# Fiscal Sustainability and the South African Financial Management Challenge at National Government Level

Letsepa Pakkies

*Thesis presented in partial fulfilment of the requirements for the degree Masters in Public Administration in the Faculty of Economic and Management Sciences at Stellenbosch University*

Supervisor: Dr Len Mortimer

December 2016

Stellenbosch University https://scholar.sun.ac.za



## Declaration

By submitting this thesis electronically, I declare that the entirety of the work contained therein is my own, original work, that I am the sole author thereof (safe to the extent explicitly otherwise stated), that reproduction and publication thereof by Stellenbosch University will not infringe any third party rights and that I have not previously in its entirety or in part submitted it for obtaining any qualification.

Letsepa Pakkies December 2016

Copyright © 2016 Stellenbosch University
All rights reserved

Stellenbosch University https://scholar.sun.ac.za



# Acknowledgements

I wish to thank my friends who were more than generous with their expertise and precious time. I am grateful for their inspiring guidance, invaluably constructive criticism and friendly advice during the project work.

A special thanks to Dr Len Mortimer, who has been the ideal thesis supervisor. His sage advice, insightful criticisms, and patient encouragement aided the writing of this thesis in innumerable ways. I would also like to thank Adele Burger, whose steadfast support for this project was greatly needed and is deeply appreciated.

To my fiancé, Nokwanda Demant, thank you for being you; for your understanding, your principles and your emotional support. Your presence has been very inspirational.

I wish to give special thanks to my best friend Viwe Mbuqe for his constructive criticism and great ideas.

I owe a debt of gratitude to my wonderful daughter, Thatoyantate Esinako Pakkies – she gave me a new lease on life.

This work is also a tribute to my three wonderful sisters Xoliswa, Montsooe and Unathi. You have all been my best cheerleaders.

Stellenbosch University https://scholar.sun.ac.za



# Dedication

To my late Mother,

A woman who taught me that hard work always pays off. She gave me life, and nurtured and cared for me. The love she gave me will forever live within me. She believed in me even when I did not believe in myself.

Finally yet importantly, this is a special dedication to God Almighty. Father, I have witnessed your goodness, faithfulness, grace and mercy throughout my journey. Thank you for providing me with everything I needed: the wisdom, knowledge, understanding, strength and inspiration. Thank you for enabling me to complete this work.

Stellenbosch University https://scholar.sun.ac.za



# Abstract

The South African government is confronted with hard choices on how to harness financial management reforms while reducing costs associated with financial misconduct. The purpose of this thesis is to assess the credibility of national government budgets. The objective of this study involved providing an analysis of the three budgetary outcomes: levels of fiscal discipline, strategic prioritisation, and operational efficiency. The study found that while the budget acts as a key policy statement of the government, public expenditure management (PEM) acts as an instrument of government policy. It is used by the South African government to collect taxes and fund its projects, and emphasises the efficient and effective use of resources. The study further suggests that there are three mutually exclusive, complementary and interdependent basic budget outcomes of public expenditure management, namely financial discipline, allocative efficiency, and operational efficiency. In addition to these budget outcomes, accountability and transparency are secondary outcomes that are critical for public expenditure management.

The research further attempted to highlight that the South African government is borrowing money to pay for current spending, a practice the researcher deems an unsustainable spending regime. The rigorous planning process of the Medium-Term Expenditure Framework (MTEF) is meant to ensure that allocations are made to government's priority areas such as education and health. Budget allocations are reflective of government's strategic priorities and the current broad policy framework, known as the National Development Plan (NDP). The shifting of funds in-year, known as *virements,* is counterproductive in view of the fact that funds are shifted from priority areas. Excessive spending in March coupled with under-spending by national government departments signifies weak financial controls and bad spending practices. The study concluded that financial misconduct is rampant in government and the situation is exacerbated by the absence of consistent and appropriate sanctioning of officials. The study also concluded that there is a requirement for institutions similar to the National Treasury, institutions that will ensure fiscal sustainability and prudential fiscal management.

**Key words:**

Financial discipline, allocative efficiency, operational efficiency, accountability and transparency.

Stellenbosch University https://scholar.sun.ac.za



# Opsomming

Die Suid-Afrikaanse regering staar moeilike besluite in die gesig oor hoe om finansiële hervormings te implementeer en terselfdertyd koste wat gepaardgaan met finansiële wanbestuur te verminder. Die doel van hierdie mini-tesis is om die geloofwaardigheid van nasionale regeringsbegrotings te bepaal. Die studie het drie begrotingsuitkomste ondersoek: vlakke van fiskale dissipline, strategiese prioritisering, en produktiwiteits-doeltreffendheid. Die studie het bevind dat hoewel die begroting dien as 'n sleutel-beleidsverklaring van die regering, openbare bestedingbestuur as die instrument van regeringsbeleid dien. Dit word deur die Suid-Afrikaanse regering gebruik om belasting in te vorder asook om projekte te finansier, en beklemtoon die doeltreffende en doelmatige gebruik van hulpbronne. Die studie dui verder op drie wedersyds eksklusiewe, komplementêre en interafhanklike basiese begrotingsuitkomste van openbare finansiële bestedingsbestuur, naamlik finansiële dissipline, toewysing-doeltreffendheid en operasionele doeltreffendheid. Benewens hierdie begrotingsuitkomste is die volgende sekondêre uitkomste onontbeerlik vir openbare finansiële bestedingsbestuur: aanspreeklikheid en deursigtigheid.

Die navorsing het voorts gepoog om aan te toon dat die Suid-Afrikaanse regering tans geld leen om vir lopende uitgawes te betaal, 'n praktyk wat volgens die navorser 'n onvolhoubare bestedingspraktyk is. Die streng beplanningsproses van die mediumtermyn bestedingsraamwerk – of Medium-Term Expenditure Framework (MTEF) – is daarop gemik om te verseker dat toekennings aan die regering se prioriteitsgebiede soos opvoeding en gesondheid gemaak word. Begrotingstoekennings weerspieël die regering se strategiese prioriteite asook die huidige oorkoepelende beleidsraamwerk, wat bekendstaan as die Nasionale Ontwikkelingsprogram – of National Development Plan (NDP). Die oordrag van fondse in-jaar, bekend as viremente, is teenproduktief, omdat fondse vanuit prioriteitsareas oorgedra word. Oormatige besteding in Maart, tesame met onderbesteding deur regeringsdepartemente, dui op swak finansiële beheer en swak bestedingspraktyke. Die gevolgtrekking van die studie is dat finansiële wanpraktyk hoogty vier in die regering en dat die situasie vererger word deur die afwesigheid van konsekwente en toepaslike strafmaatreëls vir amptenare. 'n Verdere slotsom van die studie is dat daar 'n vereiste bestaan vir instellings soortgelyk aan die Nasionale Tesourie wat fiskale volhoubaarheid en omsigtige fiskale bestuur sal verseker.

**Sleutelwoorde:**

Finansiële dissipline, toewysing-doeltreffendheid, operasionele doeltreffendheid, aanspreeklikheid en deursigtigheid.

Stellenbosch University https://scholar.sun.ac.za



# Table of contents

**Declaration** ii

**Acknowledgements** iii

**Dedication** iv

**Abstract** v

**Opsomming** vi

**List of tables** xi

**List of figures** xii

**List of acronyms and abbreviations** xiii

**CHAPTER 1 : INTRODUCTION AND BACKGROUND TO THE STUDY 1**

1.1. Introduction 1
1.2. Overview and rationale of the study 1

1.2.1. Aggregate fiscal discipline 2
1.2.2. Allocative efficiency 2
1.2.3. Operational efficiency 3

1.3. Research question 4
1.4. Research objectives 5
1.5. Research design 5
1.6. Research methodology 6
1.7. Data analysis method 6
1.8. Outline of the chapters 7

**CHAPTER 2 : LITERATURE REVIEW ON expenditure management 8**

2.1. Introduction 8
2.2. Public expenditure control 8
2.3. Public expenditure management and aggregate fiscal control 9
2.4. Public expenditure management and allocative efficiencies 11
2.5. Public expenditure management and operational efficiency 13
2.6. Value for money 15
2.7. Transparency 16

Stellenbosch University https://scholar.sun.ac.za



2.8. Legislative framework 16

2.8.1. Constitution 17

2.8.2. Intergovernmental Fiscal Relations Act 18

2.8.3. Money Bills Amendment Procedure and Related Matters Act, 2009 19

2.8.4. Money Bills Amendment Act – Assessment of departments and reports 20

2.8.5. Money Bills Amendment Procedure and Related Matters Act – Medium-term budget policy statement 20

2.8.6. Money Bills Amendment Act – National adjustments budget 21

2.8.7. Money Bills Amendment Act – Introduction of bills and budgets (also requirements in Constitution 215(3) and Public Finance Management Act) 21

2.8.8. Public Finance Management Act 22

2.9. Conclusion 23

**CHAPTER 3 : Aggregate fiscal discipline 24**

3.1. Introduction 24

3.2. Purpose of the budget 24

3.3. Role players in the budget process 25

3.4. Function/budget group 25

3.5. Parliamentary processes 28

3.6. Adjusted budget 28

3.7. Deciding the revenue envelope 30

3.8. Nominal growth in gross tax revenue and GDP, 1995/96 – 2013/14 31

3.9. Debts as a percentage of GDP 36

3.10. Debt-service cost as a percentage of GDP 37

3.11. Debt service cost as a percentage of expenditure 38

3.12. Debt to revenue 40

3.13. Expenditure vs original expenditure estimates by department 42

3.14. Excessive expenditure in March 44

3.15. Goods and services March spike analysis 45

3.16. Payments for capital assets 47

3.17. Excessive expenditure in March on core budget 48

3.18. Virements analysis 50

Stellenbosch University https://scholar.sun.ac.za



3.19. Incentives for a credible budget 52
3.20. Summary and conclusion 53

**CHAPTER 4 : Allocative and OPERATIONAL EFFICIENCY 56**

4.1. Introduction 56
4.2. Value for money 56
4.3. Allocative efficiency 61
4.4. Delivery agreements 62
4.5. Composition of government expenditure 65
4.6. Addressing allocative inefficiencies during the mid-term budget 66
4.7. Operational efficiency 67
4.8. Global competitiveness 69
4.9. Summary and conclusion 71

**CHAPTER 5 : ACCOUNTABILITY AND TRANSPARENCY ........................................................................................ 72**

5.1. Introduction 72
5.2. Accountability 73
5.3. Transparency 77
5.4. Summary and conclusion 82

**CHAPTER 6 : SUMMARY, CONCLUSION AND RECOMMENDATIONS ................................................................................. 84**

6.1. Introduction 84
6.2. Aggregate fiscal discipline 85
6.3. Value for money 85
6.4. Allocative efficiency 86
6.5. Operational efficiency 87
6.6. Accountability 87
6.7. Transparency 88
6.8. Credibility of the budget 88
6.9. Conclusion 89
6.10. Recommendations 90

Stellenbosch University https://scholar.sun.ac.za



**REFERENCES** **92**

Stellenbosch University https://scholar.sun.ac.za



# List of tables

Table 3.1: Aggregate expenditure outcome compared to expenditure estimates....34

Table 3.2: Aggregate revenue outcome compared to original approved budget....35

Table 3.3: Forecasted gross debt as % of GDP....37

Table 3.4: Growth in debt service cost....38

Table 3.5: Debt service cost time series forecast....39

Table 3.6: Expenditure by function....40

Table 3.7: Spending by national departments....43

Table 3.8: Goods and services (G&S)....46

Table 3.9: Households March spike analysis....47

Table 3.10: Machinery and Equipment....48

Table 3.11: Virement by economic classification....51

Table 4.1: National government composition of expenditure....65

Table 4.2: Financial transgressions over time....68

Table 5.1: Open Budget Index....77

Stellenbosch University https://scholar.sun.ac.za



# List of figures

Figure 3.1: Tax revenue vs GDP ....................................................................31

Figure 3.2: March spike on core budget .........................................................50

Figure 4.1: The growth of service costs before and after the 2008/09 recession..........................................................................................................66

Figure 5.1: Fragile States Index........................................................................74

Stellenbosch University https://scholar.sun.ac.za



# List of acronyms and abbreviations

| | |
|---|---|
| AENE | Adjusted Estimates of National Expenditure |
| AFS | Annual Financial Statements |
| AG | Auditor-General |
| AGSA | Auditor-General of South Africa |
| APPs | Annual Performance Plans |
| AR | Annual Report |
| BAS | Basic Accounting System |
| BRR | Budget Review and Recommendation |
| BRRR | Budgetary Review and Recommendation Reports |
| BUSA | Business Unity South Africa |
| CoE | Compensation of Employees |
| CSO | Civil Society Organisations |
| DBSA | Development Bank of Southern Africa |
| DDG | Deputy Director General |
| DG | Director General |
| DORA | Division of Revenue Act |
| DPME | Department of Planning Monitoring and Evaluation |
| DTI | Department of Trade and Industry |
| EDD | Economic Development |
| ENE | Estimates of National Expenditure |
| EPWP | Expanded Public Works Programme |
| FFC | Financial Fiscal Commission |
| FG | Function/budget Group |
| FSI | Fragile States Index |
| GCI | Global Competitiveness Index |
| GDP | Gross Domestic Product |
| GEAR | Growth, Employment and Redistribution |
| HDI | Human Development Index |
| IFRA | Intergovernmental Fiscal Relations Act |
| IMF | International Monetary Fund |
| MCA | Modified Cash Accounting |
| M&E | Monitoring and Evaluation |
| MFMA | Municipal Finance Management Act |
| MinCommBud | Minister's Committee on the Budget |

Stellenbosch University https://scholar.sun.ac.za



| | |
|---|---|
| MoU | Memorandum of Understanding |
| MTBPS | Medium Term Budget Policy Statement |
| MTEC | Medium Term Expenditure Committee |
| MTEF | Medium-Term Expenditure Framework |
| MTSF | Medium-Term Strategic Framework |
| NDP | National Development Plan |
| NEDLAC | National Economic Development and Labour Council |
| NHI | National Health Insurance |
| NPM | New Public Management |
| NRF | National Research Foundation |
| NT | National Treasury |
| PAIA | Promotion of Access to Information Act |
| PAJA | Promotion of Administrative Justice Act |
| OECD | Organisation for Economic Co-Operation and Development |
| PEFA | Public Expenditure and Financial Accountability |
| PEM | Public Expenditure Management |
| PFM | Public Finance Management |
| PFMA | Public Finance Management Act |
| PI | Performance Indicators |
| PMF | Performance Measurements Framework |
| POA | Programme of Action |
| PSC | Public Service Commission |
| PV | Public Value |
| RDP | Reconstruction and Development Programme |
| RSA | Republic of South Africa |
| SARB | South African Reserve Bank |
| SARS | South African Revenue Services |
| SCM | Supply Chain Management |
| SLA | Service-Level Agreement |
| SPPs | Strategic Performance Plans |
| The 3 Es | Efficiency, Effectiveness And Economy |
| TRs | Treasury Regulations |
| VFM | Value for Money |
| WB | World Bank |

Stellenbosch University https://scholar.sun.ac.za



# CHAPTER 1 : INTRODUCTION AND BACKGROUND TO THE STUDY

## 1.1. Introduction

Each February, the Minister of Finance tables an annual budget to fund government operations for the upcoming financial year. The legislature also adopts a three-year spending framework that allows for improved alignment of policy and implementation over this period and provides a credible anchor for expectations about the medium-term path of fiscal policy. However, annual budget decisions have consequences for the current budget year and beyond the subsequent three years. The provision of new social services creates an implicit obligation to offer these services well into the future. A budget is, therefore, a process through which choices have to be made about competing government priorities.

The purpose of this thesis is to assess the extent to which the South African national government achieves the budgetary outcomes of fiscal discipline, allocative efficiency, and operational efficiency through its budget. Public expenditure management (PEM) is an instrument through which the government collects taxes and funds its projects and was introduced by the World Bank (WB) in early 1998 (Rajaram & Mallika, 2001).

This chapter provides an overview and rationale of the study whilst also outlining its research question and objectives. In addition, the research design and methodology used in gathering data are discussed. The chapter concludes by giving a synopsis of the other chapters of this thesis.

## 1.2. Overview and rationale of the study

Governments are under pressure to provide public goods and services and a majority of these are funded by public funds, while there is also an increasing demand for accountability, transparency, efficiency and effectiveness by the public. This mounting pressure has resulted in governments around the world being required to justify their expenditures. In response to these setbacks, the WB and its affiliated institutions, the Public Expenditure and Financial Accountability (PEFA) multi-agency partnership programme, have introduced a number of initiatives, including a set of guidelines for improving budgetary and financial management in the public sector, namely the Public Expenditure Management Reform and the Performance Measurements Framework (PMF) performance rating system (World Bank, 1998). The PMF performance rating

Stellenbosch University https://scholar.sun.ac.za



system is intended to provide an objective and internationally comparable framework for assessing the performance of a country's public finances (Quist & Dendura, 2008). Both the PMF and the public expenditure and financial accountability programme are based on the government having a decisive influence on budgetary outcomes at three levels: at an aggregate fiscal discipline level, where the total amount of money a government spends should be closely aligned with what is affordable; at the intermediate level (allocative efficiency), where spending should be aligned with government's priorities; and at a service delivery level (operational efficiency), where the spending should produce intended results without incurring a waste. These levels of budgetary outcomes are discussed in detail below.

### 1.2.1. Aggregate fiscal discipline

Aggregate fiscal discipline refers to prudent and transparent fiscal management based on realistic revenue expenditure estimates, and the technical capacity to set up fiscal targets and enforce them. The fiscal stance of South Africa has been to maintain an expenditure ceiling, supported by policies aimed at improving spending efficiency (National Treasury, 2014). An expenditure ceiling is the maximum level of expenditure permitted at an aggregate level. Since the 2008 recession, the South African government has used the fiscal space (budget surpluses) accumulated during the 2000s to support the economy, balance the needs of growth and stabilise its debt (National Treasury, 2014). As debt stabilised, the government committed to rebuilding fiscal space by reducing the ratio of government debt to gross domestic product (National Treasury, 2014). As a result of questions about the aggregate fiscal discipline of South Africa's budgets, five performance indicators (PI) were used by the researcher to measure the aggregate fiscal discipline of South Africa's budgets, and they are: aggregate expenditure out-turn compared to original approved budget, composition of expenditure out-turn compared to original approved budget, aggregate revenue out-turn compared to original approved budget, the March spike, and the in-year shifting of funds. The first three indicators are derived from public expenditure and financial accountability, while the last two are based on South Africa's practices.

### 1.2.2. Allocative efficiency

Allocative efficiency refers to the allocation of scarce resources to the most cost-effective programmes, projects and activities in strategic areas (Allen & Tommasi, 2001). The objective of allocative efficiency is to ensure that resources managed by the government are spent sensibly. Efficiency in allocation is the skill of distributing sources equitably in budget priorities (National Treasury, 2015a). In this instance,

Stellenbosch University https://scholar.sun.ac.za



allocative efficiency is aimed at replacing inefficient activities with more cost-effective activities, which are in line with state goals that are of great significance (Allen & Tommasi, 2001). Expenditures must be based on the government's priorities and the efficiency of public programmes. To measure allocative efficiency, the following five performance indicators (PI) are used:

- the Medium-Term Strategic Framework (MTSF);
- the composition of government expenditure;
- debts-service cost as a percentage of gross domestic product (GDP); and
- income and expenditure.

### 1.2.3. Operational efficiency

Operational efficiency mainly concerns the service delivery level and is dependent on arrangements to implement programmes within government departments on the basis of efficient and effective management systems. The effective utilisation of budget sources technically and functionally is dependent on the capacity of designed programmes and the provision of services with lower cost or minimising the per capita income (Allen & Tommasi, 2001). To measure operational efficiency, value for money and controls in procurement were used.

All three budgetary outcomes are strongly correlated, both theoretically and practically (World Bank, 1998). Correlation in statistical terms implies that the occurrence of one variable coincides with the occurrence of another. Fiscal discipline as a budgetary outcome improves as the government is able to spend its resources on priority areas, with departments spending funds wisely. These three budgetary outcomes are complementary and interdependent. Public expenditure management emphasises performance, assessed in relation to the goals of fiscal sustainability, economy, efficiency and effectiveness in the use of public funds (Premchand, 1993). It is important to pay attention to the interaction between these three budgetary outcomes and the institutional arrangements within which they are embedded.

The nexus of all these budgetary outcomes is fiscal discipline; without them, it would be impossible to achieve effective prioritisation and implementation of policy priorities and programmes. However, Djurović-Todorović and Djordjević (2009) propose that mere fiscal discipline in the presence of arbitrary resource allocation and inefficient operations is inherently unsustainable. It is thus important that all the budgetary outcomes be considered by the government in order to ensure not only effective prioritisation and implementation of policy but also the appropriate allocation of

Stellenbosch University https://scholar.sun.ac.za



resources. The WB proposes two additional central pillars of sound public financial management to complement the three basic budgetary outcomes of public expenditure management, and they are transparency and accountability. These pillars are critical in exposing inherent costs and, when required, in effecting explicit sanctions on politicians and bureaucrats for violating budgetary rules. In this context, accountability means that politicians and public officials have to respond periodically to questions concerning their activities and must be held responsible for the exercise of the authority provided to them (Djurović-Todorović & Djordjević, 2009). Due to the accountability bestowed upon politicians and public officials, evidence of misuse of public funds should lead to consequences and wrongdoers must be held accountable. Corruption, which is the misuse of public or private office for direct or indirect personal gain, poses moral and legal problems such as fraud and wasteful expenditure and is a major source of inefficiency in public expenditure management (Djurović-Todorović & Djordjević, 2009).

## 1.3. Research question

The main question that this study addressed is: To what extent do South African national government departments comply with the principles of public expenditure management? In order to answer this question, the study asked the following supplementary questions:

- is there control of aggregate expenditure to ensure affordability and sustainability that is consistent with the macroeconomic constraints?
- are there effective means for achieving resource allocation that reflects expenditure policy priorities?
- is there minimisation of the financial costs of budgetary management (allocative efficiency)?
- are there controls and measures to deal with inefficient expenditure (technical inefficiency)?
- what are the consequences of non-compliance with the Public Finance Management Act (PFMA) and expected norms and standards as prescribed?

Stellenbosch University https://scholar.sun.ac.za



## 1.4. Research objectives

The main research objective of this study was to assess whether national government departments comply with the principles of public expenditure management. Attaining this primary objective entailed:

- Describing public expenditure and related constraints
- describing whether the public expenditure is consistent with the macroeconomic constraints;
- determining whether budget allocations are reflective of the level of performance of programmes;
- assessing whether government expenditure is characterised by efficiencies in spending;
- examining the effectiveness of the application of expenditure management controls; and
- evaluating the consequences of non-compliance to public expenditure management.

## 1.5. Research design

The study adopted a ‘case-study’ research approach as a means of achieving the objectives set out in the previous section. The selection of the case study approach was informed by the nature of the research problem investigated in this study. The case studies were carefully selected due to ease of access to information. Using existing sources of data, the study adopted a content analysis approach in the analysis of the cases under investigation. In his text, Thomas (2006) defines the inductive approach as a systematic procedure for analysing qualitative data in which the analysis is likely to be guided by specific evaluation objectives. He further states that the primary purpose of the inductive approach is to allow research findings to emerge from the frequent, dominant, or significant themes inherent in raw data, without the restraints imposed by structured methodologies (Thomas, 2006).

The research was based on a non-empirical design with a focus on secondary data analyses of the budgetary outcomes. Information on these budgetary outcomes was gathered from published South African government documents. The documents analysed included but were not limited to documents published by the National Treasury; the Reserve Bank of South Africa; Statistics South Africa; the Auditor-

Stellenbosch University https://scholar.sun.ac.za



General South Africa; and the departmental annual reports, strategic plans and annual performance plans.

## 1.6. Research methodology

The study adopted a qualitative research method in pursuit of its research objectives. Qualitative research comprises interviews, questionnaires, case studies and analysis of the data gathered from literature (Burger, 2014). According to Myers, qualitative research is designed to help researchers understand people and the social and cultural contexts within which they exist (Myers, 2009). Such studies allow the complexities and differences of the phenomenon under study to be explored and represented (Philip, 1998). In this study, qualitative research involved the analysis of secondary sources of data collected from various sources including memos, notes, annual reports, budget documents, strategic plans and annual performance plans. This research technique is referred to as ‘document analysis’, in which the data collected from various secondary sources of information relevant to the study are analysed to achieve the objectives of the study (Silverman, 2001). Stebbins cautions against the risk of unreliability and illegitimacy of data collected from secondary sources; more so when collected from non-academic or non-official documents such as newspaper articles and magazines (Stebbins, 2001). This study depended primarily on official reports from various case studies. This includes documents from the National Treasury; the Auditor-General of South Africa (AGSA); Statistics South Africa (Stats SA); the South African Reserve Bank (SARB); the World Bank (WB) and the International Monetary Fund (IMF).

## 1.7. Data analysis method

Inductive data analysis was applied, using the content of the sources of data consulted. According to Neuman, content analysis is a technique for examining information content in written material (Neuman, 2003). In other words, content analysis is collecting and organising information systematically in a standard format that allows a researcher to draw conclusions about the characteristics and meaning of recorded material. Furthermore, Babbie and Mouton (2004) state that the content analysis method can be applied to any form of communication (Babbie & Mouton, 2004). Therefore, the data was analysed using content analysis around themes and concepts on policy implementation.

Stellenbosch University https://scholar.sun.ac.za



## 1.8. Outline of the chapters

**Chapter 1** – introduces and sets out the context of the study. This chapter unpacks the problem statement and motivation for the study. It identifies the research problem, provides the research question, indicates the research design and methodology, and provides an outline for the remainder of the study.

**Chapter 2** – encompasses the literature review. This chapter summarises the existing literature around the subject of public expenditure management as well as governance and budgeting issues concerned. It also includes the legislative, theoretical, and conceptual frameworks that underpin key variables discussed.

**Chapter 3** – discusses aggregate expenditure out-turn compared to original approved budget, aggregate revenue out-turn compared to original approved budget, and the composition of expenditure out-turn compared to original approved budget. The chapter further discusses elements such as virements and fiscal dumping. Lastly, the chapter explores other budgetary elements such as the credibility of government's estimates for both revenue and expenditure.

**Chapter 4** – discusses value-for-money principles, aggregate fiscal discipline, and allocative and operational efficiencies.

**Chapter 5** – discusses accountability and transparency, additional budgetary outcomes of the public expenditure management. This chapter also answers questions about the consequences of lack of adherence to procurement controls and laws.

**Chapter 6** – concludes and makes recommendations based on the study. The chapter summarises and discusses salient points, interprets results in terms of the literature or theory, discusses gaps, anomalies and or deviations in the data, makes the significance of the results explicit, and makes policy recommendations.

