking.
- The budget and financial management processes have frequently failed to generate adequate information to assist political decision-making.
- There has often been a missing link between the national vision and the annual departmental priority setting and budgeting process.
- Budget implementation has frequently been characterised by rigidity in the release of funds with excessive reliance on central control and the absence of reliable cost, output and efficiency data.

- Financial information systems frequently failed to generate timely reports. Reports tended to account for how funds were spent, not about whether value-for-money was obtained.

In analysing the above it is clear that the strict bureaucratic and central control driven financial polices that were followed could be a contributing factor in hampering the delivery of services. Service delivery has as a primary focus the issue of *Batho-Pele* – people first. In terms of the *White Paper on Transforming Public Service Delivery, 1997*, is that each government department should have a service delivery improvement programme in place and it should be incorporated in the departmental strategic plan (Treasury Regulation, 2005: 5.2.2 (h)). In the Service Delivery Programme, the service standards should be stated and communicated to the people. The pronounced standards will not only provide the basis for judgement of performance but will also provide the necessary opportunity for an objective feedback on the delivery of services.

REGULATING PUBLIC FINANCIAL MANAGEMENT

Public financial management in the South African context is based on three key elements, namely to improve transparency, improve accountability and to ensure the integration of policies. The role of the legislature changed and is empowered by the *Constitution of the Republic of South Africa, 1996* to exercise their oversight in the budgetary process. This meant that the budget is no longer regarded as a technical and bureaucratic exercise.

Section 215 of the *Constitution of the Republic of South Africa, 1996* prescribes that the budgets prepared by the national, provincial and municipal governments must promote transparency, accountability and effective financial management. The Constitution can there upon be regarded as the bedrock for good governance in the financial management of the State.

The *Public Finance Management Act, 1999* (Act no. 1 of 1999 as amended by Act 26 of 1999) (PFMA), was created to modernise the system of financial management in the public sector and to move away from the rule driven and highly centralised system of expenditure control to the management of public financial resources by the head of the department. The PFMA allows the managers to manage public funds in a responsible and transparent manner. They are further responsible and accountable for the use of resources to deliver services. The Act focuses on:

- financial reporting
- independent auditing and supervision of internal control systems
- improved accounting standards
- output and performance, and
- increased accountability at all levels.

MULTI-YEAR BUDGETING IN SOUTH AFRICA

Budgeting is a continuous process that is categorised in blocks of time and will, therefore, reflect a number of perspectives. The short-term perspective will reflect how much can be spent in a particular month, quarter and current budget year. The medium-term perspective will determine programming and estimating within the next three-to-five-year period while the long-term perspective will determine what the implications are of government taking on a commitment in a programmatic manner.

It might not be necessary to plan in much detail for the short-term activities and operations. However government responsibilities and activities have become more complex and therefore require a plan and to provide resources over a longer period. The utilisation of the short-term budgeting method and the movement to the long-term budgeting method usually creates some problems of incrementalism. The problem with this budgeting method is that the increased budget cannot be associated with increased services to be offered. The short-term nature of an annual budget is often criticised on the basis that it impedes effective expenditure management, and ultimately planning becomes ineffective.

The South African Government introduced a medium-term budgeting process referred to as the Medium Term Expenditure Framework (MTEF) to strengthen the planning process, not only to take care for the longer periods, but also to ensure a continuing and effective service delivery programme.

The Medium Term Expenditure Framework (MTEF)

The MTEF was introduced in 1997 by the South African Government to follow a strategic approach towards public expenditure planning and management. The introduction of the MTEF was as a result of a continuous realisation of the shortcomings of the short-term budgeting method. The shortcomings of the system can be highlighted as follows (Department of Finance Draft MTEF Handbook, 1997:4):

- The budget was prepared on an incremental basis and the process of preparing the budget did not involve reviewing, whether the particular activities were in line with government priorities or whether they were being implemented in the most effective manner.
- In some votes, the structure of the budget did not adequately reflect the activities that departments were responsible for.
- The budget structure did not show any forward planning of the budget. There was no link between planning and budgeting as these activities were kept separate from each other.
- The process of preparation and monitoring the budget were separate.

The results of the above shortcomings were that:

- Funded programmes/activities continued from year to year, even when they were not consistent with changing priorities and circumstances.
- The budget process did not involve the real funding requirements of services, but was based on adding a small percentage to the previous year's allocations, with the results that essential services were under-funded.

- Capital spending proceeds without an assessment of recurrent cost implications and where sufficient recurrent funds would be available to cover the recurrent costs that would arise.

The MTEF is also based on the premise that managers will have longer planning periods and as such be able to manage the allocated financial resources more effectively and efficiently. The introduction of the MTEF was also to improve the budget process to (MTEF Handbook, 1997: 5):

- restructure expenditure with clearly established priorities
- identify the actual cost of particular services so that government could be to away from the approach of incremental budgeting
- plan for restructuring of expenditures, as these shifts in expenditures cannot place from one year to the next and
- introduce a more rational approach to resource allocation, by identifying a few priority activities, which would receive adequate funding and thus provide greater value for money.

