

***Efficiency in the public sector: An analysis of
performance measurements employed by the Western
Cape Provincial Treasury***

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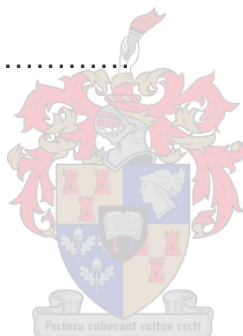
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March 2007

Declaration

I, the undersigned, hereby declare that the work contained in this thesis is my original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

Signature:

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Summary

Efficiency is an important measure to determine to what extent government achieved its goals. In this thesis various definitions of efficiency are discussed, the relationship between efficiency and performance, as well as performance measurement techniques. The objective of this document is to analyse the following four subject matters:-

- *What is meant by “efficiency” in the public sector.*

For the purpose of this discussion the definition of Gershon in his report for the British Treasury (2004: 6) is accepted and adapted.

- *To learn about the different techniques in performance measurement available to measure efficiency or performance.*

The measurement of performance is mostly used to determine the level of efficiency. Techniques available to measure performance are discussed, namely benchmarking analysis, which is subdivided into parametric or regression based estimators and non-parametric or mathematically programming estimators, as well as economic analysis.

- *To investigate practices and their relevance to the Western Cape Government, such as –*
 - *efficiency gains measures,*
 - *public expenditure tracking systems (PETS),*
 - *shared services practices, and*
 - *various privatisation practices.*

In PETS the flow of funds is traced from input to output stage in a specific project. It is mostly applicable to donor-funded projects in disadvantaged countries.

The sharing of services by more than one department is another practice, not widely used in the Western Cape, because of its slower processes (especially procurement). It also does not allow for full costing of a function.

Privatisation practices referred to are public-private partnerships, where the public and private sectors jointly deliver a service, and competitive contracting, where private competition is introduced into delivering a service. Very few PPP's have been implemented thus far in the country. Contracting out practices have been implemented, such as cleaning services, security, maintenance work and cafeteria services.

It is thus clear that only the British efficiency gains measures remains as an option. It is a straightforward way to introduce efficiency and require only the buy-in of management and politicians.

- *To determine what is being done to measure and improve efficiency from a Treasury perspective and how this relates to this investigation.*

In South Africa departments have to perform in terms of prior determined goals and strategic plans. Information on performance is received by means of strategic and annual performance plans, budget statements, quarterly performance plans, annual reports and the political oversight thereof, audit reports, research by Treasury officials and in-year monitoring reports. Treasury officials analyse the efficiency levels of departments in quarterly narrative and expenditure reports provided to departments and the Provincial Cabinet. Techniques such as benchmarking and ratio analysis techniques, as well as graphs, are used in the reports.

Treasury should thus, without interfering in departments' independent management powers, impact on spending to ensure that it is in accordance with credible budgets, within budgetary and legislative limits and the result of healthy budget management practices.

Opsomming

Effektiwiteit is 'n belangrike maatstaf om te bepaal in watter mate 'n regering sy doel bereik het. Verskeie definisies van effektiwiteit word in hierdie tesis bespreek, asook die verhouding tussen effektiwiteit en prestasie, sowel as tegnieke waarmee prestasie gemeet kan word. Die doelwit van hierdie dokument is om die volgende vier onderwerpe te ontleed:-

- *Wat beteken “effektiwiteit” in die openbare sektor.*

Insoverre dit hierdie bespreking aangaan, is Gershon se definisie van effektiwiteit soos gebruik in sy verslag aan die Britse Tesourie (2004: 6) met aanpassings aanvaar.

- *Om van die verskillende tegnieke in die meting van prestasie beskikbaar om effektiwiteit of prestasie te meet, te leer.*

Die meet van prestasie word meestal gebruik om die vlak van effektiwiteit te bepaal. Tegnieke beskikbaar om prestasie te meet word bespreek, naamlik beginpunt-ontleding, onderverdeel in parametriese of regressie gebaseerde skattings en non-parametriese of wiskundige programmeringskattings, sowel as ekonomiese onledings.

- *Om tegnieke en hul toepaslikheid op die Wes-Kaapse Regering te ondersoek, soos –*
 - *effektiwiteitswinsmeting,*
 - *openbare uitgawe naspoorstelsels,*
 - *gedeelde dienspraktyke, en*
 - *verskeie privatiseringspraktyke (in die besonder openbare-privaat praktyke en mededingende kontraktering).*

In openbare uitgawe-naspoorstelsels word die vloei van fondse vanaf die inset- tot die uitsetstadium in 'n spesifieke projek nagespoor. Dit is

meestal van toepassing op donateursbefondsde projekte in agtergeblewe lande.

Die deel van dienste deur meer as een departement is 'n ander praktyk wat nooit gewildheid verwerf het in die Wes-Kaap nie, weens die stadiger prosesse daarby betrokke (in die besonder die verkrygingsproses). Boonop bemoeilik dit die algehele koste-bepaling van 'n funksie.

Die privatiseringspraktyke waarna verwys word, is openbare-privaat vennootskappe waar die openbare en die private sektore gesamentlik 'n diens lewer, en mededingende kontraktering waar private mededinging gebruik word by die lewering van 'n diens. Baie min openbare-privaat vennootskappe is tot dusver in die land geïmplementeer. Uitkontrakteringspraktyke is geïmplementeer by skoonmaak- en sekuriteitsdienste, onderhoudswerk en kafeteriadienste.