Stellenbosch University https://scholar.sun.ac.za



# CHAPTER 2 : LITERATURE REVIEW ON EXPENDITURE MANAGEMENT

## 2.1. Introduction

As discussed in the previous chapter, public expenditure management reforms seek to improve the efficiency and effectiveness of public expenditure by linking resource allocation to outputs through making systematic use of performance information. These reforms were introduced after various countries started implementing management concepts from the private sector into their administrations (Aucoin, 1990; Behn, 1995). These ideas were founded in the new public management (NPM) paradigm and attempt to generate value for money by improving the 'three Es' (efficiency, effectiveness and economy) of public services (Starks, 1991). Proponents of NPM associate the implementation of these concepts with higher public sector performance (Hood, 1995; Osborne & Gaebler, 1992; Paterson, 1988). They argue that the public sector would benefit more from the experiences of the private sector. In addition, NPM is thought to bring the efficiency and effectiveness of the private sector to the public sector while ensuring sustainable gains by producing assets and services at the lowest cost (Schick, 1999). However, NPM critics such as Dunleavy, Margetts, Bastow and Tinkler (2006) posit that NPM brought problems of inefficiency and ineffectiveness in the public sector due to the increased number of government administrative units and complex and disintegrated working relations among government units (Dunleavy *et al.*, 2006). Conditions such as improving institutional arrangements and management practices are present in order to create incentives for better resource allocation, resource use and financial management.

The following section looks at the existing literature on public expenditure management outcomes. In addition, the section unpacks public expenditure controls and budgetary outcomes. The chapter continues by discussing the literature on other budget-related outcomes such as value for money, accountability and transparency. The chapter concludes by providing theoretical and legislative frameworks of budgeting and expenditure control in South Africa.

## 2.2. Public expenditure control

Under public expenditure management, financial resources are managed alongside other key resources, such as personnel and performance information; plans and decisions are resource constrained rather than needs based; and performance

Stellenbosch University https://scholar.sun.ac.za



assessment contributes to planning and decision-making (Fozzard & Foster, 2001). This shift in thinking has challenged the traditional administrative approaches that have emphasised expenditure control assessed in terms of compliance with procedures and legislation. Such expenditure controls are expressed in the annual budget to a revised approach that focuses on performance, assessed in relation to the goals of macroeconomic stabilisation, economy, efficiency and effectiveness in the use of public funds (Premchand, 1993). These goals have subsequently been revised in public expenditure management reforms to three outcomes: aggregate fiscal discipline, allocative efficiency and operational efficiency. These factors form the foundation of public expenditure management reforms; accordingly, they have been seen as the ultimate outcome of the public expenditure management and are seen as complementary and interdependent. This is to say that aggregate fiscal control is only important if the government is allocating money on key priorities (allocative efficiency) and spending it prudently (operational efficiency).

It is against this backdrop that public expenditure management emphasises value for money through sound financial and management controls. Pauw, Woods, Van der Linde, Fourie and Visser (2002) highlight that the goal of financial management in government is to ensure that resources provided by the public are spent sensibly for the public (Pauw *et al.*, 2002). In addition, Schacter believes that to be able to portray the value added to a society through a policy intervention, public expenditure management will be sufficient in maintaining the support of relevant stakeholders (Schacter, 2006). Therefore, tracking costs against deliverables helps one to understand the value for money in government programmes.

## 2.3. Public expenditure management and aggregate fiscal control

Aggregate fiscal control entails the fully credible revenue and aggregate expenditure outcomes forecasting that matches the budget estimates very closely and ultimately results in successful debt management strategies. Fiscal prudence is premised on negative connotations linked with debt, bearing in mind that public debt and economic growth tend to point to a negative relationship. Tanzi (2006) suggests that public debt has an adverse effect on the growth of the economy and this is particularly evident in a free market environment. This negative impact of public debt on economic growth, in relation to the policy perspective, strengthens the arguments for ambitious debt reduction through fiscal consolidation. This is to say that the total amount of money a government spends should be closely aligned with what is affordable over the medium term and, in turn, with the annual budget. Spending should be appropriately allocated

Stellenbosch University https://scholar.sun.ac.za



to match policy priorities, and the spending should produce intended results at the least cost. This, therefore, means that the credibility of forward estimates of budget ceilings need to be forecasted with more accuracy. The public expenditure management handbook, however, notes that there is a tendency to overestimate revenue in many countries. This cannot be attributed to technical shortcomings of the revenue forecasting models but suggests that politics lies at the heart of overestimating revenue (World Bank, 1998). The success of public expenditure management reform cannot be dissociated from more fundamental institutional reforms within the government. This requires a high-level commitment to the reform process in order to push through reforms against the opposition of vested interests, both within and outside of the government. It also requires some measure of policy stability, given that the institutional reforms will take years to implement (Fozzard & Foster, 2001). Scott highlights that owing to public expenditure management, the flexibility and efficiency of financial administration should increase (Scott, 2001) in view of the fact that managers are able to allocate resources corresponding to current needs rather than historical expectations that are represented in the estimates (Boyle, 1991).

Within public expenditure management, the literature on budgeting systems focuses on the financial, technical and institutional aspects (Grizzle & Pettijohn, 2002; Melkers & Willoughby, 2005; Van der Hoek, 2005). In 1996, South Africa introduced major financial management and budget reforms with the aim to improve fiscal sustainability, align spending with the national priorities and maximise existing resources towards these priorities (Quist, Certan & Dendura, 2008). Public expenditure management has produced many improvements, including value for money within a paradigm that emphasises quality and sustainability of government services. However, a number of areas including financial misconduct still require attention (Baboojee, 2011).

Debt ratio and debt financing are more than financial issues; they are a policy imperative that addresses the shortcomings of financial management controls. Despite the fact that the economic growth rate is likely to have a linear negative impact on the public debt-to-GDP ratio (a decline in the economic growth rate as everything else remains the same and associated with an increase in the public debt-to-GDP ratio), high levels of public debt are likely to be deleterious for growth (Checherita & Rother, 2010). Zagler and Dürnecker state that fiscal policies need to remain sustainable. They reason that if the fiscal policies are not sustainable, this will become a source of macroeconomic instability (Zagler & Dürnecker, 2003). The government must, therefore, remain solvent (able to pay off its debts at some future time), liquid (able to

Stellenbosch University https://scholar.sun.ac.za



meet its current obligations), and credible (retaining the confidence of investors in its solvency and liquidity status). As such, the role public expenditure management plays in South Africa is to counteract variations in the business cycle and build fiscal space during good times to enable response to shocks and recession. This keeps debt and interest payment levels low while ensuring that the future generation is as well off as the current generation. The South African government proposed to do this through stabilising public debt as a share of GDP through achieving a balance between revenue growth, borrowing and growth in spending; hence, aligning the budget to the priorities of government (RSA, 2012). If the government can achieve this, it would be able to create fiscal space for tough times like the recession. Heller defines fiscal space as the government's budget that allows it to provide the resources for the desired purpose without jeopardising the sustainability of its financial position or the stability of the economy (Heller, 2005).

The effectiveness of government programmes, for example the efficiency with which revenues are raised, the cost-effectiveness of public service delivery, or how well public resources are protected from corruption and waste, all depend crucially on the quality of public financial management institutions in a country. In the 2011/12 financial year, the Money Bills Amendment Procedure and Related Matters Act of 2009 was passed by the Parliament of South Africa. The Act effectively gave Parliament and its structures influence on the budget. This means that the Parliament can preside over how much is needed, how it can be made available and how much is allocated to each sphere of government. The Act has brought in checks and balances in the system as clear principles for fiscal policy will strengthen parliamentary oversight of the budget processes, encourage greater transparency, and enhance public accountability. Furthermore, institutions such as the Financial and Fiscal Commission (FFC), the Auditor-General and the Public Protector provide an impartial assessment of whether the South African government is meeting its objectives despite the fact that the three outcomes cannot be overlooked.

## 2.4. Public expenditure management and allocative efficiencies

Public expenditure management is a scientific approach, a paradigm shift from a traditional non-scientific and ill-informed approach of budget incrementalism. Budget incrementalism refers to a process when departments increase their budgets by inflation or some other equivalent without taking into account programme performance (Robinson, 2013). Budget incrementalism is generally viewed as the least effective way of allocating resources. Berry (1990) suggests that budgetary decision-makers

Stellenbosch University https://scholar.sun.ac.za



can move away from budget incrementalism by bringing elements of evidence into the budget process and interrogating the baselines of institutions or programme budgets. The Department of National Treasury has realised that the economic recovery from the 2008 recession has been slow. It is further reported that it will presumably take another decade or two for South Africa to return to its budget surpluses and good credit ratings (National Treasury, 2010). This has led to reforms to integrate greater control over the limited programmes that can be implemented. These reforms have called for PI to be an integral part of budget allocations, as opposed to merely increasing the budgets. Through these reforms, resource allocation decisions are made with constant reference to PI and whether targets are being met (Scheps, 2000). Therefore, rationalising budgeting entails efforts to improve decision-making by moving the focus away from budget incrementalism towards results-based resource allocations. Allocative efficiency also speaks to the composition of government expenditure. For this reason, there is a need to interrogate the composition of government expenditure and to strike an appropriate balance between capital and current spending. This balance is often referred to as allocative efficiency.

The composition of government expenditure is skewed towards compensation of employees, with 33 percent of government expenditure spent on this item (National Treasury, 2012). Moreno-Dodson (2013) suggests that certain categories of public expenditure, such as investment in capital assets, can be referred to as operational and they are projected to be more growth-enhancing than others (Moreno-Dodson, 2013). This also supports the trajectory echoed in the Musgrave framework, which stipulates that the allocation of funds to capital assets is conducive for growth because of the impact it has on the positive economic outlook through increased productivity and work opportunities. Ngandu, Garcia and Arndt (2010) conducted a study analysing the economic impact of the planned infrastructural investment programme on the South African economy (Ngandu *et al*., 2010). Their results drew attention to the fact that the planned infrastructure programme has the potential to significantly offset the contraction effects of the global downturn. Fedderke and Garlick (2008) also investigated the relationship between infrastructure and economic growth. Their results found that the theoretical and empirical evidence supports the existence of a robust positive relationship between infrastructure and economic growth. Context-based literature therefore suggests a need to spend on infrastructure. Government spending should be channelled towards capital assets and infrastructure as means of ensuring that there is at least a level of balance between the consumption and investment expenditures. This view is further echoed by Ghosh and Gregoriou (2008), who

Stellenbosch University https://scholar.sun.ac.za



through their work distinguished between “capital” and “current” government spending (Ghosh & Gregoriou, 2008). Their empirical tests demonstrate that capital spending results in the accumulation of the public capital stock, whereas current public spending flows finance public services.

## 2.5. Public expenditure management and operational efficiency

The public expenditure management handbook recognises technical efficiency as the third outcome of public expenditure management and describes it as efficiency and productivity. These terms describe ratios of inputs to outputs or to outcomes. Efficiency and productivity are essentially equivalent, differing only in the way in which the ratio is expressed. Efficiency is defined as the ratio of inputs to outputs (or outcomes) and is usually expressed as the number of employees or amount of employees’ time per unit of output (or outcome). It is sometimes referred to as unit cost. Productivity is the ratio of the amount of output or outcome to inputs, traditionally expressed as the amount of output (or outcome) per unit of input. Operational efficiency entails focusing on improvement. This improvement is aimed at utilising the resources better, faster and in the most economical way.

The Finnish Ministry of Finance brings the human resources component into the public expenditure management trajectory. The Ministry of Finance argues that results must be achieved by continuously improving operational processes and improving the skills of the workforce (Ministry of Finance, 2006). This analysis ties in with Robinson and Brumby’s productivity dividend theory, which argues that, keeping everything else constant, the more productive workforce will achieve efficiency gains (Robinson & Brumby, 2005). Therefore, while public expenditure management ensures that there are sound financial controls in place and that performance information is part of the budget and resource allocation debate and helps the government deliver services in an economical, productive and efficient way, the cost effectiveness of programmes ensures that government spends effectively. Turcotte conducted a study that emphasises that the basis for evaluating the efficiency and effectiveness of government programmes cannot solely be based on costs; it can also be based on performance measures (Turcotte, 1999). His study illustrates that it is crucial to understand all the inputs, activities and processes that lead to outputs in government programmes. This view is further articulated by Castro, who states that programme costing entails linking funding to results by using performance indicators and taking into account external factors that may affect implementation (Castro, 2011). A study

Stellenbosch University https://scholar.sun.ac.za



by Brumby *et al.* (cited in Athukorala & Reid, 2003) provided evidence of efficiency gains, measured in terms of unit costs of output.

There is a growing consciousness that measures of institutional performance are essential if the efficiency and effectiveness of public spending is to be improved (Mackay, 2007). This can be done by instituting a procurement system that supports efficiency and effectiveness in the expenditure of public funds through clear and enforceable rules that promote competition, transparency and value for money (Andrade, Cavalcanti, Boakye, Van der Linde, Mbungu *et al*., 2004). Operational efficiency is what the Auditor-General audits. The Auditor-General compiles findings on issues around supply-chain management and budgeting that may lead to a disclaimer of annual financial statements (AFS); unauthorised, irregular and fruitless, and wasteful expenditures. In this regard, the public expenditure management handbook states that:

> *The focus of auditing is to determine whether public funds have been spent for the purposes for which they were designated. The scope of auditing should be sufficiently broad. The objectives of an audit should include: (a) compliance with budget appropriations; and (b) whether public funds purchased value for money* (World Bank, 1998).

To address the issue of inefficiencies in budgets, South Africa, like other countries, has adopted an efficiency dividend approach. This approach refers to imposed across-the-board marginal cuts in operational spending that augment the pressure across the public sector to increase efficiency while generating fiscal savings. Some sectors may be spared on the grounds of necessity, priority or dependency on manpower (Marcel, 2013). As per the National Treasury, from this approach the government realised savings from national departments amounting to R35.2 billion over the 2015 Medium-Term Expenditure Framework (R10 billion in 2015/16, R15.1 billion in 2016/17 and R10.1 billion in 2017/18) (National Treasury, 2015a).

Robinson (2013) states that there are two types of savings measures that spending review may be tasked to identify, efficiency savings and strategic savings. Spending review refers to an in-depth analysis of a programme with the view to finding the actual costs of delivering that programme. Efficiency savings (also referred to as “operational” savings) are expenditure reductions that are achieved by changing the way in which services are produced so as to deliver the same quantity and quality of services (i.e. outputs) at a lower cost (Robinson, 2013). Strategic savings (referred to as “output”

Stellenbosch University https://scholar.sun.ac.za



savings), by contrast, are expenditure reductions achieved by cutting back services (outputs) or transferring payment delivered to the community (Robinson, 2013). In the 2015 budget, the South African national government implemented both types of savings measures; however, with strategic savings, where possible, the idea was to reschedule projects to later financial years.

Aligned with the strategy to improve technical efficiency, governments have introduced expenditure reviews to help determine the true cost of government services (National Treasury, 2013). This is done as a result of government programmes having no pricing signal. In light of this, expenditure reviews are a strategic process of trying to root out inefficiencies in the system. The expenditure reviews are evaluations that focus largely on the financial issues (National Treasury, 2013). Like other evaluations, they are a systematic assessment of the operation of a programme compared to a set of explicit or implicit standards, as a means of contributing to the improvement of the programme (Weiss, 1998). These reviews are broadly in line with the public expenditure management trajectory of promoting allocative and operational efficiency through ensuring that budget allocation decisions are continuously reviewed to confirm their relevance and need to respond to social needs (Robinson & Brumby, 2005).

## 2.6. Value for money

“Value-for-money” principles propose that public expenditure management can be a driving force for operational and allocative efficiencies and resource effectiveness in government programmes. This is because it leads to greater emphasis on PI, including the establishment of the Department of Planning, Monitoring and Evaluation (DPME) in 2009, to instigate the culture of performance in government institutions. Robinson and Brumby (2005) make an appealing analogy about the operational and allocative efficiency attained through public expenditure management when they link public expenditure management to macro-level goals of government (Robinson & Brumby, 2005). They further suggest that by boosting operational and allocative efficiencies, all things being equal, government should realise some savings and if the idea is not to accumulate surpluses, then the tax burden on taxpayers can be reduced. While that is true, one of the key ideas of public expenditure management is its customer orientation, putting users at the heart of services. This way of thinking about service delivery is introduced in the paradigm and promotes the ideals of value for the money spent**.** However, public expenditure management needs to be embedded in an organisational culture. It cannot promote allocative and operational efficiency without an organisational culture with a management team that is supportive of this reform and

Stellenbosch University https://scholar.sun.ac.za



has internalised it as a management function through managing for results techniques (Organisation for Economic Co-Operation and Development, 2007). This is all the more so as citizens are putting governments under increasing pressure to show that they are providing value for money.

## 2.7. Transparency

Providing information about public sector performance can satisfy the public's right to know, and can act as a useful tool for the government to evaluate its performance. The information about allocative efficiency and value for money needs to be disseminated to the relevant stakeholders, including the end users, the public, and legislature and politicians in a manner that is acceptable and understandable. For instance, if the budget is on a cash basis, that is going to be the dominant basis on which politicians and the administration function. Financial reporting on different bases risks becoming a purely technical accounting exercise which provides information that might not be useful to the relevant stakeholders (Athukorala & Reid, 2003). This is not always simple, given that the government often provides services where there is no market or price signal. For this reason, the use of performance measures to narrate the story becomes ever more important to communicate the successes and failures of government intervention (Yaisawarng & Puthucheary, 1997). This position is echoed by Appiah-Adu & Satyendra (1998), who emphasise the need for strategies that are responsive to customer needs.

While it might be a challenge to account to the public by portraying returns on investment in the absence of price signals on public goods, effective execution of strong developmental programmes will enhance financial controls by creating a healthy environment for a more customer-focused approach (Niven, 2003). It is widely held that the aim of government accounting and financial reporting is to protect and manage public money. Granof believes that public sector financial reporting should provide information in assisting users to assess what government has achieved, at what cost, and whether government has attained value for money spent, essentially the economy, efficiency and effectiveness of service costs (Granof, 1998).

## 2.8. Legislative framework

There are various laws regulating budgets of national, provincial and local governments, which are guided by the following:

- The Constitution of the Republic of South Africa, 1996 (Act 108 of 1996);

Stellenbosch University https://scholar.sun.ac.za



- The Intergovernmental Fiscal Relations Act, 1997 (Act 97 of 1997);
- The Public Finance Management Act, 1999 (Act 29 of 1999);
- Municipal Finance Management Act, 2003 (Act 56 of 2003);
- Money Bills Amendment Procedure and Related Matters Act, 2009 (Act 9 of 2009);
- Annual Division of Revenue Act and Appropriation Act;
- Annual Division of Revenue Amendment Act and Adjustments Appropriation Act; and
- Taxation laws and annual amendments.

### 2.8.1. Constitution

The Constitution of South Africa, Act 108 of 1996 (as amended) (RSA, 1996), provides the basis for public financial management. It assigns clear roles and responsibilities to the different spheres of government (national, provincial and local) that are supported by the provisions of the PFMA and Municipal Finance Management Act (MFMA). It provides performance assurance through Sections 100 and 216, allowing for the intervention by the national government when an entity of government fails to perform an executive function related to financial management, and prescribes circumstances under which the National Treasury may withhold funds to other organs of state. The Constitution requires all money received by the national government to be paid into the National Revenue Fund.

One of the important pieces of legislation is the Division of Revenue Act (DORA), an Act of Parliament which is voted annually to determine the vertical and horizontal allocation of resources. DORA establishes the annual transfers to provinces and municipalities, including the equitable share and the conditional grant share. Both are determined by a well-defined formula. In essence, this Act provides for:

- equitable division of revenue raised nationally among national, provincial and local governments;
- determination of each province’s equitable share; and
- other allocations/grants to provinces and local government from the national government’s share (Section 214(1)).

Before the adoption of DORA, Parliament must consult provincial governments and organised local government, and consider recommendations of the FFC (section 214(2)). The FFC, a constitutional body, makes recommendations and advises organs

Stellenbosch University https://scholar.sun.ac.za



of state on financial as well as fiscal matters. The Constitution sets out principles to take into account in terms of the DORA. These include, but are not limited to, the national interest, need to ensure that provincial and local governments are able to deliver basic services, economic disparities within and among provinces, and desirability of stable and predictable allocations of revenue shares (section 214(2)). The Constitution states that:

- National, provincial and municipal budgets and budgetary processes must promote transparency, accountability and effective financial management of economy, debt and public sector (section 215(1)).
- National legislation must determine the form of national, provincial and municipal budgets, when national and provincial budgets must be tabled and that budgets must show sources of revenue (section 215(2)).
- Budgets must contain
    - estimates of revenue and expenditure, differentiating between capital and current expenditure;
    - proposals for financing anticipated deficit for affected period; intended borrowing that will increase public debt in next year (section 215(3)).

### 2.8.2. Intergovernmental Fiscal Relations Act

The Intergovernmental Fiscal Relations Act (IFRA) (1997) aims to promote co-operation between national, provincial and local spheres on fiscal, budgetary and financial matters. It establishes the process of intergovernmental consultation in enacting the Division of Revenue Bill. This piece of legislation provides for:

- A Budget Council: Minister of Finance and provincial MECs (Members of Provincial Executive Council) for finance;
- A Local Government Budget Forum that should comprise of the following:
    - Minister of Finance;
    - provincial MECs for finance;
    - Five representatives of national organisations representing local government;
    - one representative of each provincial organisation representing the local government in the province.

Stellenbosch University https://scholar.sun.ac.za



Regarding the Division of Revenue Bill, the IFRA provides for the Financial and Fiscal Commission's role, time frames for submission of the Commission's recommendations to Parliament and the Minister of Finance, consultation with the Commission before the tabling of the Division of Revenue Bill, the content of the memorandum accompanying the Bill, namely how constitutional criteria and the Commission's recommendations were taken into account in the Bill and the process for determination of an equitable share raised nationally.

### 2.8.3. Money Bills Amendment Procedure and Related Matters Act, 2009

The South African Constitution sets out different procedures to be followed in Parliament for different kinds of Bills (e.g. constitutional amendment Bills, money Bills, Bills regarding concurrent national and provincial functions and exclusive provincial functions). As such, a money Bill is a Bill that:

- appropriates money;
- imposes national taxes, levies, duties or surcharges;
- abolishes/reduces, or grants exemptions from, any national taxes, levies, duties or surcharges;
- authorises direct charges against the National Revenue Fund (except the Division of Revenue Bill).

The Money Bills Amendment Act, a law required by the Constitution, provides procedure for Parliament to amend money Bills. This is set out in Section 77(3) and key provisions of the Act are the:

- establishment of Parliamentary Appropriation Committees;
- procedures before the introduction of the national budget;
- the Medium-Term Budget Policy Statement;
- adopting a fiscal framework and revenue proposals;
- introduction and passing of the Division of Revenue Bill and Appropriation Bill;
- passing of revenue/taxation Bills;
- changes mid-financial year: the National Adjustments Budget, revised fiscal framework, Adjustments Appropriation Bill and Division of Revenue Amendment Bill; and
- the establishment of a Parliamentary Budget Office.

Stellenbosch University https://scholar.sun.ac.za



According to this Act, each House of Parliament must establish a Committee on Finance and a Committee on Appropriations. On the one hand, the Committee on Finance deals with national macro-fiscal policy and amendments to the fiscal framework, revenue proposals and bills. On the other hand, the Committee on Appropriations deals with amendments to the Division of Revenue Bill, Appropriation Bill and other appropriation bills; it also deals with recommendations by the FFC and other parliamentary committees.

#### 2.8.4. Money Bills Amendment Act – Assessment of departments and reports

The National Assembly (one of the two Houses of Parliament), through its Portfolio Committees, must annually assess the performance of each national department with reference to the medium-term estimates of expenditure; strategic priorities, measurable objectives, strategic plan; expenditure report published by National Treasury; financial statements; annual report and reports of the Standing Committee on Public Accounts; and other information before Parliament. This committee must thereafter table in the National Assembly a Budget Review and Recommendation (BRR) report for each department. This report must contain an assessment of the department's service delivery performance, efficiency, productivity and its effectiveness subject to available resources, and it may make recommendations on the use of funds and their adequacy.

#### 2.8.5. Money Bills Amendment Procedure and Related Matters Act – Medium-term budget policy statement

The Budget Review and Recommendation (BRR) reports must be submitted to the National Assembly after the adoption of the Appropriation Bill and before the adoption of reports on the Medium-Term Budget Policy Statement (MTBPS). The Appropriation Bill is tabled by the Minister of Finance to the National Assembly along with other strategic documents such as the Budget Review, and the Estimates of National Expenditure during his budget speech, which is usually in February. After the tabling of this Bill, Portfolio Committees debate it and Parliament must approve the Appropriation Bill within four months of the beginning of the financial year. The MTBPS is tabled after six months to the new financial year; this is often in October. Therefore, this means that the BRR reports must be submitted to the National Assembly between the second or last month before the tabling of MTBPS. The proposed fiscal framework, explanation of macro-fiscal policy, macro projections and assumptions are referred to Committees on Finance. Committees on Finance must table reports on the fiscal framework, including amendments.

Stellenbosch University https://scholar.sun.ac.za



After the adoption of the fiscal framework, the Division of Revenue Bill is referred to the Committee on Appropriations for amendments, which must be consistent with the approved fiscal framework. Committees may not consider amendments to the Appropriation Bill until after the Division of Revenue Bill is passed and amendments must be consistent with the fiscal framework and the Division of Revenue Act. Parliamentary rules must provide for public hearings on Appropriation Bills. The proposed division of revenue and proposed conditional grants are referred to Committees on Appropriations. The Committees on Appropriations table reports on the proposed division of revenue, and conditional grant allocations, including amendments to the division of revenue. These must be submitted to Parliament at least three months before the budget. Upon adoption, these reports are submitted to the Minister of Finance and responsible members of Cabinet who then have to respond to the recommendations.

### 2.8.6. Money Bills Amendment Act – National adjustments budget

The national adjustments budget follows a similar consultative process with minor adjustments. The Adjustments Appropriation Bill and Division of Revenue Amendment Bill must be tabled at the same time, together with the amended fiscal framework, if required. The PFMA outlines what may be contained in the national adjustments budget, for example:

- adjustments required due to significant and unforeseeable economic and financial events affecting fiscal targets set by the annual budget;
- unforeseeable and unavoidable expenditure; and
- roll-over of unspent funds from the previous year (section 30(2)).