The MTEF approach has a number of advantages. Firstly the legislators are allowed to debate the trends in spending and the direction in policy. Secondly that the legislators assess whether the funds requested are consistent with the broad objectives of the government and thirdly the fulfilment of the transformation process and the legislators are presented with agreed outputs, timeframes and reports on actual expenditure and outputs of the previous year to determine how well specific departments performed in the previous cycle. With reference to the departments there is a greater political involvement in making resource allocation decisions based on strategic priorities. Expenditure is linked to delivery and outcomes by ensuring that resources are allocated to what will be delivered and identifying the actual costs of providing services (Walker and Mengistu, 1999:32).

In analysing the advantages as depicted above the MTEF method of budgeting, it is clear that this method is not without problems. The fact is that the MTEF allocations are made a number of years in advance. This can see as incremental budgeting. Inflation and other factors might also contribute to incrementalism; however, it cannot be determined with certainty whether those factors will lead to continued increases in price.

The MTEF budgeting system was supposed to eliminate the issue of rollovers; unfortunately, departments still under spend and therefore need permission to rollover under spending funding.

MANIFESTATION OF THE MTEF AS A BUDGETING SYSTEM

Annual Reports

To ensure effective and efficient service delivery a number of provisions were made in terms of Sections 92(3)(b) and 133(3)(b) of the *Constitution of the Republic of South*

Africa, 1996, for the executive authority of a government department to provide details in the annual report to the Legislative Authority, the Auditor-General and the public. Sections 40(1)(d)(i); 40(3); 65(1)(a) and 65(2) of the *Public Finance Management Act*, 1999 (Act 1 of 1999 as amended), and paragraph 18.3.1 of Treasury Regulations stipulate that annual reports that are tabled to primary statutory structures should include details such as service delivery, expenditure on personnel, skills development, planning and performance management.

The details captured in the different legislative documents will provide the legislature and especially the public with the necessary information, which could be utilised to formulate or to evaluate policies with reference to service delivery and proper prioritisation of resources in an attempt to provide essential services to the public. The publication of the annual reports as prescribed by the PFMA promotes good governance, especially transparency and accountability especially in the area of service delivery. Furthermore, it ensures that those in power acknowledge the fact that the Legislative Authority has to exercise an oversight role and answerability for actions by department's and thus giving meaning to democracy.

Performance measurement

Governments prefer the utilisation of performance data in the budget process and their budget decision-making processes (Melkers, 2003: 105-106). This means that it is a requirement that performance data is integrated into the budget making process. In this regard the Public Service Regulations, 2001 is an endeavour to meet this requirement in government departments whereby the Executive Authority and the accounting officers of the various departments are held accountable for the performance of their departments, specifically the utilisation of public funds in terms of the provision of the *Public Finance Management Act*, 1999.

In terms of the requirements as set out by the *Constitution of the Republic of South Africa*, 1996 each department is required to table a report of its performance and all related activities to the legislative authority, National Treasury, media and the public. The aforementioned is a constitutional requirement to ensure transparency and accountability in the utilisation of public funds. The information provided by the government departments is furthermore useful to evaluate performance of the various departments in an attempt to carry out the government mandate – service to all. Such information will include the details on how service delivery has been undertaken.

With reference to the performance goals, the provisions of the PFMA and the Public Service Regulations, 2001 is clear on how government departments should establish and define performance goals and how the level of performance is to be achieved by a programme activity. Such goals must be expressed in an objective, quantifiable and measurable format. The legislative imperative indicate the operational processes of departments, including the skills, human resources and technology which are required to meet the department's performance goals. Each department is required to establish performance indicators in these strategic plans, which will be utilised in measuring or assessing the

relevant outputs, service levels and the outcome of each programme activity stated in the strategic plan. The information provided by departments will be utilised to compare the actual programme results with the established performance goals.

Core objectives

Departments are required by constitutional and other legislative mandates to indicate the departmental core objectives. Therefore, departments should indicate in their strategic plans a service delivery programme where the targets and goals to be attained on the short and medium terms are described. Departments should also indicate mechanisms and systems that will be put in place in order to monitor progress and compliance with legislative requirements. Once goals and objectives have been set the accounting officer (head of the department), will be expected to implement the strategic plan of the department. It is therefore important to note that these measures are put in place to ensure that public funds are allocated for the right goals and objectives and furthermore to ensure that departments will be able to be accountable on what the department have achieved in terms of their plans, indicating how the allocated public funds to the various objectives of the strategic plan were utilized. These measures ensure that departments meet the needs and demands of society in terms of service delivery with the allocated funds.