### 2.8.7. Money Bills Amendment Act – Introduction of bills and budgets (also requirements in Constitution 215(3) and Public Finance Management Act)

The Minister of Finance must table the national annual budget at same time as the Appropriation Bill and Division of Revenue Bill. The budget must include:

- a proposed three-year fiscal framework;
- key macroeconomic assumptions;
- tax and other revenue proposals for the financial year and two subsequent years;

Stellenbosch University https://scholar.sun.ac.za



- estimates of revenue and expenditure, differentiating between capital and current expenditure;
- an estimate of aggregate general government and public sector debt levels in the short, medium and long term;
- an estimate and breakdown of contingent liabilities for the financial year and two subsequent years;
- estimates on interest and debt servicing charges and repayment on loans;
- proposals for financing the anticipated deficit for the financial year; and an indication of intentions regarding borrowing and other forms of public liability that will increase public debt in the financial year and future years.

#### 2.8.8. Public Finance Management Act

The PFMA and its Amendment (RSA, 1999) details the Financial Management Regulatory Framework for national and provincial government institutions. The local government sphere is regulated by a similar Act, the MFMA. Both these Acts are part of a broader strategy on improving financial management in the public sector with principles adopted from public expenditure management and in concordance with the constitution. The PFMA addresses the budgetary process, the institutional arrangements for procurement, the procedures, controls and the application of procurement methods, pre-requites for the issuance of government guarantees, and the intervention of the national government when a public entity fails to perform.

In respect of budgetary oversight, the PFMA requires that Parliament and each Provincial Legislature appropriates money for each financial year. This is captured in section 26 of the Act. The Act also enables expenditure before the annual budget is passed, as seen in section 29, which stipulates that a department may not spend more than 45 percent of its budget before the budget has been passed. Reading this provision together with the provision outlined in the Money Bills and Money Bills Amendment Procedure and Related Matters Act, 2009, it follows that within the first four months of the new financial year each department may not spend more than 45 percent of its budget. This is informed by the provision in both the PFMA and the Money Bills Amendment Act, which stipulates that Money Bills may be debated and amended by the legislature.

Other key provisions from the PFMA include Section 43, which speaks to the process of virements and sets out the level of authority that is needed to shift funds between

and within departments. For instance, even though this Act gives department's power to manage their allocations, it also restricts the powers of accounting officers to move funds between programmes. In addition, if the department wants to shift more than eight percent from one programme, it requires approval from Parliament and it can only be done through the adjustment budget. In the case that the department wants to shift funds to increase transfer payments, it requires National Treasury's approval and it can be done at any point after Parliament has passed the bill. This Act is often qualified by the Treasury Regulations, which also have the force of law. Both the PFMA and the Treasury Regulations set clear reporting requirements for in-year budget execution, and budget and expenditure management, and require that the National Treasury publish monthly statements of actual revenue and expenditure with regard to the National Revenue Fund. These monthly statements are often referred to as Section 32 reports.

## 2.9. Conclusion

This chapter has provided a literature review in which public expenditure management practices were discussed. The existing literature suggests that there is a need to pay attention to the interaction between the three budget outcomes and the institutional arrangements within which they are embedded. It further suggests that fiscal stability creates an environment that encourages sound strategic prioritisation and this shared common goal promotes operational efficiency. By boosting operational and allocative efficiencies, everything staying the same, government should realise some savings which can be used to fund other priority areas, as opposed to accumulating more debt to fund these priorities. This would ensure aggregate fiscal discipline. Furthermore, the existing literature suggests that unless accountability measures are set in place by means of which people can be held accountable for their financial transgressions, it will be very difficult for a country to achieve the desirable budgetary outcomes. Within the South African context, the PFMA is legislation that promotes good financial management using the principles of public expenditure management.

Stellenbosch University https://scholar.sun.ac.za



# CHAPTER 3 : AGGREGATE FISCAL DISCIPLINE

## 3.1. Introduction

This chapter picks up on analysis of the budget, its processes and major role players. The chapter further looks at the characteristics of a credible budget and evaluates consolidated budgets of the national government departments, the main indicators analysed as well as the aggregate expenditure and revenue outturn compared to originally approved estimates. The next part of the chapter unpacks the shifting of funds during the financial year, as well as excessive expenditure in March. The chapter argues that the analysis of shifting funds serves as a good indicator for assessing the credibility of a budget. The key to this argument is an assessment on whether compliance is incentivised and non-compliance punished. While rewards are important in ensuring that government funds are spent sensibly on priority areas, it is necessary that punishment for non-compliance be applicable to institutions and individuals that compromise the credibility of government budgets.

The criteria used to measure a budget's credibility is set out in the public expenditure management handbook. In addition, for a country's budget to be considered credible, the public expenditure management handbook identifies five percent as the maximum variance in relation to the original approved budget. This applies to both the aggregate expenditure out-turns and the aggregate revenue out-turns.

## 3.2. Purpose of the budget

In a broader view, the budget is a key statement of policy by the government. It is characterised by three functions, which are:

- spending, taxation and borrowing must support economic objectives;
- resources must be allocated according to political priorities; and
- budget and budget information must be tools to improve quality and effectiveness of spending.

For both national and provincial government departments, the budget is allocated by votes, and relevant legislatures vote on passing the bill. However, the budget for each department must be comprehensive in covering the public sector, and it must include public agencies and donor receipts (both cash and in kind). All allocations for these institutions (public entities, non-profit institutions, private enterprises and households)

Stellenbosch University https://scholar.sun.ac.za



must flow through the departmental votes. This is to say that no individual allocation flows directly to these institutions; their allocation flows through a specific department that plays a leading role in the delivery of the sector priorities. In relation to donor funding, funds that flow from international organisations in support of specific programmes in the country are all centrally administered within the National Treasury. These funds have a separate account into which they are deposited, and each department can then access them from that account. Though they are administered in the National Treasury, they are planned and executed at a departmental and public entity level, with monthly reporting by the respective departments to the National Treasury for evaluations. The institutions with donor funding are compelled to disclose such agreements and commitments in the budget process.

## 3.3. Role players in the budget process

There are various role players in the budget process, which include both the administrative officials responsible for technical support and political figures for decision-making. The term "administrative officials" refers to the employees of the department, the accounting officer (Director General) and his/her team, while political figures are the executive authorities of departments (Ministers and their Deputies) and other members of Parliament. There are various key role players in the administration, particularly the high-level committees that make decisions on budget allocations. These committees are the Function/budget Group (FG), the Medium-Term Expenditure Committee (MTEC), and Financial and Fiscal Commission (FFC). The political committees involved are the Ministers' Committee on the Budget (MinCommBud) and Cabinet.

## 3.4. Function/budget group

The budget is designed around the framework of function budgeting, which categorises expenditure based on the policy objectives that the expenditure is intended to achieve (National Treasury, 2014). Function groups contain all government institutions that contribute to achieving a particular function: national, provincial departments and the respective entities. These function groups are chaired by a Deputy Director General (DDG) of the National Treasury.

- Function groups are generally subdivided into budget groups for purposes of discussion and engagement during the technical phase of the budget process.
- Function groups are aligned with particular outcomes specified in the Medium-Term Strategic Framework.

Stellenbosch University https://scholar.sun.ac.za



- This forum implies a discussion of the relationship between budget allocations and the design of policy frameworks, institutional arrangements and delivery models that seek to achieve a particular outcome.
- Each function group leader must prepare an MTEC report and present the functional group recommendations to MTEC.

The MTEC consists of Directors General (DGs) from various key departments such as the National Treasury, Department of Public Service Administration, Economic Development Department, Cooperative Governance and Traditional Affairs, and the Department of Planning, Monitoring and Evaluations. These senior-level officials evaluate the recommendations that come from technical group forums and make recommendations to the MinCommBud. The technical group forums consist of the DDGs of the departments (this function is often delegated to chief directors) that form MTEC and various DGs from line departments arranged by function. The function group forums are chaired by the DG of the National Treasury. The MTEC makes recommendations to the MinCommBud on how best to fund government programmes, how much goes to each sphere, and how revenue will be raised and allocations made per national department. This committee is chaired by the DG of the National Treasury.

The MinCommBud is a committee of ministers from the departments that form the MTEC. These ministers evaluate the MTEC recommendations, and make final recommendations to Cabinet on the fiscal framework and how funds are allocated per sphere and national departments. The Minister of Finance then tables these recommendations to the Cabinet/National Assembly for deliberations and endorsement. This committee is chaired by the Minister of the National Treasury.

The Financial and Fiscal Commission is a constitutional institution established in terms of section 6 of the constitution. The FFC makes recommendations and advises organs of state on financial and fiscal matters. The Constitution states that the FFC is independent and subject only to the Constitution and the law, and must be impartial.

According to the Constitution, the Appropriations Bill may only be passed once the recommendations of the FFC have been considered. Cabinet therefore bases its decisions on the recommendations of both the FFC and the MinCommBud. Cabinet consists of the President, the Deputy President and his Ministers and the cabinet approves allocations. Thereafter, these allocations are signed by the Minister of Finance and sent to various departments inclusive of the provision for earmarking certain amounts or set conditions. This often happens in late November. Once these

Stellenbosch University https://scholar.sun.ac.za



allocations have been sent out to various departments, the ministers of departments are required to issue allocation letters to various public entities notifying them of their respective final allocations and thereafter the budget documents are prepared.

The National Treasury is responsible for putting together the documents; however, it obtains inputs from various departments and government institutions. The documents used in preparation for the main budget are: Budget Review, Division of Revenue Bill, Appropriation Bill, Estimates of National Expenditure, and Peoples' Guide to the Budget. All these documents are tabled by the Minister of Finance in the budget speech in February. Below is a brief outline of what each of these documents contains.

- Budget Review
  - Economic outlook
  - Fiscal framework
  - Tax policy
  - Assets and liabilities
  - Summary of medium term expenditure and division of resources
- Division of Revenue Bill
  - Division of revenue among the three spheres of government for first year of MTEF cycle
  - Conditions on certain types of expenditure
- Appropriation Bill
  - Appropriation for the first year of the MTEF cycle by vote and economic classification
  - Amounts exclusively appropriated
- Estimates of National Expenditure
  - Explanatory memoranda to the Appropriation Bill
  - Policy developments and service delivery achievements and commitments alongside seven-year numbers. Includes information on public entities
- Peoples' Guide
  - A popular version of the main points in the budget in various indigenous languages

Once the main budget is tabled, parliamentary processes have to take place. These processes were discussed in Chapter 2 under the legislative requirement and they are briefly outlined below:

Stellenbosch University https://scholar.sun.ac.za



### 3.5. Parliamentary processes

- Individual portfolio committees consider the budget and strategic plan for each department.
- The budget is considered by standing committees on finance and appropriations comprising members of both houses.
- The Fiscal Framework is approved/amended, then the Division of Revenue and then the Appropriation Bill.
- In respect of the MTBPS, reports are issued by Parliament on the medium-term expenditure framework's fiscal framework and division of revenue, before the executive finalises the budget.
- Parliamentary Committees table the Budgetary Review and Recommendation Reports (BRRR).
- The National Budget tabled includes response to BRRRs, MTBPS Fiscal Framework and Division of Revenue.
- The National Treasury briefs Parliamentary Committees on the documents/ bills tabled at different points in the Budget cycle.
- The National Treasury provides quarterly expenditure reports to Parliamentary Committees.
- The Public Accounts Committee deals with post-facto issues raised by the Auditor-General.

### 3.6. Adjusted budget

Once Parliament has passed the Appropriation Bill for the main budget, departments may revise these allocations through a secondary in-year budget process referred to as the adjustments budget. The Public Finance Management Act, Act 1 of 1999 (RSA, 1999), section 30(2), states that the adjustments budget may provide for:

- Significant and unforeseeable economic and financial events affecting the fiscal targets;
- Unforeseeable and unavoidable expenditure recommended by a committee of Cabinet;
- Any expenditure in terms of section 16, which governs the use of funds in emergency situations;

Stellenbosch University https://scholar.sun.ac.za



- Money to be appropriated for expenditure already announced by the Minister during the tabling of the annual budget. In certain instances, an amount to be allocated for the three years of the MTEF period for a specific purpose will be announced by the Minister when the main budget is tabled, but the details of the annual allocations are only decided on at a later stage.
- The shifting of funds between and within votes;
- Utilisation of savings under a main division of a vote to defray over-expenditure on another main division in terms of section 43, which governs the use of virements;
- The roll-over of unspent funds from the preceding financial year;
- Unforeseeable and unavoidable allocations can only be made if there is evidence that by the time the allocations were made (main budget) there was no way of pre-empting the need to budget for this expenditure.

As discussed in Chapter 3 under virements, the department may shift funds between votes only during the adjustments budget. The circumstance under which this happens is when the function of one department shifts to another department in-year. Rollovers refer to unspent funds from the previous financial year for which there is proof of commitment through either an invoice, a memorandum of understanding (MoU) or a service-level agreement (SLA). This section is guided by section 30 of the PFMA and regulation 6.4 of Treasury regulations. The adjustment budget is accompanied by a number of documents. These documents are MTBPS, the Division of Revenue Amendment Bill, the Adjustments Appropriation Bill, the Adjusted Estimates of National Expenditure, and the Peoples' Guide to the Budget. The Minister of Finance tables all these documents during the adjustment budget speech in October. Below is a brief outline of what each of these documents contains:

- Medium-Term Budget Policy Statement
- Key priorities
- Economic outlook and fiscal framework
- Medium-term expenditure framework
- Division of revenue between the three spheres, including the allocation to conditional allocations
- Division of Revenue Amendment Bill
- Amendments of current year allocations to provinces and municipalities
- Adjustments Appropriation Bill

Stellenbosch University https://scholar.sun.ac.za



- Adjustments to current year appropriations originally tabled in February by vote and economic classification
- Adjusted Estimates of National Expenditure
- Explanatory memoranda to the Adjustments Appropriation Bill
- Specify adjustments in respect of each category of expenditure adjustment permitted in terms of section 30(2) of the PFMA.

All budget documentation for both the main budget and the adjusted budget are available on the National Treasury website.

## 3.7. Deciding the revenue envelope

The budget process involves making decisions around how much should be raised and how much should be spent. Within the South African context, revenue must be considered alongside expenditure, in order to determine a consolidated picture of government operations and to ensure fiscal sustainability of government finances. Therefore, spending will need to respond to revenue projections. Government revenue is typically directed to a common revenue pool, the National Revenue Fund (NRF), before it is distributed. In deciding the revenue envelope, the revenue analysis working committee works out how much revenue goes into the NRF. There are main two sources of revenue: Tax revenue and Non-tax revenue. The latter refers to the revenue received by the South African government as a result of administrative charges, licence fees, sales of goods and services, while the former refers to all forms of taxes (income, company, property taxes and so on).

The revenue analysis working committee consisting of the National Treasury (NT), the South African Revenue Services (SARS), the South African Reserve Bank (SARB) and Statistics South Africa (Stats SA) meets regularly to determine revenue projections for the MTEF. This committee is mandated to determine revenue projections for the MTEF, and discusses and debates trends in tax revenue, and form a consensus view on the revenue outlook for the new MTEF.

When making decisions about revenue, the committee considers multiple factors because of the importanceof tax revenue for economic performance. Analysis into the South African tax revenue over the past years highlights that as far back as 1995/96 to 1999/2000 nominal gross tax revenues grew at an annual average rate of 12.1 percent. This was very high, as the average inflation rate during the same period was six percent (National Treasury, 2012). According to the National Treasury, the high growth allowed the state to increase expenditure. In addition, from 2001, revenue

Stellenbosch University https://scholar.sun.ac.za



performance accelerated, buoyed by strong commodity prices and improved tax administration, with growth rates in excess of 17 percent after 2004. However, revenue declined by 4.2 percent in 2009/10 as a result of the global financial crisis and a drop in the growth rate (National Treasury, 2012).

## 3.8. Nominal growth in gross tax revenue and GDP, 1995/96 – 2013/14

Figure 3.1 below shows the growth of tax revenue and GDP between the 1995/1996 and 2013/2014 financial years.

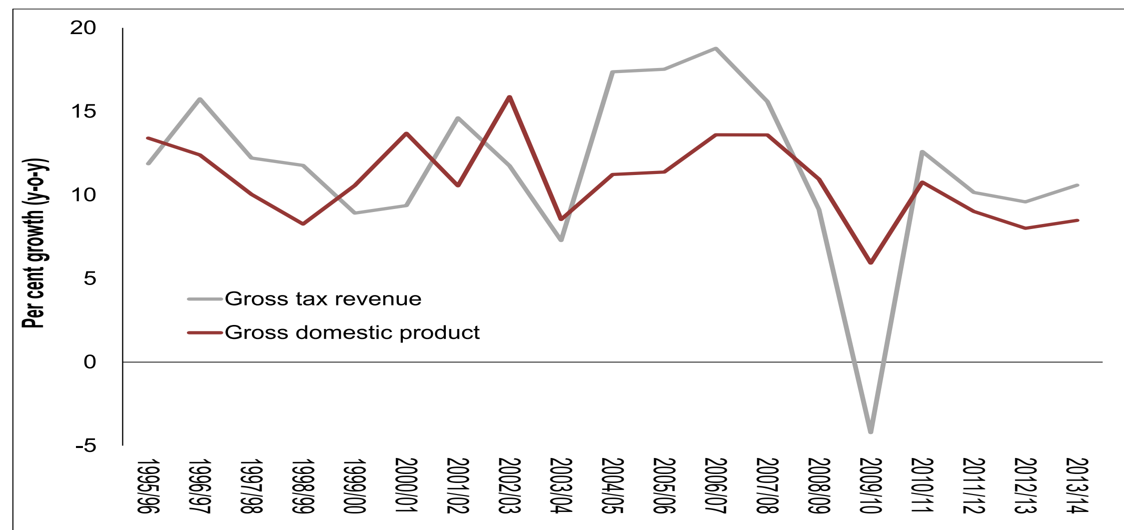



**Figure 3.1: Tax revenue vs GDP**

There is a positive correlation between these variables. In the 2009/2010 financial year, tax revenue decreased sharply owing to the global economic recession. While there was a decrease in GDP growth, GDP was kept at five percent year-on-year growth by an increase in government's expenditure. Figure 3.1 also shows that although tax revenue has been increasing year on year after the recession, this revenue is yet to reach the levels it achieved prior to the recession. Given the slow growth in revenues, there is a need to stabilise expenditure until such time that revenue has recovered fully. This can be done through setting up an expenditure ceiling, cutting down on government programmes and eliminating waste in the system.

An expenditure ceiling refers to an overall restriction on the outcome of all or most government expenditure. It is established ahead of the budget preparation period. It is an independent decision on the maximum level of government expenditure and is used

as an instrument to enforce aggregate expenditure discipline**.** The process of setting the ceiling before the negotiations guides the preparation and execution of the budget. Setting an expenditure ceiling is a necessity and aids in avoiding the tendency to expand the size of government expenditure without a corresponding increase in revenue. This is evident in cases of fiscal deterioration in many countries due to imprudent government spending. Establishing a ceiling as opposed to a baseline aids in fostering fiscal discipline and formalised restrictions on aggregate expenditure. This ceiling can be a valuable component of a framework intended to promote fiscal sustainability. However, some considerations regarding an expenditure ceiling are necessary. A balance must be struck between the ambition to enforce expenditure discipline and allowing for justified variations in expenditures, including:

- The impact of inflation; and
- Unexpected expenditure.

Setting of ceilings is not a homogeneous process as it is largely dependent on the context of fiscal, economic, and political conditions. As such, the principles for establishing the expenditure ceilings need to be explicitly linked with other fiscal objectives. Fiscal policy responds differently to different needs and this can be seen from how government has responded to the crises of the past two decades. Below is a snapshot of how the South African government responded to the crises of the past two decades:

The 1989-1993 recession is often referred to as the most severe recession experienced by South Africa. In responding to it, the government of the time applied fiscal policy responses that were expansionary, resulting in large deficits. Expanding government expenditure is still in line with the current government principles of fiscal policy, which states that government increases expenditure during downturns. However, the much-increased expenditure was a politically motivated expenditure and was aggravated further by limited political legitimacy to increase tax revenue further (Van Der Merwe, 1993).

With the new government coming into power in 1994, fiscal responses between 1993 and 1996 introduced the Reconstruction and Development Programme (RDP) strategy, which was also expansionary in nature. The higher public spending was seen as an important element of growth. The RDP was driven by a need to begin addressing historical inequalities. However, efforts to meet basic needs were counteracted by the

Stellenbosch University https://scholar.sun.ac.za



accelerated wage bill. Due to the expansionary fiscal policy, the deficit remained stubbornly high.

Between 1997 and 2004, the South African government introduced the Growth, Employment and Redistribution (GEAR) policy, a macroeconomic policy informed by the need to stabilise the economy. In order to implement GEAR, various expenditure reforms were introduced to ensure prudent fiscal management, including expenditure cuts in education, economic services and health. These were complemented by efforts to increase revenue. As a result, between 2005 and 2008, South Africa had a healthy GDP growth and started accumulating budget surpluses in 2006 and 2007. This strong economic base led to exceptional revenue performance, resulting in room to increase expenditure. However, this was short-lived as the global economic crises struck in the 2008/09 financial year, leaving South Africa vulnerable (Alam, Mokate & Plangemann. 2016).

During the recession, South Africa was still able to increase its expenditure owing to the surpluses accumulated in the years preceding the recession. However, the risks to the fiscus began to materialise towards the end of 2012. It was during this time that discussions of setting expenditure ceilings started to materialise and a decision to set a spending limit in the 2012 Budget was made. Establishing a spending limit meant that should there be a need for additional funding, funds would be sourced from within the institutions' baselines through expenditure reductions. The financial year 2013/14 was an exception, as the breach of the ceiling was due to the R7.9 billion recapitalisation of the Development Bank of Southern Africa (DBSA) to drive its focus on infrastructure funding (National Treasury, 2015a). This forced government to exceed its ceiling. Questions remain unanswered on whether the expenditure ceilings are going to be a unilateral government commitment or whether there is scope for it to be translated into legislation. While the latter ensures accountability, the former requires discipline and strong institutions for enforcement.

While the expenditure ceiling is critical for fiscal sustainability, there are a number of variables that can be used to measure this and they all fall under two main broad variables, income and expenditure at an aggregate level. These indicators provide regulators with reliable early warning signs of trouble. On the one hand, "aggregate expenditure out-turn" refers to the consolidated government expenditure at all levels. This spending is financed from the National Revenue Fund. On the other hand, "aggregate revenue out-turn" refers to the consolidated government revenue raised into the NRF. It includes all forms of taxes and receipts raised by both provincial and

Stellenbosch University https://scholar.sun.ac.za



national departments. Before going into the details about the factors that underlie fiscal sustainability, it is important to test whether the estimates being made do in fact bear a resemblance to the actual outcomes at the end of each financial year. This is referred to as fiscal discipline, the most important outcome in the budget process. It helps to answer questions and renders credibility to the budget.

**Table 3.1: Aggregate expenditure outcome compared to expenditure estimates**

| Expenditure in R billions | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---|---|---|---|---|
| Expenditure estimates | 973 | 1058 | 1149 | 1252 |
| Actual expenditure | 952 | 1045 | 1145 | 1239 |
| Variance | 21 | 13 | 4 | 13 |
| Variance % | 2.2% | 1.2% | 0.3% | 1.0% |

Table 3.1 explicitly depicts the variance between the aggregate expenditure outcome and the expenditure estimates, being R21 billion, R14 billion, R4 billion and R13 billion in 2011/12, 2012/13, 2013/14 and 2014/15 respectively. In other words, this table shows that while government projected to spend R973 billion in 2011/12, at the end of the financial year it actually spent R952 billion. This indicate that government is not precisely on point with its projections, which therefore means that the fiscal discipline outcome has not been met. This is also evident from the revenue projections, which show marginal differences between the estimated revenue and the actual revenue as depicted in Table 3.2.

The researcher is of the opinion that Table 3.1 and Table 3.2 provide a peculiar picture of the government contradicting itself, for the reason that in all the financial years under review, the expenditure estimates were much higher than the revenue estimates, which effectively means that the accumulation of debt is built into the system. It must be noted though that this is not unusual for a developing country with a variety of needs. However, a budget deficit of 3-4 per cent is accepted as being reasonable. This financial management poses a serious threat to the stability of the economy, as highlighted by the extensive available literature indicating that the accumulation of debt is unsustainable. In support of this view, Zagler and Dürnecker state that fiscal policies need to remain sustainable, because if the fiscal policies are not sustainable, this will become a source of macroeconomic instability (Zagler & Dürnecker, 2003). Tanzi also found that public debt has an adverse effect on the growth of the economy. Furthermore, Checherita and Rother found that high levels of public debt are likely to be deleterious for growth (Checherita & Rother, 2010).

Stellenbosch University https://scholar.sun.ac.za



Tables 3.1 and 3.2 also show that there is a need to adequately increase revenue to levels where it covers the projected expenditure. This will ensure that fiscal sustainability is maintained. Fiscal sustainability is a necessary condition for fiscal discipline.

**Table 3.2: Aggregate revenue outcome compared to original approved budget**

| Revenue in R billions | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---|---|---|---|---|
| Revenue estimates | 830 | 906 | 1011 | 1099 |
| Actual revenue | 837 | 909 | 1008 | 1102 |
| Variance | -7 | -3 | 3 | -3 |
| **Variance %** | **-0.8%** | **-0.3%** | **0.3%** | **-0.3%** |

Tables 3.1 and 3.2 show that expenditure has been more than revenue in both estimates and actuals. This is likely to drive South Africa onto an unsustainable trajectory if it is not controlled. In addition to this, heavy reliance on tax revenue to sustain the economy is not encouraged, more so since tax revenue makes up approximately 90 percent of budget revenue. A high effective tax rate on corporate and individual income could hamper the rate of private investment. For this reason, low disposable income might increase the revenue base for the government; however, the negative side effects could have more detrimental effects on growth and the perception of the fairness and equity effects of the tax system. This could lead to tax avoidance and tax evasion if people perceive the system as being unjust.

There is a sufficient body of knowledge suggesting that an increase in the rate of tax interferes with private decisions to invest and investment is a key variable for economic growth. Zagler & Dürnecker (2003 as cited in Moreno-Dodson, 2013) explain that high taxation on earnings can have a negative impact on the quality of labour input. This is mainly due to the expectation that new knowledge and skills lead to higher future earnings. Optimality of schooling decisions implies that marginal benefits (in terms of higher future earnings) are equal to marginal costs. If tuition costs are kept constant, then a tax on labour income will induce individuals to cut back on their efforts to obtain schooling, thereby reducing the average quality of the workforce, with a detrimental effect on growth.

In 2013, the then Minister of Finance, Pravin Gordhan, appointed the Davis Tax Committee to review the South African tax system. The committeepointed out that at 24.6 percent South Africa's current tax to GDP ratio was somewhat higher than the average observed in high-growth economies of 22.5 percent. It recommended that

Stellenbosch University https://scholar.sun.ac.za



South Africa reduce this ratio from the current 24.6 percent of GDP to the region of 22 percent (Bisseker, 2014). This report also cites a 2008 University of Pretoria study which found that in order to maximise economic growth, South Africa's optimal tax base should be approximately 19 percent. These two views are further complemented by the Katz Commission (1994), which recommended that South Africa targets tax revenue to GDP ratio of 25 percent.

Having established that the tax revenue is high, the third dilemma is how to increase other revenue sources that are likely to replace the tax revenue. There is, therefore, a need to promote innovative financial management to incentivise robust revenue generation to decrease the fiscal deficit. *Fiscal deficit* is the term used to refer to the gap between taxation and expenditure. Tables 3.1 and 3.2 show that the fiscal deficit is increasing, a fiscal trajectory that may be unsustainable in the sense that the debt-to-GDP ratio is deteriorating (as seen in Table 3.3). This does not allow the government to reduce debt to a level that enables a robust countercyclical response to future crises.

## 3.9. Debts as a percentage of GDP

In order to qualify for full membership of the Economic and Monetary Union (EMU), governments must meet the Maastricht Treaty's fiscal requirements of a government debt-to-GDP norm of 60 percent and budget deficit-to-GDP norm of three percent. These fiscal rules are part of the Stability and Growth Pact and were accepted as norms of good fiscal behaviour (Calitz, Du Plessis & Siebrits, 2013). However, the South African government's gross debt is 47 percent of GDP (National Treasury, 2015a). This is still within the Maastricht norm of 60 percent of GDP; however, an examination of the trends that have developed over the past seven years indicates that this is yet another reason to be more concerned. Table 3.3 below shows that it will not be long before South African debt to GDP exceeds the Maastricht norm of 60 percent.

Dunn (2013) devised a forecasting formula that can be used for linear trend estimation which rests on two properties, namely $\sum(Y - Yt) = 0$; $\sum(Y - Yt)^2$ = a minimum (least) value.

The formula is as follows:

$Yt = a + b(x)$

where

$Yt$ = the trend value for a given year

Stellenbosch University https://scholar.sun.ac.za



a = the value of Yt when x=0

b = the slope of the trend line representing the change in Yt for each unit of time

x = the coded time value for any year, as determined by its distance from the origin"

**Table 3.3: Forecasted gross debt as % of GDP**

| Year | General government gross debt as % of GDP (Y) | Coded Time Value (x) | Columns x (xY) | Column Squared (x^2) | Trend value for General government gross debt as % of GDP (Yt) |
|---|---|---|---|---|---|
| 2007 | 28.331 | -3.5 | -99.1585 | 24.5 | 23.491 |
| 2008 | 27.232 | -2.5 | -68.08 | 12.5 | 25.658 |
| 2009 | 31.579 | -1.5 | -47.3685 | 4.5 | 27.825 |
| 2010 | 35.313 | -0.5 | -17.6565 | 0.5 | 29.991 |
| 2011 | 38.82 | 0.5 | 19.41 | 0.5 | 32.158 |
| 2012 | 42.091 | 1.5 | 63.1365 | 4.5 | 34.325 |
| 2013 | 45.231 | 2.5 | 113.0775 | 12.5 | 36.491 |
| 2014 | 47.302 | 3.5 | 165.557 | 24.5 | 38.658 |
| n=8 | **248.597** | **0** | **128.9175** | **59.5** | **248.597** |

| | | |
|---|---|---|
| | **General government gross debt as % of GDP in 2024:** | **60.325** |
| Where | Coded Time Value (x)= | **13.5** |
| | Coded Time Value squared (x^2)= | **182.25** |
| | a | 31.075 |
| | b | 2.167 |
| | therefore Yt | 60.32481408 |

Using Dunn's (2013) forecasting technique, with everything staying the same; in the next 10 years (by 2024) the debt to GDP levels will have reached 60.3 percent, surpassing the Maastricht norm of 60 percent. Therefore, if the government continues on this trajectory, this is the likely scenario, but things could get worse should government expenditure increase or should there be another recession.

## 3.10. Debt-service cost as a percentage of GDP

Another way to look at the status quo is by calculating the debt service cost to GDP ratio. The debt service cost to GDP ratio is the level of interest payment on debt per year as a percentage of GDP and has been steadily increasing over the last few years. It increased from 2.3 percent in 2009/10 to three percent in 2014/15, as reflected in Table 3.4. The World Bank through the Maastricht Treaty Stability and Growth Pact has set three percent as the maximum acceptable level of debt service cost to GDP. And, given the steady increase of debt service cost to GDP over the last six years, it is

Stellenbosch University https://scholar.sun.ac.za



likely that South Africa will soon exceed the three percent set norm. To bring this into context, in his MTBPS speech in 2015, the then Finance Minister Nene stated that GDP growth prospects had been revised further to 1.3 percent (Nene, 2015).

**Table 3.4: Growth in debt service cost**

| | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---|---|---|---|---|---|---|
| Debt Service Cost | 57 129 | 66 227 | 76460 | 88 121 | 101 185 | 115 016 |
| As % of GDP | 2.3 | 2.4 | 2.6 | 2.8 | 2.8 | 3 |
| As % expenditure | 7.6 | 8.2 | 8.6 | 9.1 | 9.7 | 10.1 |
| As % revenue | 9.9 | 9.9 | 10.3 | 11 | 11.4 | 12.1 |

The improvement in the debt service cost as a percentage of GDP is highly dependent on the growth prospects to improve the economic outlook of the country's finances. Current outlook suggests that this is an optimistic view; in reality the GDP figures are likely to be much lower than they were initially projected and this could mean the situation is much worse than it is currently reflected. In a report by the IMF on the World Economic Outlook in the October 2015 update, South Africa's growth projections were trimmed by a significant 0.6 and 0.8 percentage points for 2015 and 2016, respectively, to 1.4 percent and 1.3 percent due to electricity load-shedding and other supply bottlenecks, and work-force strikes in various industries. Growth for Sub-Saharan Africa (a key trading partner for South Africa) is projected at 3.8 percent in 2015 and 4.3 percent in 2016, lower than the five percent growth in 2014. This poses downside risk to the South African economic growth.

## 3.11. Debt service cost as a percentage of expenditure

Another way to look at the status quo is by calculating the debt service cost as a percentage of total expenditure. This is the level of interest payment on debt per year as a percentage of consolidated expenditure. Debt service cost as a percentage of total consolidated expenditure grew from 7.6 percent in 2009/10 to 10.1 percent in 2014/15, an average annual increase of six percent over the six-year period. This is below the 10.1 percent of growth in debt service cost as shown in Table 3.4. This debt pattern affects the country's long-term positive prospects. This suggests that the debt will continue to increase over the next few years. If one considers South Africa's counter-cyclicality principle, which basically means that the budget balance should be set to counteract variations in the business cycle and build fiscal space during good times to enable a response to shocks and recession, it therefore follows that when the economy goes into recession, government will again have to step in to rescue the

Stellenbosch University https://scholar.sun.ac.za



situation. This will effectively mean more government spending while revenue levels are unlikely to increase because of the likely job losses that come with recessions. Consequently, this results in more debt, which leads to increased debt costs to the detriment of the poorest of the poor, while future generations will have to bear the burden of paying interest on the debt that they did not incur.

**Table 3.5: Debt service cost time series forecast**

| | Year | Debt Service Cost as % of expenditure (Y) | Coded Time Value (x) | Columns x (xY) | Column Squared (x^2) | Trend value for Debt Service Cost as % of total expenditure (Yt) |
|---|---|---|---|---|---|---|
| | 2009 | 7.6 | -2.5 | -19 | 6.25 | 5.413 |
| | 2010 | 8.2 | -1.5 | -12.3 | 2.25 | 5.913 |
| | 2011 | 8.6 | -0.5 | -4.3 | 0.25 | 6.413 |
| | 2012 | 9.1 | 0.5 | 4.55 | 0.25 | 6.913 |
| | 2013 | 9.7 | 1.5 | 14.55 | 2.25 | 7.413 |
| | 2014 | 10.1 | 2.5 | 25.25 | 6.25 | 7.913 |
| n=6 | | **53.3** | **0** | **8.75** | **17.5** | **39.975** |

| | | | | |
|---|---|---|---|---|
| **Debt service cost as % of GDP in 2030:** | | | | **16.413** |
| Coded Time Value (x)= | | **19.5** | | |
| Coded Time Value squared (x^2)= | | | **380.25** | |
| a | 6.663 | | | |
| b | 0.500 | | | |
| therefore Yt | 16.4125 | | | |

Using Dunn's (2013) forecasting technique, it can be inferred that large amounts of money are being spent on paying government debt and it is forecasted that in the next 15 years debt service costs would have soared to 16.4 percent of expenditure.

Stellenbosch University https://scholar.sun.ac.za



**Table 3.6: Expenditure by function**

**Consolidated government expenditure by function,[1] 2014/15 – 2017/18**

| R million | 2014/15 Revised estimate | 2015/16 Medium-term estimates | 2016/17 | 2017/18 | Percentage of total MTEF allocation by function | Average annual MTEF growth |
|---|---|---|---|---|---|---|
| **FUNCTION GROUPS** | | | | | | |
| **Basic education** | **189 454** | **203 468** | **216 036** | **227 816** | **16.7%** | **6.3%** |
| **Health** | **144 558** | **157 294** | **167 485** | **177 525** | **13.0%** | **7.1%** |
| **Defence, public order and safety** | **163 018** | **171 150** | **181 248** | **192 719** | **14.1%** | **5.7%** |
| **Post-school education and training** | **56 612** | **62 238** | **65 556** | **69 594** | **5.1%** | **7.1%** |
| **Economic affairs** | **189 430** | **206 164** | **219 526** | **225 549** | **16.8%** | **6.0%** |
| Employment, labour affairs and social security funds | 56 439 | 64 138 | 70 111 | 72 945 | 5.3% | 8.9% |
| **Local development and social infrastructure** | **176 612** | **199 570** | **210 235** | **223 813** | **16.3%** | **8.2%** |
| **General public services** | **64 743** | **64 385** | **66 750** | **69 824** | **5.2%** | **2.6%** |
| **Social protection** | **143 926** | **155 297** | **165 997** | **176 523** | **12.8%** | **7.0%** |
| **Allocated by function** | **1 128 354** | **1 219 566** | **1 292 833** | **1 363 364** | **100.0%** | **6.5%** |
| Debt-service costs | 115 016 | 126 440 | 140 971 | 153 376 | | 10.1% |
| Unallocated reserves | – | 5 000 | 15 000 | 45 000 | | |
| **Consolidated expenditure** | **1 243 370** | **1 351 007** | **1 448 804** | **1 561 740** | | **7.9%** |

*1. Consisting of the main budget and spending by provinces, public entities and social security funds financed from own revenue*

South Africa is expected to honour the obligation of paying debt service costs; that is, the interest on the debt South Africa has each financial year. This means that debt service costs are the first direct charge from the revenue generated. There is a need to increase the fiscal space through reducing debt service costs. Table 3.6, adapted from the 2015 budget review, shows that the size of debt service cost is double that of Post-School Education and Training. However, the situation is more dire when one considers the base of the employment and social security function, which was R56.4 billion in 2014/15, half the debt service costs in the financial year. Table 3.6 also shows that the debt service costs are the fastest growing expenditure item by 10.1 percent over the 2015 MTEF.

## 3.12. Debt to revenue

The ratio of debt to revenue is an important indicator that shows how debt compares to the revenue in a particular year. In 2014/15, the ratio of public debt to revenue was 12.1 percent (see Table 3.7). Put differently, 12.1 percent of South Africa's revenue was used to pay off the debt service costs in 2014/15. This is the portion of revenue that could have been used elsewhere to finance government services, which would have increased growth. A perpetual concern around government's borrowing is that it diverts funds from the private sector, where they may be utilised more productively to service unproductive expenditure, such as the one for debt service cost. To put this in

Stellenbosch University https://scholar.sun.ac.za



context, the government takes funds from the private sector through taxes to fund the ever increasing debt service costs. This is revenue that could arguably have been used productively by the private sector in investments with a potential to grow the economy. This effect of debt is known as the crowding-out effect.

Table 3.3 shows that South Africa's debt increased significantly in response to the global financial crisis, which saw government finance expenditure through higher borrowing (as denoted by the increase in the debt to GDP ratio). As the debt increased, the cost of raising additional debt also rose. This is due to the deteriorating outlook as expressed by the rating agencies, as South Africa has become a risky country to lend to. The two variables of income and expenditure that influence the fiscal sustainability have been discussed in great depth above. However, the trajectory of public debt is influenced by factors other than revenue and expenditure. Interest rates determine how quickly debt accumulates and the growth of national income defines the debt that can be sustainably held. If interest rates are broadly in line with economic growth, the debt path depends on the gap between the government's revenue and non-interest spending, known as the primary balance. The bigger the fiscal deficit gap, the more government is on an unsustainable expenditure path and the interest rate of government bonds will increase. This will gradually weaken the country's debt-servicing ability and accelerate the increase in government's financing costs. Growing interest on government debt will create pressures to cut expenditure. This will further strengthen the calls for an expenditure ceiling. The reality is that interest rates have been growing by more than the economic growth owing to weaker markets.

In short, major new policy initiatives such as the nuclear power or expanded post – secondary education require a significant expansion of the fiscal envelope. If the economy grows more rapidly, these programmes will be financially feasible without major adjustments in tax revenue. However, this is unlikely, given the low forecasted economic growth. Indeed, the key provisions of the National Development Plan will be fiscally sustainable if the higher growth rate of five percent envisaged in the plan is achieved. If the economy does not grow faster, implementing these programmes, while ensuring fiscal sustainability, will require a commensurate reduction in other areas of spending or a substantial increase in taxes.

Therefore, South Africa faces complex and difficult fiscal choices in the coming year and the consequences of these choices will endure for decades. Government programmes that are likely to worsen the fiscal unsustainability include the National Health Insurance (NHI), which requires R71.9 billion, the post-education programme,

Stellenbosch University https://scholar.sun.ac.za



which is costed at R120 billion, and the nuclear deal, which is costed at R385 billion (Department of Health, 2015; Eskom, 2013; Department of Higher Education and Training, 2016).

The country's fiscal future is at risk and efforts to implement the National Development Plan hang in the balance unless wise choices are made. If wise choices are not put in place, South Africa might fall into a debt trap. These choices will have to be made at policy formulation level and at national department level. Thus, it is important to examine the contribution of national government to the fiscal discipline of government's finances.

## 3.13. Expenditure vs original expenditure estimates by department

Annual budget decisions have consequences for the current budget year and beyond the subsequent three years. The provision of new social services creates an implicit obligation to offer these services well into the future. A budget is therefore a process through which choices have to be made about competing government priorities. When these budget decisions are made, a genuine expectation is that each department will spend the funds as allocated through the Appropriations Bill. However, this seldom happens as departments never spend 100 percent of their allocated budgets. To obtain a measure of how each department performed in terms of the expenditure vs the original expenditure estimates, an analysis of the variance between expenditure estimates and actual expenditure by department was performed. The outcomes are presented in Table 3.7.

Stellenbosch University https://scholar.sun.ac.za

## Table 3.7: Spending by national departments

| National Sphere | Original budget | Actual expenditure | Original budget | Actual expenditure2 | Original budget 4 | Actual expenditure5 | Original budget 7 | Actual expenditure8 |
|---|---|---|---|---|---|---|---|---|
| Department | 2011_12 | | 2012_13 | | 2013_14 | | 2014_15 | |
| **Central Government Administration** | | | | | | | | |
| The Presidency | 819 793 | 907 590 | 1 020 689 | 984 689 | 1 095 685 | 1 033 107 | 1 180 820 | 623 672 |
| Parliament | 1 674 902 | 1 565 103 | 1 763 414 | 1 684 594 | 1 873 138 | 1 814 052 | 1 989 176 | 1 853 691 |
| Home Affairs | 5 464 134 | 5 655 301 | 5 296 269 | 5 103 246 | 6 567 769 | 6 992 552 | 6 623 702 | 7 223 327 |
| Cooperative Governance and Traditional Affairs | 47 933 580 | 46 221 012 | 54 715 590 | 53 442 919 | 58 252 691 | 56 401 573 | 63 212 720 | 59 474 688 |
| Public Works | 7 819 256 | 7 061 448 | 7 993 796 | 7 327 478 | 6 170 036 | 6 022 654 | 6 121 320 | 6 024 627 |
| Planning, Monitoring and Evaluation | 75 790 | 92 841 | 174 159 | 160 235 | 192 745 | 191 727 | 733 842 | 709 794 |
| Women, Children and People with Disabilities | 117 943 | 165 852 | 172 191 | 179 889 | 198 312 | 187 328 | | 183 134 |
| International Relations and Cooperation | 4 796 768 | 5 022 008 | 5 116 591 | 5 193 791 | 5 548 390 | 5 871 631 | 5 754 324 | 5 984 703 |
| **Social Services** | | | | | | | | |
| Arts and Culture | 2 468 577 | 2 455 890 | 2 685 657 | 2 656 471 | 2 914 777 | 2 755 220 | 3 524 748 | 3 475 679 |
| Basic Education | 13 868 134 | 12 884 651 | 16 343 578 | 14 801 405 | 17 591 905 | 17 011 375 | 19 680 146 | 19 569 252 |
| Health | 25 731 554 | 25 713 968 | 27 557 018 | 27 894 418 | 30 706 722 | 29 825 579 | 33 955 475 | 33 154 655 |
| Higher Education and Training | 37 377 301 | 38 306 939 | 41 106 505 | 43 276 894 | 46 725 391 | 46 422 154 | 50 306 681 | 50 704 220 |
| Labour | 1 981 458 | 2 007 122 | 2 119 726 | 2 034 568 | 2 415 247 | 2 371 444 | 2 527 292 | 2 420 494 |
| Social Development | 104 732 697 | 103 139 181 | 112 216 761 | 111 115 938 | 120 491 600 | 117 084 948 | 128 799 378 | 127 819 415 |
| Sport and Recreation South Africa | 802 690 | 810 612 | 848 424 | 1 053 880 | 1 073 485 | 1 072 806 | 970 404 | 967 384 |
| **Financial and Administrator Services** | | | | | | | | |
| Government Communication and Information System | 496 393 | 421 215 | 429 095 | 397 224 | 396 740 | 440 913 | 413 069 | 424 652 |
| National Treasury | 396 242 839 | 398 136 050 | 429 036 260 | 431 195 727 | 472 483 181 | 474 841 925 | 514 823 770 | 513 946 358 |
| Public Enterprises | 230 231 | 346 115 | 1 249 072 | 1 367 054 | 236 889 | 272 467 | 259 786 | 298 175 |
| Public Service and Administration | 690 069 | 645 469 | 731 487 | 703 712 | 816 371 | 809 103 | 875 074 | 809 183 |
| Statistics South Africa | 3 240 909 | 3 674 462 | 1 721 604 | 1 761 652 | 1 737 704 | 1 729 530 | 2 242 514 | 2 156 435 |
| **Justice and Protection Services** | | | | | | | | |
| Correctional Services | 16 559 196 | 15 870 080 | 17 732 188 | 17 311 816 | 18 748 074 | 18 700 511 | 19 721 111 | 19 592 628 |
| Defence and Military Veterans | | | 37 492 954 | 37 704 900 | 40 243 343 | 40 447 521 | 42 831 234 | 42 834 012 |
| Independent Police Investigative Directorate | | | 196 961 | 171 448 | 216 991 | 193 141 | 234 719 | 232 404 |
| Justice and Constitutional Development | 13 517 653 | 13 611 474 | 15 481 477 | 15 079 997 | 16 709 945 | 16 030 114 | 17 892 137 | 17 395 325 |
| Police | 58 061 537 | 57 933 121 | 62 485 359 | 63 156 593 | 67 917 118 | 68 791 398 | 72 507 243 | 72 507 225 |
| **Economic Services and Infrastructure** | | | | | | | | |
| Economic Development | 594 540 | 577 602 | 672 732 | 673 473 | 771 466 | 771 431 | 696 860 | 694 908 |
| Energy | 6 089 902 | 6 174 255 | 6 805 903 | 6 658 984 | 6 598 172 | 6 477 240 | 7 415 639 | 6 220 112 |
| Environmental Affairs | 2 846 063 | 4 108 559 | 4 512 161 | 4 942 661 | 5 431 156 | 5 200 306 | 5 668 386 | 5 675 059 |
| Mineral Resources | 1 036 212 | 1 029 425 | 1 169 062 | 1 173 642 | 1 393 849 | 1 387 219 | 1 471 291 | 1 475 249 |
| Agriculture, Forestry and Fisheries | 4 719 741 | 4 928 991 | 5 798 772 | 5 813 233 | 6 177 987 | 6 111 313 | 6 692 383 | 6 613 526 |
| Communications | 1 889 112 | 1 791 960 | 1 712 339 | 1 651 211 | 2 043 917 | 2 362 782 | 1 593 427 | 2 181 677 |
| Rural Development and Land Reform | 8 124 246 | 7 997 740 | 8 877 566 | 8 919 567 | 9 459 740 | 9 454 056 | 9 455 305 | 9 395 783 |
| Science and Technology | 4 404 618 | 4 403 472 | 4 955 930 | 4 973 314 | 6 198 155 | 6 169 489 | 6 470 190 | 6 389 044 |
| Tourism | 1 242 876 | 1 250 245 | 1 367 321 | 1 371 959 | 1 500 574 | 1 512 667 | 1 662 110 | 1 557 615 |
| Trade and Industry | 6 786 896 | 6 801 046 | 9 092 055 | 8 286 434 | 9 572 580 | 9 380 302 | 9 835 029 | 9 785 297 |
| Transport | 35 084 013 | 41 196 530 | 38 828 952 | 39 328 215 | 42 275 340 | 43 033 773 | 48 726 518 | 49 147 247 |
| Water and Sanitation | 9 936 225 | 8 244 476 | 8 812 661 | 8 641 507 | 10 186 963 | 10 247 721 | 12 480 332 | 11 618 514 |
| Human Settlements | 22 578 495 | 22 596 671 | 25 263 180 | 24 497 782 | 28 110 463 | 27 702 990 | 30 521 392 | 29 358 513 |
| **Grand Total** | **884 792 908** | **888 234 616** | **963 555 459** | **962 692 521** | **1 051 044 611** | **1 047 126 062** | **1 139 869 547** | **1 130 497 676** |

Stellenbosch University https://scholar.sun.ac.za



Table 3.3 shows the original budget versus the actual expenditure outcome for national departments between 2011/12 and 2014/15. Using the five percent as the benchmark for credibility, one can already see that there is a lack of consistency with regard to staying within the five percent variance. There are two existing anomalies, the Departments of Public Enterprises and of Women, Children and People with Disabilities have overspent by over the five percent threshold, which signifies that the budgets for these two institutions are not credible. The Department of Public Enterprises has overspent by an average of 22 percent on its original budget. This highlights poor financial management and poor planning.

## 3.14. Excessive expenditure in March

The “Excessive Expenditure in March” report is an analysis of the National March Expenditure. Cross-tabulation analysis methods are applied to disaggregate the data further and identify economic classification items that departments tend to spend on excessively. The data on this report is based on records extracted from the Basic Accounting System (BAS), which is the financial system used by most departments in the national and provincial spheres of government. Expenditure items that exhibit regular evenly spread spending trends due to being of a fixed nature, executed or made by approved payment schedule, were excluded from the analysis. These include compensation of employees, transfers to provinces and municipalities (equitable shares) as well as transfers to households (social benefits). Other transfers and subsidies are included in the analysis.

The analysis conducted shows that departments tended to put through higher volumes of expenditure in the final month of the financial year. Sighted reasons for this tendency were identified as poor financial management; an attempt by departments to retain unspent funds and avoid those unspent budgets from being cut in the succeeding years; and procurement processes running late. The determination of the existence of a “March spike” is fixed at expenditure in March that is 16 percent of the total expenditure, this being about double the 8.33 percent straight line average spending over the twelve-month financial year. It was determined in 2005/06 that there was a high probability of departments settling overdue payments from preceding months apart from the normal March payments. An allowance was made for transactions whose payments tend to be lumpy rather than evenly spread out. These transactions include the conditional grants and compensation of employees.

Stellenbosch University https://scholar.sun.ac.za



The statistical variance of the expenditure per month for all the departments has not decreased over the last three years. This suggests that spending by national departments is slow to respond to reforms aimed at credible and prudent expenditure. However, the magnitude of the high and low peaks of the expenditure trend per month within the financial year is decreasing. Results of spending by all departments indicate that expenditure in March is still the highest of all the months, despite displaying a decreasing trend from 13.4 percent in 2012/13 to 12 percent in 2014/15.

Even though overall the 12 percent spending in March 2014/15 reflected a level lower than what is viewed as a spike, disaggregating the data by department and by economic classification demonstrated that there is still excessive spending by certain departments on specific expenditure items. This was mainly on payments for capital assets followed by current expenditure and expenditure on households. For those items exhibiting a spike, comparing the April to February spending average with the one of January to February showed that expenditure generally started picking up momentum in January. In some instances, the March spending was double that of the January to February average. Additionally, most of the departments that had a March spike also had underspending for the year 2014/15. It was further noted that some departments had spending against items not budgeted for.

In the national sphere, twelve out of thirty-eight departments were found to have spent excessively in March. The three leading departments in this spending category were the Department of Water Affairs, which spent 28 percent (R2.3 billion) of their total expenditure, Human Settlements, which spent 26.2 percent (R353.2 million) of their total expenditure, and the Independent Police Investigative Directorate, which spent 24.7 percent (R22.8 million) of their total expenditure in March.

### 3.15. Goods and services March spike analysis

Goods and Services remain the largest expenditure made by national departments on average between 2012/13 and 2014/15 financial years. Expenditure on consultants: business and advisory services was one of the leading items on which departments spent excessively in March, with 29.9 percent (R785 million) of the total expenditure for this item being spent in this period. These were closely followed by contractors, where 24.3 percent (R1.3 billion) was spent, and agency and support/outsourced services, with 20.9 percent (R542.5 million) of the total expenditure spent in March.

Twenty-six national departments were found to have spent large amounts on consultants: business and advisory services. The Department of International

Stellenbosch University https://scholar.sun.ac.za



Relations and Cooperation is a case in point, where 94.2 percent (R46.2 million) of expenditure on consultants was spent in March. The Department of Energy followed this department with 57.8 percent (R11.8 million) of expenditure for the item being spent in March, followed by the Department of Economic Development (EDD), with 53 percent (R1.5 million) of expenditure for the item spent in March. on the item “contractors”, twenty national departments were identified as having spent highly in March. Of these, the Department of Economic Development spent 88.3 percent (R2.1 million) of their total expenditure in March, followed by the Department of Planning, Monitoring and Evaluation, which spent 55 percent (696 000), followed by the Department of Basic Education, who spent 42.5 percent (R2.1 million) of their expenditure in March.