Annual statement

In terms of the Public Service Regulations, 2001 the executive authority of a department is required to publish an annual statement of public service commitment with the necessary details regarding service standards to be expected by citizens. The statement will indicate how the department intends to achieve each of the set standards. Departments are also required to identify the manner in which they will involve the particular stakeholders in the consultative arrangements and how the department is going to ensure that their services are accessible by the actual and even the potential clients. It should be noted that accessibility to services is one of the principles of *Batho Pele White Paper*.

ACCOUNTABILITY

The participation of the public in the budget process appears to be beneficial, especially if it is aimed at educating citizens on the complexities and costs of government services. If citizens are educated in this regard, this process will assist in reducing distrust in government. Public opinion has an impact on decision-making. What is imperative in this regard is the education that government provides to members of the public in connection with the budget process so that citizens are informed of what is to be achieved with their tax money. Government has to arrange public meetings to inform the citizens about what is to happen or what is happening.

The success of consultation with the public in budgetary processes depends on a number of factors in order to yield desired results and outcomes. The clients(citizens)

should have a reasonable level of understanding of issues that are related to the budgetary process and prioritization. Attendance to such meeting by the public is important because if meetings are not well attended this may delay decision-making. Consultation may in turn become expensive in terms of time and productivity, because decisions may be delayed. At times participation in public meetings can be done through representative community structures. This will be of use as representatives will be selected on the basis of their knowledge, skills and expertise with regards to the budgetary processes. The use of representative structures will also promote transparency, public participation, openness and accountability. Such participation efforts will enhance public participation in budgetary processes so that when they request reports from public officials with regard to the manner in which their money has been utilized they can receive satisfactory responses from government. This also serves as a control mechanism of governmental performance in terms of the service delivery in relation to the budgeted items. This information will assist public officials to be focused on the items that they have agreed upon with the public for achievement.

Financial accountability ensures that public officials accept the consequences of the activities that take place in their departments. Parliament and taxpayers use accountability structures to ensure that their interests are catered for by those that are charged with the responsibility to do so. Departments must submit annual budget documents to Parliament according to prescribed formats as determined by the National Treasury to ensure that public services are delivered in the most appropriate, economical, efficient and effective manner (Pauw, *et.al.* 2002:48). Cabinets determine political policy and a budget reflects government policy. Government has to establish structures that will ensure that government policies are carried out without failure or compromising service delivery. Control measures are put in place to ensure that public money which belongs to the people or taxpayers must always be used in ways that advance the public interest.

If public funds are properly used, society will experience value for the money they have paid. This is reinforced by the provision of the PFMA, which emphasises that departments should strive to achieve their outputs and outcomes. Departments are required to provide details on the following areas:

- the purpose and future desires of the departments
- the main business of the department and the outcomes
- medium term objectives indicating their links to government policies
- details of strategies that will be followed to achieve set objectives or outputs
- key performance measures and indicators that will be used to assess performance in an attempt to meet objectives and key indicators
- the funds that will be required to meet the objectives over a three-year period, also ensuring that the funding is affordable by reconciling it with the MTEF budget allocation
- key interest aspects such as the human resources available and their training needs, including the availability of other resources
- the regular assessment of customer needs
- the multi-year projections on expenditure and revenue.

These requirements will be contained in the departmental strategic plan, which will be supported by the operational plan for the specific year. The operational plan will indicate how the department will be managed during a given year. The PFMA requires an accounting officer to ensure effective, efficient, economic and transparent management of the department. The accounting officer has to do performance management in his/her department to make sure that he/she accounts on how resources have been utilized to meet predetermined goals and targets of the department.

It is important to include the three types of accountability in relation to improved public service delivery, namely political accountability, statutory accountability and managerial accountability. In terms of political accountability, political heads of departments that are under performing are held accountable by Parliament and Provincial legislatures in the case of provincial MECs. Political office-bearers are responsible to the President, cabinet, Parliament and the public and such a call for answerability ensures that departments achieve their political goals as set out in the election manifesto. Statutory accountability aims at achieving effective, efficient, economical and transparent use of public resources as provided in the National Treasury Regulations, 2005 and the PFMA.

Managerial accountability means that public managers at all levels of government should take decisions that are focused towards the successful implementation of government policies in an effort to deliver quality service to citizens. Legislative guidelines are provided to support public managers in their endeavors to execute government intentions. Accountability enhances and improves relationships between government and citizens. Accountability builds a relationship of trust between government and citizens.

CONCLUSION

The Medium Term Expenditure Framework was designed with the intention to provide budgetary content to government's service delivery strategies. It should be noted that this system should not only be seen as a panacea of public expenditure management for addressing the inadequacies of planning and implementation of operational plans but also for the broader performance challenges of government.

The MTEF manifests itself as a tool to prepare and present in the preparation and presentation not only of the budget itself, but also in the annual reports, which provides the necessary performance measurement information to the legislature and the public to assess if the services have been delivered.

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