Lastly, 19 national departments were identified to have spent excessively in March for agency and support/outsourced services, of which the Department of International Relations and Cooperation spent 91.6 percent (R51.7 million) of their total expenditure in this period, the Economic Development Department (EDD) 47 percent (98 000), followed by the Department of Planning, Monitoring and Evaluation (DPME) with 42 percent (764 000) spending in March. These three departments were identified as the top perpetrators in this regard.

**Table 3.8: Goods and services (G&S)**

| Financial Year | Sum of Total_Expenditure '000 | Mar% Spent | Apr - Feb Ave % | March Cut-Off % |
|---|---|---|---|---|
| 2012/13 | 50 649 523 | 16.5% | 7.6% | 16.0% |
| 2013/14 | 57 352 939 | 17.6% | 7.5% | 16.0% |
| 2014/15 | 57 760 622 | 14.8% | 7.7% | 16.0% |
| **Grand Total** | **165 763 085** | **16.3%** | **7.6%** | **16.0%** |

In analysing the March spike for the goods and services item, the researcher has found that there are many concerns of fiscal dumping in relation to this item. On average, R55.3 billion was spent on goods and services between 2012/13 and 2014/15. In this regard, historic data shows that the spike phenomenon has slightly changed over the last three financial years, 2012/13 to 2014/15. In 2012/13 national departments slightly exceeded the 16 percent threshold by spending 16.5 percent of the budget in March, an indication of fiscal dumping. The situation was worse in 2013/14, where departments spent 17.6 percent of the total budget for the item in March. However, the situation improved in 2014/15, where the departments spent 14.8 percent of the goods and services budgets in March. Given that 16.3 percent of the expenditure on goods

Stellenbosch University https://scholar.sun.ac.za



and services was spent in March, it is enough evidence to conclude that there is fiscal dumping by departments on these items.

**Table 3.9: Households March spike analysis**

| Financial Year | Sum of Total_Expenditure '000 | March % Sper | Apr - Feb Ave % | March Cut-Off % |
|---|---|---|---|---|
| 2012/13 | 10 791 777 | 19.2% | 7.3% | 16.0% |
| 2013/14 | 10 523 452 | 14.5% | 7.8% | 16.0% |
| 2014/15 | 12 327 464 | 22.8% | 7.0% | 16.0% |
| **Grand Total** | **33 642 693** | **19.0%** | **7.4%** | **16.0%** |

"Households" refer to the economic classification items that account for payments that are made to individuals. Old age, children's grants and bursaries handed out to non-employees form part of this category. This category has funds that are distributed through the Department of Trade and Industry (DTI), the South African Department of Small Business Development, and Arts and Culture. On average, R11 billion was spent on households in each of the past three years; with 19 percent of it often spent in March. Thirteen national departments were identified as having spent highly in March. Of these, the Department of Economic Development spent 53.3 percent (R8.8 million) of their total expenditure. There is an anomaly for the Department of Social Development, where 88 percent of the budget for households in 2014/15 was spent in March. The average spent in 2012/13 and 2013/14 financial years is 9.5 percent. The massive expenditure in March in 2014/15 is mainly due to the increases in social grants announced in the February budget speech.

## 3.16. Payments for capital assets

Payments for capital assets recorded the highest March spike. A large number of these payments were made for software and intangible assets, machinery and equipment, transport equipment, buildings and other fixed structures and other machinery and equipment. The department that contributed the most to the payments for the capital assets spike was Water Affairs, with 36.7 percent (R671.3 million). It was closely followed by Defence and Military Veterans, making 47.6 percent (R503.7 million) of its expenditure in this month. The Department of Justice and Constitutional Development spent 54 percent (about R180.4 million) of their expenditure on the item during March. These amounts and percentages are averages over the three years (2012/13, 2013/14 and 2014/15). Of these payments for capital assets items, machinery and equipment averaged a total expenditure of R4.9 billion at a national level between 2012/13 and 2014/15 financial years. Of this budget, 26.5 percent was spent in March in 2012/13,

Stellenbosch University https://scholar.sun.ac.za



40 percent in 2013/14 and 29.1 percent in 2014/15. The department that contributed the most to the payments for the machinery and equipment spike was Defence and Military Veterans, making 47.3 percent (R487.3 million) of its expenditure in this month. This indicates that funds are being dumped through this item.

**Table 3.10: Machinery and Equipment**

| Fininancial Year | Sum of Total_Expenditure '000 | March % Spent | Apr - Feb Ave % | March Cut-Off % |
|---|---|---|---|---|
| 2012/13 | 5 023 810 | 26.5% | 6.7% | 16.0% |
| 2013/14 | 4 784 983 | 40.0% | 5.5% | 16.0% |
| 2014/15 | 4 727 661 | 29.1% | 6.4% | 16.0% |
| **Grand Total** | **14 536 455** | **31.8%** | **6.2%** | **16.0%** |

Although overall national department spending in the month of March is 12 percent for the 2014/15 financial year and therefore not seen as a March spike, the report identified departments (approximately 4 out of 10 departments) that spent in exceptionally high proportions on some items during the month of March. This indicates that although there is no big gap between the original budget and the actual expenditure there are serious concerns about how the budget is currently spent. The huge March spike shows that there are still some gaps in effective financial management that should be addressed.

It is quite evident that the excessive expenditure in March distorts the overall expenditure both at an aggregate level and at a departmental level. This is because funds dumped in March increase the expenditure and had there been controls against this malicious act, the expenditure would not have taken place. On average, over the past three years, 2012/13 to (2014/15, national departments spent 12.8 percent of the total expenditure on these items. Although this is below the threshold of 16 percent, it is still fairly high. Furthermore, the 2013/14 spike numbers were juxtaposed against the spending outcomes data that measure over/underspending by departments. This was done to enrich the analysis of expenditure items; for example, to determine whether departments that have excessive spending in March also underspend on the same items. On a detailed level, a ratio measuring the magnitude of the spending as a multiple of the average spending over the period between April and February, as well as the spending average for the January-February periods were included.

## 3.17. Excessive expenditure in March on core budget

Core budget refers to the expenditure that a national department is directly responsible for spending. This expenditure excludes all the transfers and subsidies as these are

Stellenbosch University https://scholar.sun.ac.za



not spent by departments but by the institutions they are transferred to. The analysis of the core budget becomes very important, especially for the discussion on financial mismanagement elements in Chapter 4. The Auditor-General (AG) found that most of the irregular expenditure incurred by the government is because of lack of following supply chain management (SCM) processes (AGSA, 2012). To bring this into context, SCM processes do not apply to the compensation of employees and transfers and subsidies but only to goods and services and payments for capital assets.

Transfers and subsidies are funds that will be spent at another institution, be it at another sphere, public entity or public corporation, to mention a few. Therefore, even though it is assumed that these funds are spent by the mere fact that they have been transferred, they must still be spent at the level where they are transferred to. This further strengthens the argument that the core budget should be the focus of the expenditure analysis. In addition to this, it makes sense to account for the expenditure where it has taken place, to avoid double counting of government expenditure. In a case where the research included other spheres of government or other government institutions such as public entities, it would have been necessary to strip out those transfers.

In terms of the core budget, national departments have spent an average of 18.9 percent (R13.2 billion) of their expenditure in March. In this category of expenditure, twenty-five national departments were found to have spent excessively in March. This, however, still discounts the compensation of employees' expenditure for the reasons explained earlier in the chapter. The department that contributed the most to the core expenditure spike was the Department of Transport at 37.8 percent (R508.8 million). It was closely followed by the Department of Tourism, at 37.7 percent (R65 million) of its expenditure. The Department of Water and Sanitation spent 31.5 percent (R1.5 billion in March, the highest in rand value terms (National Treasury, 2013).

Stellenbosch University https://scholar.sun.ac.za



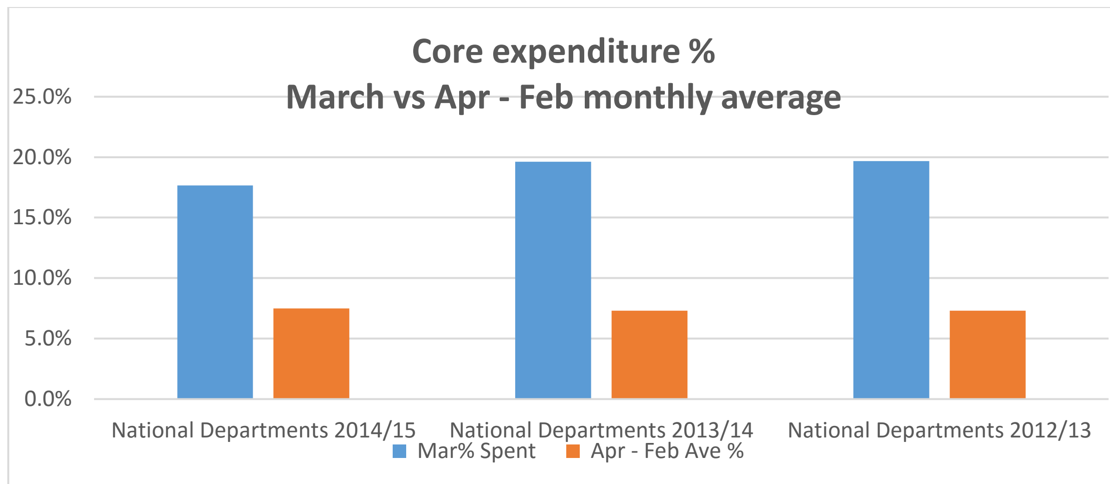



**Figure 3.2: March spike on core budget**

## 3.18. Virements analysis

The virements process is facilitated by legislation and entails the shifting of funds within the departments' programmes and items. The founding legislation for this process is the PFMA. It states that:

> *An accounting officer for a department may utilise a saving in the amount appropriated under the main division within a vote towards the defrayment of excess expenditure under another main division within the same vote unless the relevant treasury directs otherwise* (RSA, 1999: 42).

The rules of virements in South Africa distinguish between a) transfers that can be approved by the accounting officer; b) transfers that require National Treasury's approval; and c) transfers that require legislative approval. For all the different levels of approval, the PFMA stipulates that one of the most important conditions that need to be met is that the application for the shifting of funds must happen before expenditure is incurred, as neither the National Treasury nor Parliament may offer approval after the fact, the so-called *Ex-post facto approval.*

The accounting officer of a department has the authority to shift funds from one programme to another, subject to the following limitations: funds being shifted must not be in excess of eight percent of the programme it is being shifted from and the funds must not be towards increasing compensations of employees. Furthermore, the accounting officer does not have authority over shifting funds from payments of capital assets and transfers and subsidies. Therefore, the accounting officer of a department has authority over shifting funds within goods and services (subject to eight percent

Stellenbosch University https://scholar.sun.ac.za



rule) and shifting funds from the compensation of employees towards other items, except transfers and subsidies.

If a national department wishes to shift funds from the transfers and subsidies and payment for capital assets, it requires National Treasury approval. In addition to this, if a department has any allocations that have been earmarked by the National Treasury, changes in these allocations will require the Treasury's approval. This, however, excludes conditional grants as these are guided by the Division of Revenue Act. These virements are guided by section 43 of the PFMA and section 6.3 of the Treasury regulations. All National Treasury approval can be done at any time during the financial year after the Appropriation Bill has been voted into a law by Parliament and before the closure of the financial year.

Should a department wish to change the conditional grant allocation and exceed the eight percent shifting of funds from a programme, then approval by the legislature is required. The difficulty with all changes that require the approval of the legislature is that they can only be done once during the financial year, through the adjusted budget, the Adjusted Estimates of National Expenditure (AENE). Failure to obtain the approval from the relevant authority in making adjustments to allocations results in irregular expenditure; even worse, it has criminal implications for the Accounting Authority.

**Table 3.11: Virement by economic classification**

| Nationa Departments Economic Classification | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|
| Payments for capital assets | -209 960 | 526 988 | -521 929 | -70 298 |
| Current payments | 2 570 880 | 921 693 | 1 155 253 | 2 517 416 |
| Payments for financial assets | 560 | 410 | -189 518 | 57 870 |
| Transfers and subsidies | -2 361 480 | -1 449 091 | -443 806 | -2 504 988 |
| **Grand Total** | **0** | **0** | **0** | **0** |

Table 3.11 shows that during the financial year, funds are shifted mainly from transfers and subsidies to current payments, for the most part to compensation of employees to cover the shortfalls of the public service salary adjustment. This picture is mostly prevalent in the Department of Defence and Military Veterans, Department of Environmental Affairs and Rural Development and the Department of Land Reform. The shifting of funds towards compensation of employees is not widely accepted and Shah and Von Hagen (2007) note that virements between personnel expenditures and other economic categories need to be regulated and the regulations must be aimed at capping personnel expenditures (Shah & Von Hagen, 2007). For this to happen, in terms of Section 43 of the Public Finance Management Act 1 of 1999 (RSA, 1999), read in conjunction with Treasury Regulation 6.3.1(a), National Treasury approval is

Stellenbosch University https://scholar.sun.ac.za



necessary to apply virements of these funds and failure to obtain it results in irregular expenditure. In addition to this, Table 3.11 shows that there is also a trend of shifting funds from buildings and other fixed structures towards CoE and goods and services. This picture skews the composition of expenditure from capital payments to perishable expenditure.

Public expenditure management reform, however, discourages this reallocation of funds during the financial year on the basis that it signals that either the main/original budget did not reflect the real priorities of government or that financial discipline does not exist (World Bank, 1998). These reforms make it clear that lack of stringent measures to prevent resource reallocation effectively compromises the credibility of the budget process itself. The reason for this is that the budget process is believed to have an inherent element of funding strategic priorities identified through a rigorous process of priority setting. If, however, the resources are reallocated during the financial year, as this is the case as seen in Table 3.4, it means that the actual expenditure at the end of the financial year is unlikely to reflect the strategic priorities of government. If government expenditure does not reflect the strategic priorities of government, service delivery performance will be adversely affected. South Africa has a high level of service delivery protests (Allan & Heese, 2009), an indication that there might be a level of expenditure that is not reflective of government priorities.

The reallocation of funds during the financial year is unlikely to be informed by the changes in priorities, as changes in priorities are only discussed in the build-up to the budget allocations through the Cabinet Lekgotla processes. Also, the allocation of funds is appropriated and approved by Parliament. How then is it that the reallocation of funds during the financial year can be done without Parliament's approval? If this is the case, the legitimacy of the budget process and the credibility of budget allocations are being undermined.

## 3.19. Incentives for a credible budget

How then should the national government incentivise good budget management? Incentivising good financial performance is likely to inspire departments to perform even better. The reward system may be linked to additional resources and or an exemption from budget reduction. In the 2015 budget, Cabinet made budget reductions of R35 billion over the MTEF (R10 billion in 2015/16, R15 billion in 2016/17 and R10 billion in 2017/18) across all government departments. This uniform approach is unlikely to offer any incentives, but a system that would exempt good performing

Stellenbosch University  https://scholar.sun.ac.za



departments from these budget reductions is likely to encourage all departments to perfume better. In addition to the exemption, another incentive measure would be to ensure that additional funding is allocated to government institutions that are implementing the budget as intended. The Expanded Public Works Programme (EPWP) has an incentive grant, which is allocated to those institutions that have exceeded the set targets. Such an incentive has proven to be effective in motivating institutions to perform better (RSA, 2013).

Pauw *et al.* (2002) explain that the goal of financial management in government is to ensure that we safeguard and use available funds and other scarce resources in the best interest of the people. To ensure that the budget is implemented as intended, there need to be enforceable penalties for non-compliance. On the one hand, the PFMA is an Act of Parliament that regulates the management of government finances at both the national and provincial levels. This Act goes as far as holding individuals accountable for transgressions. For example, the accounting officer is held accountable and may be prosecuted for offences such as unauthorised expenditures (RSA, 1999). However, even though the state has powers to prosecute the accounting officers, the level of unauthorised expenditure indicates that there are no consequences to such offences, since there has not been a finance Act since 2005. There is, therefore, a need to enforce the law and persecute the wrongdoers. This position is echoed by Peter Allwright (2013), who conducted research on financial misconduct in the public service and concluded that financial misconduct was rampant in government and the situation was exacerbated by the absence of consistent and appropriate sanctioning of officials (Allwright, 2013).

## 3.20. Summary and conclusion

This chapter has outlined the budget process, and looked at the various stakeholders involved in the budgetary process and the applicable public expenditure management practices. Departments submit their estimates of expenditure for the MTEF based on their strategic plans and other plans. Performance indicators contained in submissions are aligned to those reflected in strategic and annual performance plans as informed by the MTSF and the NDP. The functional group, a technical committee, evaluates the spending plans and makes recommendations to the MTEC. The MTEC, an interdepartmental committee, comprising representatives from National Treasury (NT), Departments of Public Service and Administration, Planning, Monitoring and Evaluation, and Cooperative Governance, considers the allocation of funds in respect of each function in line with the outcomes approach. The MTEC makes

Stellenbosch University https://scholar.sun.ac.za



recommendations to the Ministers' Committee on the Budget. Recommendations are then taken to Cabinet.

The measures of aggregate expenditure and revenue out-turns assess the capacity of the Public Finance Management (PFM) systems themselves to support sound fiscal policy and financial management. This involves attention to the links between budgeting and financial management systems and other service-wide systems and processes of government for decision-making, for organising government, and for personnel management. The future path of revenue and spending for South Africa depends crucially on the prudent approach to the current level of public spending and revenue generation.

The debt service costs to GDP ratio, revenue and expenditure are all alarming. South Africa therefore needs to stabilise public debt through achieving a balance between revenue growth, borrowing and growth in spending. It seems evident that taxes are already too high and economists hold the view that increasing taxes decreases consumption spending, which consequently decreases economic activity and economic growth. It appears as though the only plausible option of ensuring fiscal sustainability is by cutting expenditure. For that reason, current policy proposals of the NHI, nuclear power and post-education programmes are simply not affordable. Aggregate expenditure and revenue out-turns affirm that the projected expenditure is often not far from the actual expenditure. This therefore means that the estimates of budget and expenditure are reliable and accurate. However, there are elements to the credibility of the budget, namely its expenditure. This element is problematic at an individual departmental level as well as in terms of economic classification items. As a result, the budget of each of the departments is often not aligned with expenditure.

Other elements that result in the questioning of the prudent expenditure management are virements and March spikes. Virements are legitimate processes of shifting funds from one programme or economic classification item to the next. This section is legislated by section 43 of the PFMA and section 6.3.1 of the Treasury regulation. However, the analysis of the virements shows that implementation of this provision perpetuates the wage bill concerns and involves shifting funds from priority areas that have been identified and funded through a rigorous budget process. There is a lot of expenditure by departments that takes place in March which is an indication of lack of zeal to return funds to the revenue fund. The zeal is due to the implications of monies returned to the NRF as this is used as the basis for budget reductions in the next budget process. Therefore, the very instrument (budget reductions) meant to guide

Stellenbosch University https://scholar.sun.ac.za



against waste appears to be counterproductive and perpetuates bad expenditure practices. The analysis of the March spike shows that the spending in March constitutes fiscal dumping, and while there are currently no systems for regulating this, there is a need to address it as its implications are damaging to the credibility of government’s budgeting and spending practices. Some consideration is needed to hold departments accountable for this practice. This can be done through the issuing of a practice note by the National Treasury. Such controls can incentivise departments to have credible budgets, especially when the budget process rewards credible budgets and punishes malicious practices.

The next chapter concentrates on the performance of South African national departments in practice on the budgetary outcomes of aggregate allocative efficiencies and operational efficiencies, the two components of value for money.

Stellenbosch University https://scholar.sun.ac.za



# CHAPTER 4 : ALLOCATIVE AND OPERATIONAL EFFICIENCY

## 4.1. Introduction

This chapter focuses on the “value for money” concepts, paying particular attention to the technical and operational efficiencies. As defined elsewhere in this document, “allocative efficiency” refers to the allocation of scarce resources to the most cost-effective programmes, projects and activities in well-considered areas. Under this subheading, the researcher will begin by looking at the resource allocation prioritisation process, and proceed to examine the three specific indicators – the Gini-coefficient for income distribution; the Fragile State Index; and the Human Development Index (HDI) – a measure a measure of development using a combination of life expectancy at birth (longevity), knowledge, and GDP per capita. Furthermore, the researcher will analyse the composition of government expenditure.

Technical or operational efficiency is concerned with whether funds have been used efficiently in the areas where they have been allocated. In this chapter, the researcher will focus on financial misconduct and mismanagement of government funds; and the values of unauthorised, irregular, fruitless and wasteful expenditures. In addition, the researcher will analyse the payment of invoices within the government.

## 4.2. Value for money

Experts in the field of budgeting and monitoring and evaluation (M&E) argue that thinking in terms of costs has become more prominent among public servants (Rieder & Lehmann, 2002). This is said to be a catalyst to improve the flexibility and efficiency of programme managers (Scott, 2001), since they are able to allocate resources that respond to current needs rather than rely on historical expectations that are represented in the estimates (Boyle, 1991). According to the PFMA, the responsibilities of the accounting officer are to ensure effectiveness, efficiency and transparency. In short, they need to ensure that there is value for the money being spent. The accounting officer needs to comply with the above in order to enhance financial management and internal control (section 38).

The increasing public demands for greater government accountability, transparency, effectiveness and mounting pressures on public expenditure supported by calls for value for money have resulted in governments around the world seeking justification for continued government expenditure. These challenges have led to calls for

Stellenbosch University https://scholar.sun.ac.za



governments around the world to show value for money. The pressure to be 'doing more with less' has become stronger as public sector spending comes under intense scrutiny and is expected to decline sharply in real terms over the next few years. In this context, more effective leadership across the total public service system is increasingly seen as one of the most powerful ways of reducing transaction costs between stand-alone organisations, and of improving efficiency, performance and productivity through collaboration across the entire public sector (Benington & Moore, 2010: 12).

In South Africa, the PFMA implementation plans include performance management and confer on departments the responsibility to spend within approved budgets, and against policy and performance commitments. However, even though the departments have the responsibility to spend government funds to advance their mandates, the PFMA requires departments to develop measurable objectives by the programme. All these elements are necessary for the government to attain value for money (VFM). VFM is arguably the hardest thing to achieve through the budget. This is mainly because the PFMA mandates the National Treasury (NT) to ensure VFM, while the NT has no direct say in how a department spends its money or how services are delivered, and cannot impose sanctions for poor spending. If departments are to report on performance alongside spending, then Parliament, the public, and the media can play a role in improving the quality of spending. It is all about accountability, which is not a financial management issue but a political issue. The VFM agenda is an area where progress has been made; it is the area where the Treasury spends most of its resources and the area of major focus in the budget reform agenda.

VFM promotes allocative, and operational efficiencies and effectiveness through guaranteeing that the budget allocation decisions are continuously reviewed to ensure their relevance and need to respond to social needs (Robinson & Brumby 2005: 12). While that is true, one of the key plausible ideas of VFM is its customer orientation; putting users at the heart of services**.** This way of thinking about service delivery is introduced in the new public management paradigm and promotes the ideals of VFM spent**.** However, VFM needs to be embedded in an organisational culture, as it cannot promote allocative and operational efficiencies without an organisational culture of management that is supportive of this reform and having internalised it as a management function through managing for results techniques (OECD, 2007: 129). This is more so since citizens are putting governments under increasing pressure to show that they are providing VFM.

Stellenbosch University https://scholar.sun.ac.za



VFM begins with the questioning of the assumption that citizens understand what service delivery is planned to take place against the allocated funding. Enhancing citizens' rights to access information and participation in policy platforms is key and a constitutional right. Post-1994, the National Treasury consults through formal structures with major civil society organisations and other institutions, e.g. at the National Economic Development and Labour Council (NEDLAC). Public consultations also exist through the following platforms:

- Policy and budget roadshows;
- Social media; and
- Local government engagements on development of plans, e.g. Integrated Development Plans, and Growth and Development Strategies.

Numerous policies and laws that promote public involvement and the right to access information exist in respect of all three pillars of the state, i.e. executive, judiciary and the legislature. Putting citizen participation at the heart of service delivery begins to emphasise the importance of what the public values.

Public Value (PV) is not what the public wants but what encompasses the whole; it is not about sectional interest but a bottom-up policy process. However, some see public participation as a part of an information gathering exercise designed to improve the quality of service delivery rather than as a means of creating more deliberative forms of government or alternative approaches to decision-making (Orr & McAteer, 2006). Public Value places responsibility in the hands of elected political heads and their officials, rather than calling for the creation of yet more new institutions or adding extra layers to already complex accountability frameworks within which public service delivery is nested, as political principles become more distant from decision-making and the point of delivery (Gains & Stoker, 2008). Public Value argues that public services are unique because they are characterised by entitlements by citizens to services that have been provided for through a legitimate budget process (Coats & Passmore, 2008). The notion of Public Value, therefore, complements the ideals of NPM on emphasising the utilisation of private sector principles and business conduct, specifically those of large production organisations. Both these ideals emphasise that government needs to continuously re-position itself in the complex, dynamic, changing environments that are becoming ever more unpredictable (Benington & Moore, 2010: 9).

Stellenbosch University https://scholar.sun.ac.za



In addition, Benington and Moore (2010) state that PV did not originate with any fixed idea about the substantive content of government's responsibilities. It accepted the claim that government needed to improve its operations, and that this could include not only changing the size and scope of government as described above, but could also involve contextualising the model to one in which government could pay for things to be produced, but not necessarily produce them itself (Benington & Moore, 2010: 9). Therefore, the concept of PV refers to co-production; collaborating with the public as a means of service improvement. The United Kingdom's Cabinet Office has defined co-production as,

> *a more active role for the citizen and communities either in directly delivering a public service or in changing their behaviour in ways that contribute to the ultimate outcomes, ultimately, the service exists to deliver e.g. changes in diet and fitness activity that lead to better health* (Cabinet Office, 2006).

PV links to VFM, as both concepts refer to how much improvement, by what means, and how it could attain the result more effectively (Shadish, Cook & Leviton, 1991: 19). Thinking about VFM from the perspective of PV is very different from conventional approaches to measurement and performance management, drawing inspiration from Moore's observation that the efforts of public sector managers should not be approached from the perspective of the economic marketplace of individual consumers, but in the political marketplace of citizens. This refers not only to citizenship consultation for the purposes of compliance but consultation for improving the quality of service delivery (Moore, 1995).

Successes in public participation have been denoted by current initiatives such as the budget outreach programme to universities. However, stronger ties with Civil Society Organisations (CSOs) through the CSO budget coalition are still needed. Challenges in attaining this still remain, for instance how to address the logistical concerns with demands for step-by-step involvement in budgeting. This is a challenge, given the extensive engagement that is needed and the limited time in the budget process. Other challenges include:

- 
- Concerns with maintaining budget process confidentiality;
- Concern about allegations of institutional "capture" by certain CSOs;
- Concerns about misunderstanding of Treasury's powers in government;
- Concerns about CSO commitment to genuine citizen empowerment;

Stellenbosch University https://scholar.sun.ac.za



- Concerns about lack of analytical rigour in CSO work; and
- Concerns about lack of cohesion in the CSO sector.

Current initiatives and programmes aimed at public participation have unfortunately been aimed at information gathering rather than finding local solutions to local problems. PV is about creating networks that add value to the communities. However, the researcher believes that there needs to be a move away from thinking that networks are places of equality because networks do not promote equality, and neither are they meant to address that issue. The idea is that each community should identify what means most to it and organise itself and consult with other stakeholders (government and other stakeholders) to achieve that goal. One neighbourhood might need a library while the another might need an old age home; not all neighbourhoods will create the same networks. These networks could potentially widen the inequalities in society. Therefore, government must look at strategies and plans to address the shortfalls, paying particular attention to the neighbourhoods not deemed stable.

From this analysis, the importance of the relationship between VFM and PV is evident, with the former being arguably hindered by the system of accounting being used. Various authors argue that accrual accounting is best suited for a government that seeks to achieve VFM.

Accrual budgeting is an analytic tool that provides information and insights that are not available through the conventional approach of cash budgeting. The South African system utilises cash-based budgeting (for national government and provinces). Accrual accounting is often seen to support effective financial management and facilitate the further development of output and performance measures. The difference between the two is massive, as the cash budgeting approach means that transactions are realised as they take place, while the accrual budgeting system implies that the full value of costs and transactions is used. Modified Cash Accounting (MCA) entails the recording of expenditures and incomes, and therefore provides information on how much cash was spent and received. For example, when purchasing an asset like a motor vehicle, the cost of the car paid in cash in year one will be the total cost of the vehicle and for a life span of five years, no further passive costs will be incurred over that car. However, on an accrual basis, the value of that car is adjusted on a year-to-year basis and its passive costs like depreciation are taken into account as cost items and increase the operational costs of the institution.

Stellenbosch University https://scholar.sun.ac.za



From a more conservative approach, one would understand why the most accurate and viable option would be the accrual accounting system of budgeting. The South African accounting system of budgeting can be criticised for its inconsistency, given that some organs of the state, local government (municipalities), public entities (like the museums) and state-owned institutions like Eskom are using the accrual accounting system while the more central government in national and provincial departments is using a modified cash basis. This inconsistency results in the failure to fully consolidate government's expenditure. International best practices have pointed towards the accrual-based budgeting as it captures the full costs of doing transactions.

Typical consequences are either enormous spending at the end of a financial year, what is referred to as the March spike in Chapter 3, or the holding back of payments at the end of the financial year to prevent exceeding allocations. While there is no legislation against this, the researcher notes that it is bad budgeting and expenditure practice as the enormous expenditure at the end of the financial year may not necessarily mean spending on priorities, but rather on activities that can be executed in time. This excessive expenditure in March is discussed in Chapter 3, where the researcher deduced that it hinders allocative efficiency. In addition, MCA does not sufficiently distinguish between amounts spent on operating expenditure (perishable goods and services) and amounts spent in capital expenditure, what is often referred to as investment expenditure as they are both (operational and capital expenditures) written off in the year in which spending takes place.

There is therefore a need to migrate to accrual accounting for the national government to attain VFM. This view is supported by a number of writers in this field, including Barrett, who believes that accrual accounting promotes transparency with respect to costs as public sector managers can be better informed of the cost-effectiveness and value for money of their programmes (Barrett, 2004). In addition, Barrett observed the emergence of a culture more focused on performance and accountability after accrual accounting came into effect.

## 4.3. Allocative efficiency

The MTSF has played a pivotal role in the emergence of budgeting by priority. This framework can be located within the Government-Wide Monitoring and Evaluation System, with a specific focus on setting up priority programmes for government. The MTSF was first introduced in 2010 as a platform to set out outcomes and programmes that the then new administration would focus on in their term of office. DPME leads this

Stellenbosch University https://scholar.sun.ac.za



process and obtains various inputs from the Treasury (on the financial side) and various line departments (on their mandates). The key processes involved in MTSF encompass, but are not limited to, the president signing performance agreements with all ministers, each line department signing delivery agreements with DPME. There are also implementation forums and quarterly progress reporting.

*Performance agreements with all Ministers*

The president and his cabinet ministers agree on a management tool to hold themselves accountable to the public by signing performance agreements that would outline what the ministers need to achieve, how they will be evaluated, and the frequency of that assessment. In the past, ministers were not accountable for failures of their departments since they did not have individual performance agreements, but could have been held accountable for the failures of their departments. However, according to the PFMA, it is the executive authority (DG) of the department that is accountable for financial management of the department's finances. That being the case, it then means that the ministers cannot be held accountable for something that the DGs are held accountable for by law. It must be noted that there is no legal framework for performance agreements between members of the executive; therefore, there are no hard and fast rules on how this should be handled or whether it should be legislated or not. It remains just a management tool.

## 4.4. Delivery agreements

Line departments have five-year results-based plans that cut across departments and spheres of government. These agreements are in the form of outcomes (12 outcomes in 2010 and 14 outcomes in 2014). They describe outputs, sub-outputs, measurable indicators, targets and key activities. They identify required inputs and clarify roles and responsibilities. These delivery agreements/ outcomes form the basis of the content of the Strategic Performance Plans (SPPs) and Annual Performance Plans (APPs), although the content of the SPPs and APPs is expected to be more detailed. It can be added that the outcomes themselves are informed by the work of the National Planning Commission and the National Development Plan.

The Cabinet needs to sign off on the MTSF and departments are also required by law to table their SPPs and APPs to cabinet. Therefore, the link to the delivery agreements and these planning documents is non-negotiable and all three documents need to link with government's policy document, the National Development Plan. Once the sign-off has taken place, DPME is required to conduct periodic reviews and revision of

Stellenbosch University https://scholar.sun.ac.za



Agreements, where necessary. It is DPME that captures progress against Delivery Agreements on Programme of Action (POA) and creates a reporting template which is submitted to cabinet for approval. This cabinet-approved reporting template has a layout which includes: a strategic overview of the impact on society; challenges and blockages affecting delivery and actions to address these and cross-cutting issues. This template can also be used to inform the executive by focusing on key areas of progress and challenges requiring unblocking. The periodic review, which consists of briefing notes for the legislature, uses the reporting template as an annexure to the notes, providing an independent assessment of progress, challenges and recommendations for quarterly performance attached to it.

Each year, the accounting officer of an institution must prepare and produce a SPP and an APP with a five-year planning horizon that is always linked to the new administration's term of office. These documents determine the planned projects and associated resource implications. SPP should ideally not be changed over the five-year period unless there are significant policy changes relating to the mandate or the service delivery environment, in which case the SPPs need to be tabled to Parliament with changes attached as an annexure (National Treasury, 2009:15). The link between SPP, APP, budgeting and spending plans is vital in compiling a credible budget, as inadequate planning is likely not to be linked with strategic objectives (National Treasury, 2008: 4). For this reason, the MTSF defines the essence of SPPs and APPs within the context of other broader plans, policies, projects and programmes, including long-term infrastructure and development proposals. The MTSF therefore provides the platform for strategic and performance plans with regard to legislation, policies, programmes and budgets.

These plans with their projected costs are then taken to the Function group technical committee through a process called the MTEF. The National Treasury issues guidelines to government institutions that give guidance on the principles that inform the preparation of the MTEF. The MTEF budget process is intended to inform the overall resource envelope, with the estimate of the current departmental plans and the costing of new proposed priorities and expenditure programmes (National Treasury, 2007: 3). The National Treasury, through the MTEF process, is expected to make informed decisions about allocations, a process that requires an analysis of performance to help build a firm basis for allocations. Therefore, funds are ultimately allocated to the priorities of government that are seen as strategic and linked to the required growth path. Their budget has been determined through robust and open

Stellenbosch University https://scholar.sun.ac.za



dialogue with the National Treasury. A detailed discussion on the MTEF is done in Chapter 5.

However, despite the legislated rigorous process of priority setting and resource allocation, South Africa is characterised by high levels of poverty and high income inequality between population (race) groups and within groups. Leibbrandt, Woolard, Finn and Argent (2010) find that the Gini coefficient, the most often used indicator of income inequality, increased from 0.66 in 1993 to 0.70 in 2008, even though a more recent publication by Statistics South Africa shows that this coefficient is now at 0.65 (Stats SA, 2013). Furthermore, a popular measure of human development is the HDI, which captures life expectancy at birth (longevity), knowledge and GDP per capita. GDP refers to all products produced within the country at a given time (Roux, 2013: 22). An HDI value in excess of 0.9 (1.0 is the maximum) denotes very high human development; a value between 0.8 and 0.9 denotes high human development; a value between 0.5 and 0.8 shows medium human development; and a value below 0.5 indicates low human development. Using this indicator therefore shows that in 1990, the HDI for South Africa was 0.621, but in 2012, it was 0.629 (Stats SA, 2013).

Using both indicators, one can therefore deduce that even though government's expenditure grew substantially between 1990 and 2014, it was not able to improve the human development and income inequality of the people; over the years, the poor have become poorer, while the rich have become extremely rich. Lack of improvement in human development could indicate that government has not been spending on the most productive expenditure categories, which might mean that government allocations have not been efficient. It is important though to note that there are factors that go beyond funding in measuring HDI, these include life expectancy at birth, Gross National Income amongst others.. However, since one of the government's top priorities is to bridge the income gap and advance human development, allocations have not been efficient to realise this. As a measure of the income gap referred to here, the Gini coefficient is relatively high at 0.65 (based on expenditure data) and 0.69 (based on income data). These figures are amongst the highest in the world and reflect high levels of inequality (Stats SA, 2013). South Africa has also not been successful in advancing human development, as 46 percent of the population live below the R620 per month (US$2/day) poverty line and 5.5 million of the population that are actively looking for jobs are unemployed, resulting in a 25.5 percent unemployment rate. This unemployment rate could be higher if the 2.4 million discouraged people were included (Stats SA, 2013).

Stellenbosch University https://scholar.sun.ac.za



## 4.5. Composition of government expenditure

The National Treasury has reiterated plans to maintain the spending ceilings contained in the 2015 Budget. This it reports is in line with South Africa's ambition of faster growth, reducing unemployment, poverty and inequality alleviation. Moreover, shifting the composition of expenditure more towards investment spending away from consumption spending is seen as a key to this strategy (National Treasury, 2015a). Elsewhere, in Chapter 2, the researcher discusses findings by various authors such as Ngandu *et al.* (2010), Fedderke and Garlick (2008), Gupta, Clements, Baldacci and Mulas-Granados (2005) and Ghosh and Gregoriou (2008), who all show that capital or infrastructure spending results in the accumulation of the public capital stock, whereas current public spending is spending on perishable goods. Therefore, South Africa needs to strike an appropriate balance between capital and current spending.

**Table 4.1: National government composition of expenditure**

| Economic Classification | 2012/13 | 2013/14 | 2014/15 |
|---|---|---|---|
| Current payments | 239 793 714 | 268 928 363 | 290 392 879 |
| Compensation of employees | 102 577 967 | 111 554 930 | 119 532 693 |
| Goods and services | 49 001 992 | 56 131 348 | 55 740 907 |
| Interest and rent on land | 88 213 755 | 101 242 085 | 115 119 279 |
| Payments for capital assets | 13 340 609 | 13 569 985 | 14 676 423 |
| Payments for financial assets | 3 568 684 | 3 898 240 | 3 805 979 |
| Transfers and subsidies | 216 864 833 | 227 468 180 | 242 588 866 |
| *Compensation of employees as % of total budget* | *22%* | *22%* | *22%* |
| *Payments for capital assets as % of total budget* | *3%* | *3%* | *3%* |
| **Grand Total** | **473 567 840** | **513 864 768** | **551 464 147** |

Table 4.1 shows that the composition of national government expenditure is skewed towards current expenditure, with compensation of employees approximately 22 percent of government expenditure. This is a case peculiar to South Africa, where government is the biggest employer in the economy. The high spending on compensation limits spending that could be channelled towards investment programmes that would boost the economy. There is therefore a need for government to moderate growth in employee compensation while fast-tracking infrastructure delivery.

In addition to the high spending on Compensation of Employees, there are also concerns about the spending in financing debt, which is another expenditure item that derails the state from spending on capital assets. A sharp increase in financing

Stellenbosch University https://scholar.sun.ac.za



requirements means interest is now the fastest growing area of spending over the MTEF (see Table 3.5). This eventually leads to a decline in government resources as rising interest costs crowd out more productive expenditure. There is, therefore, limited space for allocative efficiency if the government continues to spend 10 percent of the total expenditure on debt service costs (interest on debt). There is a need to increase the fiscal space created by lowering debt ratio and ensuring that much of the state expenditure is channelled to critical government programmes that have a long-term positive impact on the lives of ordinary South Africans. The current trajectory of debt-service cost is crippling the efficiency at which government services are delivered.

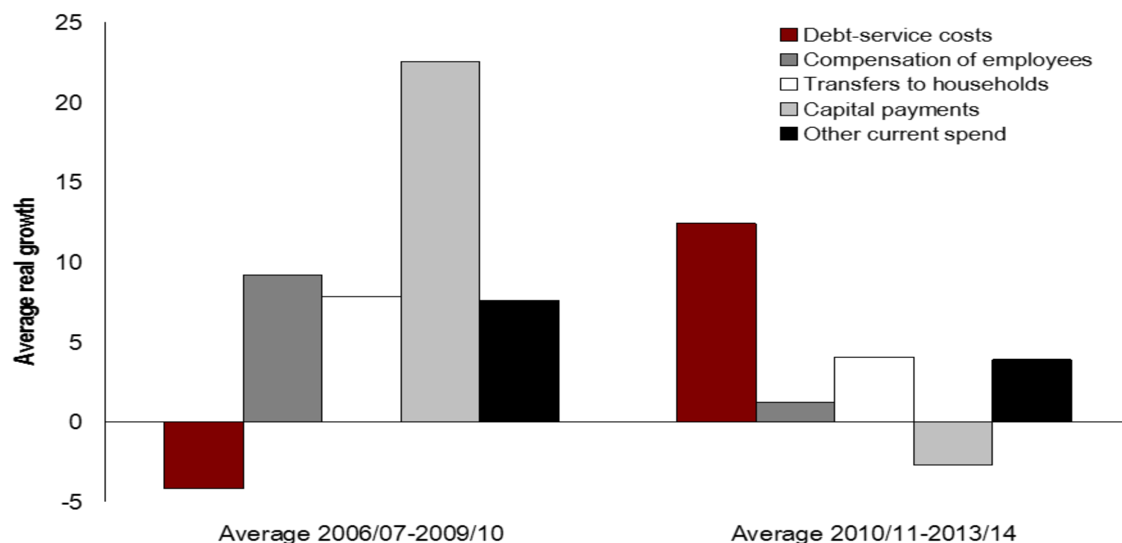



**Figure 4.1: The growth of service costs before and after the 2008/09 recession**

Source: National Treasury Budget Review, 2012.

## 4.6. Addressing allocative inefficiencies during the mid-term budget

Another attempt to ensure allocative efficiency is undertaken in the mid-term budget. The mid-term budget as regulated by section 30, of the PFMA presents another opportunity for the South African government to make in-year adjustments to the allocations. These in-year adjustments have been used for mainly two purposes: building fiscal space and reallocating resources from one institution or project to the next. Furthermore, when reference is made to budget reductions in the in-year adjustments, the term *declared savings* is often used and while departments are often given an opportunity to initiate this process of declaring savings, the Treasury often has to declare these savings on behalf of the departments using the provisions of section 30 of the PFMA. This, therefore, means that the concept of declared savings does not necessarily mean the relevant departments have to agree; in essence, it

Stellenbosch University https://scholar.sun.ac.za



relates to what the PFMA alludes to when it refers to the decrease in the departmental allocations in a year. In addition to this, even though the Treasury may have declared savings on behalf of the department, the relevant departments may still decide to make savings from areas other than those identified by the Treasury but will still have to meet the amount of savings declared.

This means that information on how the reductions will impact on the achievement of outputs must also be provided. Reductions should ideally not be taken away from transfers to households, non-profit institutions, universities and municipalities and from conditional grants, except where the evidence points to incapacity to spend effectively. Amounts budgeted for conditional grants should not be reduced to other spending items, except when there is underspending, for which evidence must be provided. Institutions should also provide information on measures taken to address causes for underspending or underperformance.

An administrative process has for the first time been implemented in the 2015 mid-term budget that makes a provision for the reversal of funds that were not spent at the provincial department level back to the national revenue fund. Section 22 (1) of the Division of Revenue Act of 2014 states that “Despite anything to the contrary in the Public Finance Management Act or the Municipal Finance Management Act, any conditional allocation, or a portion thereof, that is not spent at the end of the 2015/2016 financial year reverts back to the National Revenue Fund, unless the roll-over of the allocation is approved in terms of subsection” (2).

## 4.7. Operational efficiency

Improving efficiency in government by minimising waste in spending without sacrificing service delivery should be of key importance to any government. There are various ways in which government aims to achieve operational efficiency and these are legislated through various statutes but mainly through the PFMA, the Promotion of Administrative Justice Act (PAJA), the Promotion of Access to Information Act (PAIA) and various labour legislations. Supplementary subordinate regulations that have the force of law include the Treasury Regulations (TRs) and various Treasury instruction notes. These legislative requirements enforce accountability on both the part of government and individuals employed in government.

The Auditor-General’s (AG’s) audit functions performed in terms of the Public Audit Act, 2004 (Act no. 25 of 2004) give opinion on how these various legislations have been applied in government institutions. When the AG conducts its audit at the end of

Stellenbosch University https://scholar.sun.ac.za



the financial year, the focus is often on three areas: Annual Financial Statements (AFS), Predetermined Objectives, and Compliance to Laws and Regulations. All these aspects are of key importance to operational efficiency of the budgets. While all three aspects are guided primarily by the PFMA, each of these aspects has a specific subordinate framework, which has the force of law. For the AFS, the Modified Cash Standard (MCS) is such a framework. The pros and cons of this framework are discussed and compared to the accrual accounting standard in Chapter 5.

The last aspect, Compliance to Laws and Regulations, is guided by the TR. While there is a view that the public finances are overregulated, there is insufficient evidence to show that appropriate steps are being taken against those who break these regulations and legislations. Lack of enforcement of rules is evident from the waste in government spending. There are three main categories of financial mismanagement in government that mainly result from non-compliance with the law. These are unauthorised, irregular and fruitless and wasteful expenditures.

**Table 4.2: Financial transgressions over time**

| Transgression in 000' | 2011/12 | 2012/13 | 2013/14 |
|---|---|---|---|
| Unauthorised expenditure | 27 026 | 124 601 | 0 |
| Irregular expenditure | 1 795 490 | 2 167 694 | 4 133 530 |
| Fruitless and wasteful expenditure | 98 873 | 98 673 | 324 190 |
| **Total** | **1 921 389** | **2 390 968** | **4 457 720** |

The PFMA defines unauthorised expenditure as any expenditure not in accordance with the mandate of the department, or not in accordance with the purpose of the programme, or the overspending of a department or a programme within a department (RSA, 1999: 12). Unauthorised expenditure involves breaking the law. It may require criminal proceedings and the accounting officer may be goaled. Between 2011/12 and 2013/14 financial years, national government departments incurred unauthorised expenditure amounting to R151.6 million. Table 3.11 shows that the value of irregular expenditure incurred over the past three financial years amounts to R8.1 billion. Irregular expenditure is any other financial mismanagement transgression, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, be it legislation, the State Tender Board Act of 1968 (Act No. 86 of 1968), or any regulations made in terms of that Act (RSA, 1999: 8). This form of transgression increased from R1.7 billion in 2011/12 to R4.1 billion in 2013/14. This is an issue of major concern, since it is getting worse with time. According to the AG:

Stellenbosch University https://scholar.sun.ac.za



> *Irregular expenditure continues to be of particular concern. This is the expenditure that was not made in the manner prescribed by legislation. Such expenditure does not necessarily mean that money was wasted or that fraud was committed, but is an indicator that legislation is not being adhered to, including legislation aimed at ensuring that procurement processes are competitive and fair. It is also an indicator of a significant breakdown in controls at some auditees* (AGSA, 2012: 2).

Irregular expenditure compromises the credibility of government's finances and the processes thereof. This transgression can be condoned by either the accounting officer of the department, the NT or by Parliament, depending on the severity of the transgression. However, the accounting officer has the responsibility of taking appropriate actions, including instituting disciplinary proceedings against the official who has done wrong. The accounting officer must then ensure that this irregular expenditure is immediately reported to the National Treasury as required by section 40 (4) (b) of the PFMA. In addition, the Treasury Regulations (RSA, 2005: 25) state that "Irregular expenditure incurred by a department in contravention of tender procedures must also be brought to the notice of the relevant tender board or procurement authority, whichever applicable."

The third element of financial misconduct relates to fruitless and wasteful expenditure. Between 2011/12 and 2013/14 financial years, national government departments incurred fruitless and wasteful expenditure amounting to R521.7 million. This expenditure relates to expenditure that was made in vain and would have been avoided had reasonable care been exercised (RSA, 1999: 7). This form of transgression increased from R98.8 million in 2011/12 to R324 .2 million in 2013/14.

## 4.8. Global competitiveness

On an annual basis, the World Economic Forum formulates a tool that measures the institutions, policies and factors that affect the microeconomic and macroeconomic foundations of a nation's competitiveness. This tool consists of 110 variables, a combination that makes up the indicator referred to as the Global Competitiveness Index (GCI) (Schwab, 2015). Following four years of decline in the Global Competitiveness Report, South Africa's competitiveness ranking is 56 of the 144 countries being measured. This decline is mainly due to the reported mistrust of government. Amongst the indicators in this category are the trust in politicians, where South Africa was ranked 98th; the perceived favouritisms in decisions of government officials, 105th; and the wastefulness of government expenditure, where South Africa is ranked 91st. The poor performance of the South African economy on these indicators

Stellenbosch University https://scholar.sun.ac.za



is not surprising when one looks at the financial management transgressions. It is important to note that this global competitiveness is an Executive Opinion Survey and represents the views of business Executives across the globe. It is therefore not a scientific measure of South Africa's global competitiveness.

Peter Allwright (2013), a Director in Horizon Forensics, conducted research on financial misconduct in the public service and found that financial misconduct is rampant in government; the situation is exacerbated by the absence of consistent and appropriate sanctioning of officials. To make his point on the latter, his forensic investigation shows that of the 88 percent of officials found guilty of financial misconduct, only 19 percent were dismissed, while the common sanction was a final written warning (Allwright, 2013).

With regard to the former, the Public Service Commission (PSC) report presented to Parliament in November 2015 states that the recovery process was sluggish and did not always take place. This report further shows that huge amounts of government funds have not been recovered (Public Service Commission, 2015). These findings further support the 2013 forensic investigation conducted by Peter Allwright (2013), which stated that only 13 percent of the losses were recovered from the officials who had transgressed (Allwright, 2013). The Auditor-General reported that the 2014/15 audited financial standards showed inadequate consequences for poor performance and transgressions (AGSA, 2012).

lack of consequences for poor performance and transgressions were a cause of poor audit outcomes at 42 percent of the 309 auditees that did not obtain clean audit opinions (47% of the departments and 39% of the public entities). Irregular as well as fruitless and wasteful expenditure clearly shows a lack of consequences for transgressions (AGSA, 2012: 104). The analysis above indicates that government spending has many inefficiencies embedded in its systems. Stronger sanctions and controls are needed to ensure that financial mismanagement of funds is kept at minimal levels. To correct this, the South African government wants to increase the efficiency of its spending programmes by eradicating fraud and corruption. As part of government's commitment to deal with issues of fraud and corruption, the NT has set up the office of the chief procurement officer, which is headed by a DDG within the National Treasury and is also reviewing the country's supply chain management legislation. This is aimed at securing competitive and cost-efficient public procurement (National Treasury, 2015a). The aim is also to ensure that government gets value for money.

Stellenbosch University https://scholar.sun.ac.za



## 4.9. Summary and conclusion

In a nutshell, the public expenditure management principles in South Africa have been linked to broader efforts to improve expenditure control and public accountability as set out in the PFMA and Municipal Finance Management Act (MFMA). It can be argued that public expenditure management can be used as a tool to promote efficiency and effectiveness of public services, as it advocates for increased flexibility for managers to deliver these services economically. Financial management controls have further enhanced the advocacy of the use of systems to ensure value for money. However, there is a need to strengthen financial management systems and accounting standards in order to strengthen government's ability to allocate funds efficiently and spend them effectively. This can be done by improving the link between budgeting, policy making and planning. This emphasises the focus on performance, both from a financial side and non-financial side, to attain value for money.

Although allocative and operational efficiency in the allocation of public expenditure are the core objectives of performance budgeting, there is also an important link between performance budgeting and macro-level goals pertaining to the level of aggregate expenditure and to fiscal sustainability. Evidently, to the extent that performance budgeting succeeds in boosting operational efficiency, aggregate public expenditure should, everything else remaining the same, be smaller than it would be otherwise. Expressed differently, there is a productivity dividend, which can be used either to keep the tax burden down or to fund new service priorities. It is worth noting that allocative efficiency helps rationalise budget allocations by using strategic priorities and outcomes as a basis of evidence for making tough choices in resource allocations.

Increasing public debt, coupled with the composition of government expenditure that is skewed towards compensation of employees, and the high financial mismanagement of funds indicate that the South African government has been unable to attain the budgetary outcomes of aggregate fiscal discipline, allocative efficiency and operational efficiency. The next chapter analyses mechanisms needed to impose sanctions for violating budgetary rules.

Stellenbosch University https://scholar.sun.ac.za



# CHAPTER 5 : ACCOUNTABILITY AND TRANSPARENCY

## 5.1. Introduction

The analysis conducted in Chapters 3 and 4 highlight how the South African government is borrowing money to pay for current spending, This spending pattern is discouraged in this research study. The study further proposes that there is inefficiency in budget allocations and spending. This chapter asks questions about measures in place to counter identified shortfalls and whether the government is accounting properly to the people for its failures to adhere to outlined plans.

Osborne and Gaebler (1992) suggest that if results are not measured, it would be difficult to distinguish success from failure. Thus, if success is not visible, it cannot be rewarded, and if success is not rewarded, failure is most likely to be rewarded. Osborne and Gaebler (1992) further observe that if success is not seen, one cannot learn from it. In the same breath, if one cannot recognise failure, one cannot correct it. Within this context, if one can demonstrate results, one can win public support (Osborne & Gaebler, 1992). Against this backdrop, it is important that the government should win public support and that it is able to account for the money spent and can show what the money is used for. This speaks to both accountability and transparency.

The principles of accountability and transparency are introduced in the South African Constitution, Section 195(1), and Local Government Municipal Systems Act, 32 of 2000. This legislation states that a performance management system must be developed to promote effectiveness and accountability in public administration and provide better information and efficient use of state resources. The Constitution further states that national, provincial and municipal budgets and budgetary processes must promote transparency, accountability and effective financial management of the economy, debt and the public sector (section 215(1)). In addition, many other government policies and legislative frameworks also place emphasis on accountability and transparency and these include the White Paper on Transforming the Public Service (RSA, 1997) and the Public Finance Management Act, 1999. Furthermore, the objectives of the PFMA are rooted in promoting transparency, accountability, and sound management of the revenue, expenditure, assets and liabilities.

The increasing public demands for greater government accountability, transparency, and effectiveness, and mounting pressures on public expenditure, supported by calls for value for money, have resulted in governments around the world seeking

Stellenbosch University https://scholar.sun.ac.za



justification for continued government expenditure. Reforms introduced to attain public support have introduced the trajectory of public expenditure management. As highlighted in Chapter 4 and elsewhere in this research, public expenditure management aims to improve the efficiency and effectiveness of public expenditure by linking resource allocation to outputs through making systematic use of performance information and financial models. Public expenditure management uses systematic performance information (performance indicators, programme evaluations and programme costing) to link budgets to performance information. Literature and research around public expenditure management propose that the impact of public expenditure management may be felt in the improved prioritisation of expenditure, and in improved service effectiveness and/or efficiency. So in this chapter, the researcher found that while the values of accountability and transparency are embedded in the Constitution, the PFMA and the White Paper on Public Administration on Batho Pele Principles and other government legislation, public servants and politicians are seldom held responsible for the exercise of the authority provided to them. This lack of accountability is consistent with the finding made in chapter 3 and four that show deteriorating aggregate fiscal discipline, the high values of unauthorised, irregular and fruitless and wasteful expenditures is as a result of lack of internal controls to hold officials accountable for their decision.

## 5.2. Accountability

Public expenditure management as a management system requires government institutions to set up financial management systems, models, clear goals and provide detailed information on the functionality of these systems. In modern reforms, public expenditure management is a modern management tool and not a solution to all budgeting problems; it is seen as a refined reform for public sector efficiency and performance culture that seeks to improve transparency and accountability. Transparency and accountability are critical in imposing implicit costs and when relevant, explicit sanctions on politicians and bureaucrats for violating budgetary rules. Accountability means that politicians and public officials have to respond periodically to questions concerning their activities and must be held responsible for the exercise of the authority provided to them (Djurović-Todorović & Djordjević, 2009). In this regard, being held responsible should lead to consequences where there is evidence of misuse of public funds. In addition, corruption, which is the misuse of public or private office for direct or indirect personal gain, poses moral and legal problems and is a major source of inefficiency in public expenditure management (Djurović-Todorović & Djordjević, 2009). As a result of potential inefficiencies and greed in the public

Stellenbosch University https://scholar.sun.ac.za



services, there are legal and institutional frameworks for public expenditure management. The DPME states that:

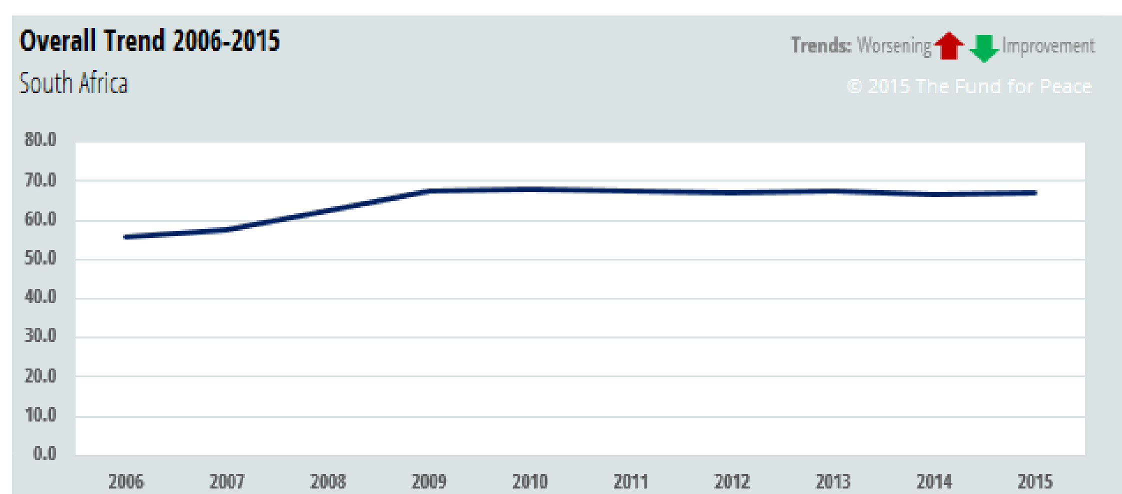
> *Governance and accountability comprise activities linking management structures, accountability and ethics to service delivery improvements. Effective governance and accountability in the organisation of structures, delegations and resources ensure checks and balances to minimise mismanagement and improve efficiencies in the delivery of services. Effective governance and accountability enable political and administrative leadership in departments to respond effectively to the findings and recommendations of oversight committees* (DPME, 2013).

Corruption in South Africa is rife and as such the country has the characteristics of a "Soft State". Myrdal (1968) defined a "Soft State" as a state that is incapable of imposing the right policies and is unwilling to act against corruption at all levels. Other characteristics of a Soft State are outlined below:

- Undesirable social conditions, attitudes, institutions with low discipline, nepotism, corruption; and
- Policies are not enforced, if enacted at all, the level of social discipline is low, and there is a high inability to achieve hard targets (Myrdal, 1968).

The corruption levels contribute massively to South Africa's ranking in the Fragile States Index (FSI).

**Figure 5.1: Fragile States Index**




**Source: The Fund for Peace**

Stellenbosch University https://scholar.sun.ac.za



According to the FSI chart above, the upward movements represent worsening trends of 2015, a regression of 0.4 percent year on year from the 2014 index. The FSI focuses on the indicators of risk across the 178 countries being assessed. All these countries are put into four main categories, namely: alert, warning, stable and sustainable (Messner, Haken, Taft, Blyth, Lawrence, Pavlou & Umaña, 2015). The countries that are in serious trouble, those termed fragile states, are those in the category "Alert", the best category being that of sustainable countries. While South Africa is not at this point considered as a fragile state, it is currently classed with a warning that indicates that it is a downgrade away from being classified as a fragile state. The lack of improvement since 2006 is a cause for concern. In 2006, South Africa was categorised as a stable state; however, worsening trends over time mean that it is categorised as with a warning. Regarding financial management, the importance of public expenditure management is illustrated through the use of information to improve public policy, funding choices and to enable accountability. Robinson and Brumby (2005: 12) state that:

> *The core objectives of performance budgeting is enhanced allocative and productive efficiency in public expenditure. In respect to allocative efficiency, performance budgeting reformers have been driven by a belief that expenditure allocation in the public sector tends to be insufficiently responsive to changing social needs and priorities. The perception is that money can keep flowing year after year to ineffective programmes because of a lack of accountability for results linked to the budget process* (Robinson & Brumby, 2005).

Additionally, plans are not always aligned and synchronised with budget allocations. Other challenges include the lack of accountability, particularly for monitoring and reporting on performance information, unrealistic target setting and poor quality of performance information. To improve this, Chapter 4 discusses allocative efficiency principles on how funds can be linked to spending priorities. Moreover, the budget is understood to be the mechanism to re-allocate resources. The introduction of performance expenditure management reforms in South Africa is linked to broader efforts aimed at improving expenditure control and public accountability, as set out in the PFMA and MFMA. It can be argued that public expenditure management can be used as a tool to promote the efficiency and effectiveness of public service delivery, as well as increasing the flexibility of managers to deliver best services in a cost-effective manner and with certainty that outstanding performance will be rewarded.

Stellenbosch University https://scholar.sun.ac.za



It is worth noting that performance information assists in rationalising budget allocations by using performance information as the basis of evidence for making tough choices regarding resource allocations. Legitimate implementation of public expenditure management systems will ensure that performance information is incorporated as part of the budget and resource allocation process, whether at a political level or at an administrative level.

Furthermore, internal accountability is as important as external accountability. The former relates to accounting within the institution and includes accounting to set principals; while the latter relates to accounting to the external stakeholder, like Parliament and the general public.

Within the South African government context, the annual report (AR) is an ultimate accountability document for the government. Legislatures refer to the annual report to exercise legitimate oversight and the public also has access to it. Briefly, it is a formal requirement for year-end reporting. It is aligned to other planning documents and is the first legislative document that highlights how much was spent and what achievements were attained. The AR can be used as a yardstick to measure the institution's performance, possible risks and the opinion of the AG. In addition, the AR is a published document that allows civil society to meaningfully engage with government on all societal issues. The report is made up of four key reports: the accounting officer's report, audit committee report, AG report and the appropriation statement.

AR records evaluate and report both financial and non-financial information from the previous financial year. The AR is regarded as formalised communication and accounting to the public. The Office of the AG in the National Treasury publishes guideline documents, such as the *Guidelines for Annual Reporting* for government institutions to follow.

The AR document has the following layout:

- Part A: Legislative Oversight Role
- Part B: Performance (Non-financial Data)
- Part C: Financial Statements – Auditors' Report
- Part D: Human Resource Data.

However, it is acceptable to argue that accountability through the annual report has elements of transparency, as it is a document that is made publicly available. While the annual report is a reflection of what has happened and how money was spent,

there is a missing element. This element is on the planning side of accountability and the transparency of government budgets.

## 5.3. Transparency

Public access to fiscal information is strengthened by section 29 of the Constitution of the Republic of South Africa (RSA, 1996). The Constitution requires that accurate and timely information be made accessible to the general public in order to promote transparency in the public service (RSA, 1996). As means of qualifying these provisions by the Constitution, the Promotion of Access to Information Act (2000) stipulates the procedures for accessing information from government (RSA, 2000). The Act seeks to promote transparency and accountability and it can be inferred that transparency underpins accountability. Transparency refers to the availability of information to the public and also pertains to clarity about government rules and regulations. Furthermore, in this regard transparency relates to the provision of access to information; active strengthening of the right to information through setting in place means to gain access to information; and through the provision of the legal enforceability of the provision of information (Athukorala & Reid, 2003).

Pertaining to the open budget transparency index, South African has been ranked 2nd, 1st, and 2nd over the last three years respectively. This is an indication that South Africa is very transparent with its fiscal affairs.

**Table 5.1: Open Budget Index**

| 2006 | | | 2008 | | | 2010 | | | 2012 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Country | Score | Rank | Country | Score | Rank | Country | Score | Rank | Country | Score | Rank |
| France | 89 | 1 | United Kingdom | 88 | 1 | South Africa | 92 | 1 | New Zealand | 93 | 1 |
| United Kingdom | 88 | 2 | South Africa | 87 | 2 | New Zealand | 90 | 2 | South Africa | 90 | 2 |
| New Zealand | 86 | 3 | France | 87 | 3 | United Kingdom | 87 | 3 | United Kingdom | 88 | 3 |
| South Africa | 86 | 4 | New Zealand | 86 | 4 | France | 87 | 4 | Sweden | 84 | 4 |
| Slovenia | 82 | 5 | United States | 82 | 5 | Norway | 83 | 5 | Norway | 83 | 5 |
| United States | 81 | 6 | Norway | 80 | 6 | Sweden | 83 | 6 | France | 83 | 6 |
| Peru | 77 | 7 | Sweden | 78 | 7 | United States | 82 | 7 | United States | 79 | 7 |
| Sweden | 76 | 8 | Brazil | 74 | 8 | Chile | 72 | 8 | South Korea | 75 | 8 |
| Brazil | 74 | 9 | Slovenia | 74 | 9 | Brazil | 71 | 9 | Czech Republic | 75 | 9 |
| Poland | 74 | 10 | Poland | 67 | 10 | South Korea | 71 | 10 | Russia | 74 | 10 |

Source: Adapted from World Bank, 1998.

The high level of transparency in South Africa's budget processes is premised on the PFMA and has resulted in the positive outlook and image that South Africa has enjoyed. The Minister of Finance tables the Appropriation Bill to Parliament along with the Budget Review, and the Estimates of National Expenditure (ENE). While the Appropriation Bill has been discussed in detail in Chapter 2, the budget review is

Stellenbosch University https://scholar.sun.ac.za



identified as a statement of revenue, expenditure and taxation. It looks at various elements of the budget, including the composition of expenditure and the fiscal framework. The ENE is an account of spending by departments. It is a document with a detailed analysis of where the funds were utilised at a departmental level. Furthermore, the ENE is an annual government publication describing high-level expenditure and performance trends for all national government departments and public entities. It is tabled in Parliament along with the Appropriation Bill and other key documents, as highlighted in Chapter 3. It has recently been expanded to include a write-up on how each department assists the government to realise its policy objectives as set out in the NDP, as well as the inclusion of detailed personnel information amidst concerns of the increasing wage bill.

In addition to these documents, the NT also compiles *The People's Budget* (a simplified version of the strategic documents tabled to Parliament). This is published in various languages for ease of understanding. Furthermore, the National Treasury conducts cross-country road-shows, particularly at higher education institutions, as a means of promoting transparency. There are also other efforts to improve access to public budgetary information through the use of simplified budget language. To encourage direct public interaction with the Minister of Finance, the National Treasury runs a public opinion portal called "tips for the Minister of Finance". These "tips" are taken into consideration and the Minister of Finance includes valuable recommendations in his budget speech.

South Africa's high ranking in the open budget index is a further testament to the importance of instilling a culture of transparency in budget documentation. As a result of the commitment, South Africa publicly discloses budgetary information, including procurement and audit information, through various government websites in a simplified and timely manner. In addition to the budget documents that are tabled in Parliament, there are also other key source documents that are made available on the National Treasury's website; a key to these is the MTEF.

The key principles informing inputs into the MTEF database are discussed next. Since the 2013 MTEF process, one database has been used throughout the entire budget process for the Adjusted Estimates of National Expenditure (AENE), MTEF and the ENE processes. Prior to this arrangement, there were three databases that were used, namely the ENE, MTEF and the AENE. Below are the budget principles that underlie the MTEF process and inform budgeting at both the national and provincial levels. The MTEF and its guidelines are set in place to guide against improper budgeting.

Stellenbosch University https://scholar.sun.ac.za



It is widely reported that public expenditure management is a more scientific approach, a paradigm shift from a non-scientific and ill-informed approach which led to various departments applying incrementalism in budget allocations. Budget incrementalism refers to a process where departments increase their budgets by inflation or some other equivalent without taking into account shifts in neither priorities nor the relevance of projects in the baselines. The Transportation Research Board (2010: 70) holds a similar view and states that:

> *The easiest approach is the allocation of resources based on historical levels, with the inclusion of an increment or a decrement for inflation and economic growth. However, this is generally viewed as the least effective way to allocate resources since it can result in years of inertia and resistance to change and can perpetuate wrong resource allocations year after year. Many public organisations and departments allocate resources this way, in the same breath, private sector companies largely switched from this approach to a zero-based budgeting approach. The second approach to allocating resources is to base the resource allocation on the achievement of set targets. Those that attain or exceed their targets get more resources. The logic is that the target is a point on a continuum, and the more you exceed the target, the more value you add* (Transport Research Board, 2010).

In addition, the most common version of budgetary incrementalism was the proposition that budgeting be characterised by:

> *Negligence to the budgetary base or allocations in the baselines. In other words, budgetary decision-makers take the budgetary base for granted as the starting point in budget formulation and tend to focus their attention on the size of the increment (or, occasionally, decrement) in agency institutions or programme budgets* (Berry, 1990).

There is a realisation that the economic recovery from the 2008/09 recession has been slow and it is reported that it will probably take another decade or two for South Africa to return to its budget surpluses and good credit ratings (National Treasury, 2010). This has led to reforms aimed at integrating greater control over the limited programmes that can be implemented. These reforms have called for allocative efficiency to be the basis for budget allocations as opposed to merely incrementally increasing the budgets. Scheps also holds this position and states that:

> *Resource allocation decisions are made with constant reference to performance data and management's track record of meeting their targets. The key to the*

Stellenbosch University https://scholar.sun.ac.za



> *success of the system has been to utilise it more than once a year, as means of acting as an early warning that management's attention is required. Numerous smaller changes in resource allocation can be traced directly to the data accumulated in the performance measurement systems* (Scheps, 2000: 15).

However, there is an alternative to budget incrementalism which uses allocative efficiency and is known as zero-based budgeting. The concept of zero-based budgeting denotes a comprehensive analysis of the budgeting process and implies that in each budget process costing and the evaluation of each line item's relevance is necessary. However, this budgeting system is often perceived as cumbersome and costly (Burger, 2014: 145). In other departments, the non-use of zero-based budgeting has meant that funds are still allocated to items that are irrelevant. In some cases, the funds had been allocated to repairs and they continue with repairs to equipment even though it would have been cheaper to buy new equipment. This is an indication of where budget processes (incrementalism) get in the way of common sense.

An objective of the zero-based budgeting system is to involve programme managers in the budget process (Gildenhuys, 1993: 527). There are a number of criticisms against this system of budgeting, the most common being that it is expensive to set up, since it implies that in each financial year programme managers need to cost their programmes. In addition, Houston finds it problematic that this system implies constructing a budget without considering what has gone on in the past (Houston, 1999: 129). It is noted that these weaknesses are outweighed by the benefits of this system. To further strengthen the case for zero-based budgeting, a department does not necessarily have to do it every year, but once in three years (linked to the MTEF), which would further reduce the costs of service delivery.

The budget process in the most recent years has used the government's 14 outcomes and their associated output and sub-output targets as the framework underpinning public expenditure priorities. These outcomes are the subject of the MTEF discussions at all levels, from the functional groups to the minister's committee on the budget. These committees are discussed in detail in Chapter 3. While the 14 outcomes are mainly funded from the department's baselines, additional budgetary resources are sometimes required to finance these priorities. This is not always possible, given the limited fiscal resources available for distribution. Thus, it is vital that national departments reprioritise their baseline allocations and identify savings to fund the 14 outcomes. The combination of limited fiscal resources and the growing need for resources have strengthened the discussions on the efficient and effective use of

Stellenbosch University https://scholar.sun.ac.za



resources within the already-announced medium-term spending envelope, what is referred to as allocative efficiency in Chapter 4.

As highlighted in the 2016 MTEF guidelines' principles discussed above; all departments are tasked with continually assessing the role, purpose and effectiveness of programmes, and whether relevant outputs and outcomes can be attained at a lower cost. This principle is referred to as operating efficiency in Chapter 4. While a set method for undertaking the continual assessment of budget baselines and new expenditure proposals has not been prescribed, the different teams of analysts (within the departments, NT, DPME or Parliament) have derived different methods of doing this, typically based on the unique circumstances facing the departments they are responsible for. However, all the different teams of analysts including the principles discussed in the 2016 MTEF guidelines discourage the use of budget incrementalism in favour of zero-based budgeting. The latter is seen as a tool to promote accountability and transparency. This acts as further evidence that transparency in budget information extends to more than making information available to people, but, also encompasses the provision of the information in a user-friendly manner.

Athukorala and Reid (2003) have noted that the budget is the key management document in the public sector, and accountability is based on implementing the budget as approved by the legislature. If the budget is on a cash basis, then that is going to be the dominant basis on which politicians and senior civil servants work. Financial reporting on different bases risks becoming a purely technical accounting exercise in these cases (Athukorala & Reid, 2003: 51).

An accrual accounting system is an analytic tool that provides information and insights which are not available through the conventional approach of cash budgeting. As highlighted in Chapter 4, accrual accounting systems assist in the attainment of VFM. From a more conservative approach, it is easy to see and understand why the most accurate and viable option would be the accrual system of budgeting. Archibald (1994) states that accrual accounting supports improved accountability through improved financial management, more openness, better measures of performance and financial control, and a business sector compatible approach. He further states that improved financial management is possible because resource allocations are clearly related to value-for-money decisions. More openness is created by means of the much more detailed and comprehensive accounts. This provides for better management decisions because financial performance can be measured. In addition, more financial information enables the creation of better ways to set targets and measure financial

Stellenbosch University https://scholar.sun.ac.za



performance. Breakeven analysis, cost recovery and return on assets are three applications worth mentioning here. And lastly, the publication of commercial-style accounts on an accrual basis allows compatibility and benchmarking with private sector organisations. An enterprise does not have to be private to be managed entrepreneurially (Archibald, 1994: 4).

## 5.4. Summary and conclusion

In conclusion, financial management relates to budgeting and the successful allocation of limited resources. A widely-held view is that the PFMA aims to make it possible for managers in the public sector to manage and be held accountable for the use of the resources made available to them. Through the PFMA, the law is very clear on what is considered appropriate and further stipulates sanctions for inappropriate actions. Nonetheless, there is a lack of consequences for transgressions and this is evident from the increasing mismanagement of funds as discussed in Chapter 4. Furthermore, it must be noted that there is a level of accountability and transparency in so far as budget and spending are concerned. These are enforced by strong institutions like the Auditor-General, whose reports are also made public and placed in all departmental websites. In addition to this, public debates, the rigorous discussions in Parliament, and the strong judicial systems contribute towards an accountable and transparent government. Past survey results of the open budget index indicate that South Africa is transparent with its budget information. Also commendable, as reflected in Table 3.11, is that while South Africa is a developing country, it is constantly in the top four alongside developed countries. It is important that transparency is strengthened and initiatives like *The People's Budget* will give the public a sense of ownership.

However, the researcher is inclined to note that there are still overlapping questions in the information made available. This is specifically the case when considering that while the accrual accounting system has proven to be the best holistic system of budgeting, South Africa still functions on MCA. Therefore, while the information is made available to the public, it is often not a true reflection of the status quo. In addition, it is good to note that while the MTEF has proven to be effective in managing future expectations and linking budgets to plans, this process still requires that there be consistency in which the budget numbers are presented.

The research also notes that there is still a weakness in how budget numbers are presented, specifically the lack of consistency in how they are expressed. This point is expressed through the comparison between the accrual accounting and modified cash

Stellenbosch University https://scholar.sun.ac.za



basis accounting. The latter is used by national and provincial departments while the former is used by the municipalities and all government agencies. This inconsistency in the accounting systems being used compromises the fiscal consolidated expenditure and the credibility of the information made available to external stakeholders.

In the next chapter, the researcher summarises and discusses salient points, interprets results in terms of the literature and theory, and discusses gaps and anomalies in the data. Lastly, the thesis concludes by making significant policy recommendations.

Stellenbosch University https://scholar.sun.ac.za



# CHAPTER 6 : SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 6.1. Introduction

The research systematically examines the credibility of budgets at the national level, as well as problems faced by the South African government under the general budget related to the public expenditure management systems. It focuses on a four-year period, from 2011/12 to 2014/15. The last part of this chapter makes recommendations on reforms needed to ensure that the budget is credible.

The budget is a key statement of policy of the government. It indicates how public resources plan to be used to meet policy goals (OECD, 2007). The World Bank, through the PEM Handbook, states that governments' budgets should be spent in accordance with fiscal discipline, allocative priorities and operational productivity. However, accountability and transparency have become the additional budget outcomes towards which countries should strive.

In the context of national government, the PFMA is a regulatory framework that is aimed at improving public finance management and strengthening allocative, operational efficiency, transparency and accountability. To this end, the PFMA places the responsibility of managing South Africa's National Government finances on the National Treasury. In response to this regulatory framework, the National Treasury's mandate as stated in their Strategic Planning document is to support efficient and sustainable public financial management and promote economic development, good governance, social progress and a rising standard of living for all South Africans (National Treasury, 2014). In addition to this, the South African Constitution mandates the National Treasury to ensure accountability, transparency and rigorous financial controls in the management of public finances (RSA, 1996). Given the difficult fiscal context facing the South African government, it is important that sound financial control principles become a perpetual feature of the budget preparation process. So in this chapter, the researcher discusses the key findings on expenditure management objectives and what these mean for South African budgetary reforms for National Departments.

Stellenbosch University https://scholar.sun.ac.za



## 6.2. Aggregate fiscal discipline

The aggregate expenditure outcome compared to approved budgets, the composition of expenditure outcome compared to approved budgets, and aggregate revenue outcome compared to original approved budgets show that the South African government does not raise the revenue it sets itself to raise; and neither does it spend the expenditure it aims to spend. A rising concern is that the expenditure has outperformed revenue in both estimates and actuals. This is likely to drive South Africa into an unsustainable trajectory. In addition to this, revenue estimates have been below the actual revenue collected for most of the recent financial years, an indication of a tendency to consciously target for what is easily achievable. These facts, coupled with the ever-increasing debt service costs, March spike and virements compromise the credibility of aggregate fiscal discipline and are leading South Africa to unsustainable debt levels. The worst-case scenario is a debt trap. This is likely to be the outcome if the South African government implements any programmes as costly as the NHI, nuclear power and post education without cutting down on programmes of similar value.

The analysis of aggregate fiscal discipline shows that the major challenge of the fiscal pressures in South Africa has been caused by increasing government debts, which were strongly influenced by the global economic recession. Massive investment in social services, high unemployment rate, limited private sector contribution to the economy, and poor performance by the primary sector have posed many challenges for the state. Consequently, the revenue generated is not sufficient to finance the government expenditure. There is mounting pressure on the government to continue increasing social services, whilst the financial markets are unstable and the value of the South African rand is weak. This negative impact of public debt on economic growth, as far as the policy perspective is concerned, strengthens the arguments for ambitious debt reduction through fiscal consolidation.

## 6.3. Value for money

Value for money begins with the questioning of the assumption that citizens understand what funding refers to on budget and what service delivery plans are to take place against this funding. There are various ways in which value for money and PV are being promoted in South African financial management systems. While the National Treasury is required by the PFMA to ensure value for money, the budgeting process seeks to create PV. While great efforts have been employed to achieve both

Stellenbosch University https://scholar.sun.ac.za



VFM and PV, there are obvious gaps that need to be addressed. Furthermore, to drive VFM, a budgeting discipline for a comprehensive accounting standard must be set.

In addition, efforts to improve the credibility of budgets and their management must be based on how responsive they are to community needs. This can be achieved through improved dialogue and public participation on budget-related matters. Furthermore, communities must see the value of programmes. In African communities, culture is not written down; therefore, the PV needs to be embedded on that basis.

## 6.4. Allocative efficiency

Through allocative efficiency, government needs to ensure that budget as policy intent achieves intended outcomes. Here, the question is whether the social benefits of these policies (budgets) outweigh social costs. The high levels of debt and debt service costs indicate that there are issues regarding allocative efficiency. As a measure of whether government has achieved its intended outcomes, lack of progress in income inequality as measured by the Gini coefficient and the combination of the life expectancy at birth (longevity), knowledge and GDP per capita as measured by the HDI indicate that government has been unable to utilise its resources to better the socio-economic conditions and address the imbalances of the past.

This thesis highlights that a large part of the debt increases of the past decades are related to higher public consumption, specifically on compensation of employees. Taking this into account, the current trajectory is not sustainable, as this consumption expenditure has no positive spinoff on future economic outlook prospects. Thus, these challenges and concerns need to be dealt with in order to ensure successful outcomes of the intent of the fiscal policy. Therefore, allocative efficiency is compromised as large sums of money are spent servicing the debt rather than on government priorities, paying for compensation of employees rather than on sustained spending on capital investment.

Lastly, budget incrementalism practices undermine the efforts to allocate resources efficiently. While there are growing efforts to improve performance information and strengthen controls in this regard, there is a need for this information to inform the actual budget baselines. The current trajectory of paying attention to prospects of additional funds limits the interrogation of current baselines and their items which could yield efficiencies in the budgeting system.

Stellenbosch University https://scholar.sun.ac.za



## 6.5. Operational efficiency

There are a lot of operational inefficiencies in how government finances are handled. This is denoted by the expenditure that is unauthorised, irregular, fruitless and wasteful. This an indication that there is a need to strengthen financial management systems and accounting standards in order to strengthen government's ability to spend voted funds efficiently, thereby ensuring VFM on government spending.

Government services are to be delivered at the lowest possible costs ("efficiency"), given an acceptable level of quality with minimal waste. Apropos of this objective, the high levels of unauthorised, irregular and fruitless and wasteful expenditure show high levels of operational inefficiency, which are perpetuated by growing trends over time, especially regarding the irregular expenditure. The absence of consequences for financial transgressions perpetuates these transgressions. Consistent with this, corruption in South Africa is rife; consequently, the country has the characteristics of a Soft State. This position is echoed by Peter Allwright (2013), who conducted research on financial misconduct in the public service and found that financial misconduct was rampant in government and the situation was worsened by the absence of consistent and appropriate sanctioning of officials.

## 6.6. Accountability

Accountability refers to instilling an irreproachable ethical conduct amongst politicians and the administration. There needs to be a desire and ability to act with integrity in compliance with the requirements of public accountability. Such values are embedded in the Constitution, the PFMA and the White Paper on Public Administration on Batho Pele Principles.

Line departments have a habit of viewing financial resources as a means to an end; an enabler to deliver more and higher-quality services, but are not often willing to put controls in place to ensure accountability for the spend. As a result, even though explicit sanctions on politicians and public servants for violating budgetary rules are stated in government's policy documents and law, they are seldom held responsible for the exercise of the authority provided to them. Internal accountability is accounting within the institution and includes accounting to the principals. The values of unauthorised, irregular and fruitless and wasteful expenditure indicate lack of internal controls. Lack of internal accountability is when the principals cannot hold their subordinates to account. On the other hand, the external accountability relates to accounting to the external stakeholder, like Parliament and the general public.

Stellenbosch University https://scholar.sun.ac.za



## 6.7. Transparency

Fiscal policy based on fiscal guidelines for South Africa: counter-cyclicality, long-term debt sustainability, and inter-generational equity principles support the New Growth Path by encouraging investment, lowering long-term interest rates and contributing to a competitive exchange rate National Treasury, 2013). It is also hoped that clear principles for fiscal policy will strengthen parliamentary oversight of the budget process, encourage greater transparency and enhance public accountability.

Furthermore, budget transparency refers to the extent to which the public is informed of the spending priorities, expenditures and underlying reforms in order for all interested stakeholders to monitor, evaluate, and hold government accountable. Apart from the Open Budget Transparency Index, other measures that affirm that the public is properly informed include the following:

- The budget documents are presented to the legislature for approval;
- There is frequency in the in-year reporting;
- The audit reports are made available to the public.

The use of MCA implies that the South African accounting system does not take into account the full value of costs and transactions. In addition to this, the MCA is not an international best-practice accounting system; therefore, it is not compatible with systems used in other countries and the private sector. This makes benchmarking with other countries and the private sector organisations impossible.

## 6.8. Credibility of the budget

Given the scope and significance of government budgets, small errors in forecasts can result in significant variations in the budget out-turns. To this end, basing spending and revenue projections on faulty economic assumptions is harmful. South Africa finds itself with increasing debt costs and widening debt-to-GDP ratio. The latter is due to incorrect assumptions about the economic growth, while the former is always as projected but is undesirable. To elucidate on the last point, as seen in Chapter 3, revenue projections are always lower than the expenditure projections, which leads to the accumulation of debt. Debt accumulation contradicts two of the three main economic principles of the South African fiscal policy, which are long-term debt sustainability and inter-generational equity. The former refers to spending levels which must ensure that debt and interest costs do not rise indefinitely, while the latter is concerned with the long-term costs of spending programmes.

Stellenbosch University https://scholar.sun.ac.za



Key to these discussions are the virements and the March spike. The former refers to a legislated process of shifting funds from one priority to the next, while the latter refers to the enormous expenditure at the end of the financial year. On the one hand, funds are shifted from transfers and subsidies and payment for capital assets towards compensation of employees. On the other hand, much of the expenditure on core budget is done in March. Lastly, regarding the payment of invoices within 30 days of receipt, the number and rand value of unpaid invoices is unacceptably high, and this speaks to inadequate internal controls and systems to track invoices and is exacerbated by inadequate consequence management. The analysis further shows that the credibility of government budgets is compromised by the phenomenon and unless they are addressed, the allocative and operational efficiencies of the budgets will always be compromised.

## 6.9. Conclusion

In conclusion, the pre-conditions for successful implementation of the public expenditure management systems include: proper governance; a culture of financial acumen; control systems; capable personnel with the required technical skills; and officials held accountable for their financial transgressions. To achieve this, South Africa has legislated the financial management of government finances through an Act of Parliament, the PFMA. The PFMA was first adopted in 1999 and governs financial transactions for both the national and provincial governments. At the local government level, the MFMA governs municipal financial transactions. In addition to these laws, there is a subordinate law, the Treasury Regulations, which compliments both the PFMA and the MFMA and gives substance to these laws. The Treasury Regulations are responsible for enforcing the 30-day rule for the payment of invoices by various government institutions.

The extensive fiscal pressures in South Africa have been caused by widening government debts that have been strongly influenced by the global economic recession; massive investment in social services; high unemployment rate; limited private-sector contribution to the economy; and poor performance by the primary sector, thus posing many challenges for the state. Consequently, the revenue generated is not sufficient to finance government expenditure. There is pressure on the government to continue increasing social services, financial markets are unstable and the value of the South African rand is weak. This negative impact of public debt on economic growth, as far as the policy perspective is concerned, strengthens the arguments for ambitious debt reduction through fiscal consolidation.

Stellenbosch University https://scholar.sun.ac.za



The findings of this research study have revealed that there is a need to balance revenue and spending, and address the composition of expenditure so that productive expenditure outweighs current expenditure by the government. Failure to address the current trajectory might result in South Africa reaching the sixty-percent (60%) ratio of debt to GDP, which is considered to be very high and unhealthy by rating agencies and the World Bank. The notion that change in the debt ratio and the budget deficits are linearly and negatively associated with growth (and with the long-term interest rates) may point to a more detrimental impact on the public debt stock even below the sixty-percent (60%) threshold. Therefore, targeting a higher debt level to support growth is not a policy option.

The rand exchange rate remains too high and the central bank is concerned that the long-term inflation trajectory remains uncomfortably fragile, with the risk of inflation compromising the value of the South African rand, thereby negatively impacting on South African consumers (National Treasury, 2015b). There is a need to ensure that the impact of inflation on spending and decisions to invest are minimised in order to maintain the purchasing power of expenditure.

## 6.10. Recommendations

The recommendations emanating from the study are the following:

1. The National Government budget should aim to maintain support for the economy and service delivery through stabilising public debt as a share of GDP by achieving a balance between revenue growth, borrowing and growth in spending. This can be achieved by aligning the budget to the priorities of government (NDP and MTSF), and on the basis of evidence of programme effectiveness and an appropriate balance between capital and current spending. With the government facing a spending ceiling, opportunities for expanding and improving service delivery will need to be financed within existing allocations. A combination of placing a continued emphasis on spending efficiency and effectiveness is referred to as value for money. Those programmes that are not performing, and are no longer significant or are not a priority, must have their allocations reduced. This will ensure aggregate fiscal discipline.
2. There is a need for legislation that would prohibit the March spike and enforce tighter controls that will limit the use of virements. These practices overstate expenditure by the end of each financial year.

Stellenbosch University https://scholar.sun.ac.za



3. The composition of expenditure as discussed in Chapter 4 shows that government expenditure is skewed towards compensation of employees. In addition, the analysis of virements in Chapter 3 shows that, even in-year, funds are shifted towards compensation of employees from transfers and subsidies. The National Government should maintain an aggregate spending ceiling in compensation of employees, i.e. no additional funds over and above the 2016 MTEF baselines of departments and public entities. To do this, a detailed analysis of CoE will be critical to determine pressure points and surpluses. Departments must undertake a detailed review of the performance of all their programmes, including that of Corporate Services, from a performance and cost effectiveness perspective. This will ensure allocative efficiency.

4. There is a need to minimise negative internal threats such as corruption. This will require that the government deals decisively with corruption and mismanagement of funds. To do this, control must be strengthened and a clear procedure for dealing with the consequences of financial transgressions set. This will ensure operational efficiency.

5. National departments must migrate to accrual accounting for the national government to attain value for money. Accrual accounting promotes transparency, a culture driven by performance and accountability, and a respect for costs.

6. The National Treasury must design the budget preparation process in a way that allows information from evaluations to be available at the right time and in the right format to assess new proposals and ongoing programmes. Without the information and a well-designed expenditure prioritisation process, ineffective, inefficient or low-priority programmes will continue to drain resources for years. The ongoing quest for the Department of Planning and Monitoring and Evaluations is to establish a good evaluation system, a system that will not only provide information to departments on how to improve their performance policies, but is also tailored to meet the needs of the political and budget decision makers at several key moments.

7. Expenditure reviews must be integrated into the mainstream budget process and must inform policy and decision makers about programme effectiveness and efficiency under current funding levels. In addition, expenditure reviews must be able to examine the consequences for outputs and outcomes of alternative funding levels.

Stellenbosch University https://scholar.sun.ac.za



# REFERENCES

Alam, A. Mokate, R. Plangemann, K. (2016). Making It Happen: Selected Case Studies of Institutional Reforms in South Africa. Directions in Development-Pubic Sector Governance. Washington, DC: World Bank. © World Bank. Retrieved from: https://openknowledge.worldbank.org/handle/10986/23739 License: CC BY 3.0 IGO.

Allan, K. & Heese, K. (2009). Understanding why service delivery protests take place and who is to blame. *Municipal. IQ.Sunday Independent.* Retrieved from: http://www.municipaliq.co.za/publications/articles/sunday_indep.pdf Accessed: 23 March 2016.

Allen, R. & Tommasi, D. (2001). *Managing Public Expenditure a Reference Book for Transition Countries.* Paris: SIGMA, OECD.

Allwright, P. (2013). *Financial misconduct in the public sector.* Presentation by Horizon Forensics Comprehensive Solutions. Retrieved from: http://www.skillssummit.co.za/presentations/2013/Peter_Allwright_presentation.pdf A ccessed: 4 February 2016.

Andrade, M., Cavalcanti, C., Boakye, D., Van Der Linde, G., Mbungu, M., Thomas, T., Gustafsson, A. & Cudjoe, S. (2004). *Public Expenditure Management Country Assessment and Action Plan (AAP) Ghana*. Prepared By the Staff of the World Bank and the IMF in Collaboration with the Ghanaian Authorities. World Bank.

Appiah-Adu, K. & Satyendra, S. (1998). Customer orientation and performance: A study of SMEs. *Management Decision Journal,* **36**(6), 385-394.

Archibald, V. (1994). *Accruals Accounting in the Public Sector*. Harlow Essex: Longman in association with The Civil Service College.

Athukorala, S.A. & Reid. B. (2003). *Accrual Budgeting and Accounting in Government and Its Relevance for Developing Member Countries*. Manila: Asian Development Bank.

Aucoin, P. (1990). Administrative Reform in Public Management: Paradigms, Principles, Paradoxes and Pendulums. Governance. *International Journal of Policy and Administration*, **3**(2), 115-137.

Babbie, E. & Mouton, J. (2004). *The Practice of Social Research.* Cape Town: Oxford University Press.

Stellenbosch University https://scholar.sun.ac.za



Baboojee, B. (2011). *Improving service delivery through changing from cash to accrual accounting: Lessons for South Africa based on a cross-national study.* South Africa: Stellenbosch University.

Behn, R. (1995). The Big Questions of Public Management. *Public Administration Review*, **55**(4), 313-23.

Benington, J. & Moore, H. (2010). *Public Value: Theory and Practice*. United Kingdom: Palgrave MacMillan.

Berry, W.D. (1990). The Confusing Case of Budgetary Incrementalism: Too Many. *Journal of Politics*, **52**(1), 167-196.

Bisseker, C. (2014). *SA's corporate tax must be competitive*. Retrieved from: http://www.financialmail.co.za/fmfox/2014/02/06/sa-s-corporate-tax-must-be-competitive Accessed: 2 February 2016.

Boyle, R. (1991). *Managing devolved Budgets -The Civil Service Experience*. Dublin: Institute of Public Administration.

Burger, A. (2014). *Orientation to Research Methodology presentation.* Paper presented at the faculty of Economics and Management Sciences University of Stellenbosch. Retrieved from: www.ekon.sun.ac.za Accessed: 15 April 2016.

Cabinet Office (2006). The UK Government's approach to public service reform. *Prime Minister's Strategy Unit.*

Calitz, E. Du Plessis, S. & Siebrits, K. (2013). *Fiscal sustainability in South Africa: Will history repeat itself?* Stellenbosch Economic working papers no. 07/13. Stellenbosch: University of Stellenbosch.

Castro, M. (2011). *Defining and Using Performance Indicators and Targets in Government M&E Systems.* Washington, DC*:* The World Bank.

Checherita, C. & Rother, P. (2010). *The impact of high and growing government debt on economic growth an empirical investigation for the euro area*. Frankfurt: European Central Bank.

Coats, D. & Passmore, E. (2008). *Public Value - The Next Steps in Public Service Reform*. London: The Work Foundation.

Department of Health. (2015). *National Health Insurance for South Africa: Towards Universal Health Coverage.* [Online] Available: https://www.health-e.org.za/wp-content/uploads/2015/12/National-Health-Insurance-for-South-Africa-White-Paper.pdf Accessed: 2 May 2016.

Stellenbosch University https://scholar.sun.ac.za



Department of Higher Education and Training. (2016). Discussion paper on affordability of higher education and training. Pretoria.

Djurović-Todorović, J. & Djordjević, M. (2009). The Importance of Public Expenditure Management in Modern Budget Systems. *Economics and Organization*, **6**(3), 281-294.

DPME. (2013). *State of management practices in the Public Service Results of management performance assessments for the 2012/13 financial year.* Pretoria: Government Printers.

Dunleavy, P., Margetts, H., Bastow, S. & Tinkler, J. (2006). New Public Management is dead - long live Digital-Era Governance. *Journal of Public Administration Research and Theory*, **16**(3), 467-94.

Dunn, W.N. (2013). *Public policy analysis.* London: Pearson Education Limited.

Eskom. (2013). Annual Perfomance Plan. Pretoria: Government Printers.

Fedderke, J. & Garlick, R. (2008). Infrastructure Development and Economic Growth in South Africa: A review of the accumulated evidence. *Economic Research Southern Africa*. Policy Paper No 12.

Fozzard, A. & Foster, M. (2001). *Changing Approaches to Public Expenditure Management in Low-income Aid Dependent Countries*. Finland: World Institute for Development Economics Research.

Gains, F. & Stoker, G. (2008). *How Politics Works: Understanding the New Realities of the Political Process in Public Management.* London: The Work Foundation.

Ghosh, S. & Gregoriou, A. (2008). The composition of government spending and growth: Is current or capital spending better? *Oxford Economic Papers*, **60**(3), 484–516.

Gildenhuys, J.S.H. (1993). *Public financial management.* Pretoria: Van Schaik.

Granof, M.H. (1998). *Government and not for profit accounting – Concepts and practices.* New York: John Wiley and Sons.

Grizzle, G.A. & Pettijohn, C.D. (2002). Implementing Performance-Based Program Budgeting: A System-Dynamics Perspective. *Public Administration Review*, **62**(1):51-62.

Gupta, S., Clements, B., Baldacci, E. & Mulas-Granados, C. (2005). Fiscal policy, expenditure composition, and growth in low-income countries. *Journal of International Money and Finance*, **24**(3), 441–63.

Stellenbosch University https://scholar.sun.ac.za



Heller, P. (2005). Back to basics – *Fiscal Space: What it is and how to get it', Finance and Development*, **42**(2).

Hood, C. (1995). The new public management in the 1980s: Variations on a theme. *Accounting, Organizations and Society*, **20**(2-3), 93-109.

Houston, J.G. (1999). *Correctional management: Functions, skills and systems.* Chicago: Nelson-Hall series in Law, Crime and Justice.

Katz Commission. (1994). *Final Draft Report of the Joint Standing Committee on Finance on the Third Interim Report of the Katz Commission of Inquiry into Taxation*. Pretoria: Government Printers.

Leibbrandt, M., Woolard, I., Finn, A. & Argent, J. (2010). Trends in South African Income Distribution and Poverty since the Fall of Apartheid. *OECD Social, Employment and Migration Working Papers, No. 101.* Retrieved from: doi:10.1787/5kmms0t7p1ms-en Accessed: 3 March 2016.

Mackay, K. (2007). *How to Build M&E Systems to Support Better Government. Independent Evaluation Group.* Washington, DC: The World Bank.

Marcel, M. (2014). Budgeting for fiscal space and government performance beyond the great recession. *OECD Journal on Budgeting*, **13**(2). [Online] Available: http://dx.doi.org/10.1787/budget-13-5jz2jw9t0pd3 Accessed: 12 April 2016.

Melkers, J.E. & Willoughby, K.G. (2005). Models of Performance-Measurement Use in Local Governments: Understanding Budgeting, Communication, and Lasting Effects. *Public Administration Review*, **65**(2), 180-190.

Messner, J. 2015. Fragile States Index. The Fund for Peace. Washington, D.C. http://fsi.fundforpeace.org/

Messner, J.J., Haken, N., Taft, P., Blyth, H., Lawrence, K., Pavlou, S., Umaña, F. (2015). *Fragile States Index 2015.* Washington, DC: Fund for Peace.

Ministry of Finance. (2006). *Handbook on Performance Management.* Finland: Ministry of Finance.

Moore, M. (1995). *Creating Public Value: Strategic Management in Government*. Cambridge, MA: Harvard University Press.

Moreno-Dodson, B. (2013). *Is Fiscal Policy the Answer? Developing Country Perspective.* Washington, DC: The World Bank.

Myers, M.D. (2009). *Qualitative Research in Business & Management*. London: Sage.

Stellenbosch University https://scholar.sun.ac.za



Myrdal, G. (1968). *Asian Drama: An Inquiry into the Poverty of Nations, Volumes I-III*. New York: Pantheon Books.

National Treasury. (2007). *The Framework for Managing Programme Performance Information.* Pretoria: National Treasury.

National Treasury. (2008). *Republic of South Africa Public Expenditure and Financial Accountability* (Report). Ecorys Nederland BV.

National Treasury. (2010). *Budget Review.* Pretoria: National Treasury.

National Treasury. (2012). *Budget Review*. Pretoria: National Treasury.

National Treasury. (2013). *Budget Review*. Pretoria: National Treasury.

National Treasury. (2014). *Budget Review*. Pretoria: National Treasury.

National Treasury. (2015a). *Budget Review*. Pretoria: National Treasury.

National Treasury. (2015b). *National estimates of expenditure.* Pretoria: Government printers.

Nene, N. (2015). *Medium Term Budget Policy Statement speech*. [Online] Available: http://www.treasury.gov.za/documents/mtbps/2015/mtbps/speech.pdf Accessed: 21 March 2016.

Neuman, W.L. (2003). *Social Research Methods Qualitative and Quantitative Approaches.* Boston: Allyn and Bacon.

Ngandu, S., Garcia, A. & Arndt, C. (2010). *The economic influence of infrastructural expenditure in South Africa: A multiplier and structural path analysis.* Paper presented at the Development Policy Research Unit, Employment Promotion Programme and Trade & Industrial Policy Strategies Conference, Johannesburg.

Niven, P.R. (2003). *Balanced Scorecard: Step-by-Step for Government and Non-profit Agencies.* New York: John Wiley & Sons.

Organisation for Economic Co-Operation and Development (OECD). (2007). *Performance Budgeting in OECD Countries*. Paris: OECD.

Orr, K. & McAteer, M. (2006). Public Participation in Scottish Local Government: Strategic and Corporate Confusions. *Public Money and Management,* **26**(2), 131-138.

Osborne, D. & Gaebler, T. (1992). *Reinventing government: how the entrepreneurial spirit is transforming the public sector Reading*. Massachusetts: Addison-Wesley.

Stellenbosch University https://scholar.sun.ac.za



Paterson, J. (1988). A Managerialist Strikes Back. *Australian Journal of Public Administration*, **47**, 287-95.

Pauw, J.C., Woods G., Van der Linde, G.J.A., Fourie, D. & Visser, C.B. (2002). *Managing public money: A system from the south*. Sandown: Heinemann.

Philip, L.J. (1998). Combining quantitative and qualitative approaches to social research in human geography - An impossible mixture? *Environment and Planning Journal*, **30**(2), 261-76.

Premchand, A. (1993). *Public Expenditure Management.* Washington, DC: IMF.

Public Service Commission (PSC). (2015). *Evolution of monitoring and evaluation in the South African public service.* Pretoria: Government Printers.

Quist, R.C. & Dendura, J. (2008). *Public Financial Management Performance Assessment Report.* European Commission.

Quist, R.E., Certan, C. & Dendura, J. (2008). *Republic of South Africa Public Expenditure and Financial Accountability*. The Netherlands: ECORYS Nederland BV.

Rajaram, A. & Mallika, K. (2001). Public Expenditure Management and Accountability: Evolution and Current Status of World Bank Work. *Poverty Reduction and Economic Management Network Operation Policy and Country Services Network*. Parliament of Canada. OECD.

Republic of South Africa (RSA). (1996). The Constitution of the Republic of South Africa Act 108, of 1996 (laws). Pretoria: Government Printers.

Republic of South Africa (RSA). (1997). *White Paper on Transforming Public Service Delivery.* Batho Pele White Paper. Pretoria: Government Printers.

Republic of South Africa (RSA). (1999). Public Finance Management Act (PFMA) 1, of 1999: Treasury regulations (as amended in Government Gazette No. 25915 of 2004). Pretoria: National Treasury.

Republic of South Africa (RSA). (2000). *Promotion of Access to Information Act 2 of 2000*. [Online] Available: http://www.parliament.gov.za/live/content.php?Category_ID=74 Accessed: 24 April 2016.

Republic of South Africa (RSA). (2005). *Treasury regulations.* Pretoria: National Treasury.

Republic of South Africa (RSA). (2012). *National Planning Commission - National Development Plan.* Pretoria: Government Printers.

Stellenbosch University https://scholar.sun.ac.za



Republic of South Africa (RSA). (2013). *White Paper on the Department of Public Works*. Pretoria: Government Printers.

Rieder, S. & Lehmann, L. (2002). Evaluation of New Public Management Reforms in Switzerland. *International Public Management Review*, **3**(2), 25-42.

Robinson, M. & Brumby, J. (2005). *Does Performance Budgeting Work? An Analytical Review of the Empirical Literature*. Washington, DC: IMF.

Robinson, M. (2013). *Spending Reviews in the OECD*. Third annual meeting of senior OECD budget officials, 3-4 June, 3-40. Paris, France: OECD library and information.

Roux, A. (2013). *Everyone's guide to the South African economy (11th ed.)*. Johannesburg: Random House Struik.

Schacter, M. (2006). *The Worth of a Garden Performance Measurement and Policy Advice in the Public Service.* Canada: Treasury Board Secretariat.

Scheps, P. (2000). *Linking Performance Measures to Resource Allocation*. Texas: Dallas County Printers.

Schick, A. (1999). *A Contemporary Approach to Public Expenditure Management.* Washington, DC: World Bank.

Schwab, K. (2015). *The Global Competitiveness Report*. Geneva: World Economic Forum.

Scott, G. (2001). Getting the fuzzy end of the lollipop: The problems with devolved budgets in further education colleges. *International Journal of Educational Management*, **15**(5), 252-58.

Shadish, W.R., Cook, T.D. & Leviton, L.C. (1991). *Foundations of Program Evaluation. Theories of Practice.* Thousand Oaks CA: SAGE Publications.

Shah, A. & Von Hagen, J. (2007). *Budgeting and Budgetary Institutions.* Herndon, VA: World Bank.

Silverman, D. (2001). *Interpreting Qualitative Data: Methods for Analysing Talk, Text and Interaction (2nd ed.)*. London: SAGE Publications.

Starks, M. (1991). *Not for Profit - Not for Sale: The Challenge of Public Sector Management*. Oxford: Transaction Publishers.

Statistics South Africa (Stats SA). (2013). *Labour market dynamics in South Africa.* Pretoria: Government Printers.

Stellenbosch University https://scholar.sun.ac.za



Stebbins, R.A. (2001). *Exploratory Research in the Social Sciences*. Thousand Oaks: SAGE Publications.

Tanzi, V. (2006). *Fiscal Policy: When theory collides with reality.* Milan: Bocconi University.

Thomas, D. (2006). *A General Inductive Approach for Analyzing Qualitative Evaluation Data.* Australia: University of Auckland.

Transportation Research Board. (2010). *Target-Setting Methods and Data Management to Support Performance-Based Resource Allocation by Transportation Agencies*. Washington, DC: The National Academies Press.

Turcotte, J. (1999). *Bringing Administrative and Support Functions Under Performance-Based Program Budgeting.* Florida Legislature: Office of Program Policy Analysis and Government Accountability.

Van der Hoek, M.P. (2005). From Cash to Accrual Budgeting and Accounting in the Public Sector: The Dutch Experience. *Public Budgeting & Finance*, **25**(1), 32-45.

Van Der Merwe, E. (1993). *Is South Africa in a Debt Trap? Occasional paper 06*. South Africa: SARB. Retrieved from www.sarb.co.za Accessed: 5 May 2016.

Weiss, C.H. (1998). *Evaluation (2nd ed.)*. Upper Saddle River, NJ: Prentice Hall.

World Bank. (1998). *Public Expenditure Management Handbook*. Washington, DC: World Bank.

Yaisawarng, S. & Puthucheary, N. (1997). *Performance Measurement and Resource Allocation.* Australia: University of New South Wales.

Zagler, M. & Dürnecker, G. (2003). Fiscal policy and economic growth. *Journal of Economic Surveys*, **17**(3), 397-418.