Dit is dus duidelik dat slegs die Britse effektiwiteitswinsmeting as 'n keuse oorbly. Dis 'n makliker en eenvoudige manier om effektiwiteit bekend te stel en benodig slegs die samewerking van bestuur en politici.

- *Om te bepaal wat gedoen word om effektiwiteit te meet en te verbeter vanuit 'n Tesourie-oogpunt en hoe dit op hierdie ondersoek van toepassing is.*

In Suid Afrika moet departemente presteer ingevolge voorafbepaalde doelwitte en strategiese planne. Inligting oor prestasie word ontvang in strategiese en jaarlikse prestasieplanne, begrotingsverklarings, kwartaallikse prestasieplanne, jaarverslae en die politieke oorsig daarvan, ouditverslae, navorsing deur Tesourie beamptes en binne-jaar moniteringsverslae. Tesourie beamptes ontleed die effektiwiteitsvlakke van departemente in kwartaallikse geskrewe en uitgawe verslae aan

departemente en die Provinsiale Kabinet. In die verslae word beginpunt- en verhoudingsontledingstegnieke sowel as grafieke gebruik.

Tesourie behoort dus, sonder om in departemente se onafhanklike bestuursbevoegdhede in te meng, 'n impak te maak op departemente se uitgawes om te verseker dat uitgawes op geloofwaardige begrotings berus, binne begrotings- en wetlike raamwerke is en gegrond is op gesonde bestuurspraktyke.



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Chapter 1

1. The need for efficiency

This chapter provides the background or rationale of the thesis, including the research questions, the research design and the research methodology.

1.1 Introduction

Worldwide the increasing demand for government services and the financial restraint required because of insufficient funding highlight the need for *inter alia* maximising efficiency when using public sector resources. Apart from obtaining a clear understanding of what efficiency means, the challenge is to have the ability to apply and measure the concept in government surroundings, especially from a treasury perspective.

Efficiency is an important measure for government to measure performance and to determine to what extent it achieved its goals. Various definitions of efficiency are discussed in this thesis, the relationship between efficiency and performance, as well as performance measurement techniques. As a case study I analyse the in-year monitoring narrative report of the Western Cape Department of Health as well as a quarterly expenditure report to the Provincial Cabinet to determine, specifically from a treasury perspective, whether what is applied seems sensible in the Western Cape Province. In this first chapter the background or rationale to the study will be addressed, the questions, which are intended to be answered through the research, will be analysed, and finally the research design and research methodology will be discussed.

1.2 Background / rationale

Efficiency has for long been a concern in government in general and, since the introduction of the Public Finance Management Act (Act 1 of 1999) (PFMA), also in the South African Government. The PFMA (RSA, 1999) adopts an approach to financial management that focuses on outputs and responsibilities, in other words let the manager manage, rather than the rule-driven approach previously followed. Government's focus shifted from an input based evaluation of expenditure to an output based evaluation, while the manager of a department has the responsibility for his/her own department's performance. Section 38(1)(b) of the PFMA (RSA, 1999:45) clearly makes the accounting officer "responsible for the effective, efficient, economical and transparent use of the resources of the department".

In terms of expenditure control, it is, furthermore, important, especially from a treasury point of view, to be able to measure whether funds have indeed been spent efficiently. To ensure the measurement of efficiency, the in-year gathering and collation of non-financial information on the services delivered has become a requirement. Only through assessing the quality of the services delivered could it be established whether the Public Sector derives maximum value from every Rand spent.

Matters relating to efficiency are not unique to South Africa. The Canadian Auditor-General (Efficiency In Government: A Special Study, 1990 Report of the Auditor-General of Canada, Chapter 8) highlighted some problems regarding this approach in his Study of Procedures in Cost Effectiveness (SPICE), when reporting that:

- "in most operations we audited, management did not know the actual level of efficiency or how much it might be increased";

- “most of the performance measurement systems reviewed did not play an important part in the program management process”.

1.3 Research questions

Efficiency is generally described as achieving the maximum output from a given level of input. The relationship between output and input has some relevancy on the level of efficiency. The easy definition for efficiency is thus the higher the ratio output/input, the greater the efficiency. The objective of this document is -

- to investigate what is meant by the term “efficiency” in government;
- to explore the contribution that measurement of efficiency makes to performance measurement;
- to investigate practices followed elsewhere to measure and enhance efficiency and to determine their relevance for the Western Cape Government. These include:
 - Efficiency gains measures;
 - Public expenditure tracking systems (PETS);
 - Shared services practices, and
 - Privatisation practices.
- to analyse what is being done to measure and improve efficiency in the Western Cape from a treasury perspective and how this approach is in accordance with the methodology followed in the present investigation.

1.4 Research design

The research will firstly focus on the meaning of the term efficiency by means of a desktop study of the different types of efficiency that have been defined in literature. Secondly, different techniques will be scrutinised to measure efficiency. Thirdly, by means of a non-empirical desktop study, the following will be investigated -

- efficiency gains measures as introduced by the British Treasury,
- Public expenditure tracking systems (PETS);
- Shared services practices, and
- Privatisation practices.

Lastly, by means of a case study, an analysis will be done on whether and how these techniques have been applied to the Western Cape and how the Provincial Treasury goes about measuring efficiency. Some further recommendations in this regard will be made in the final chapter.

1.5 Research methodology

A desktop study will be undertaken to determine – by means of a non-empirical investigation from various documents, and also information gathered on the internet – what the different definitions of efficiency are. The objective is to analyse and define efficiency in a public sector context. Subsequently, specific techniques used nationally and internationally by governments are investigated to measure efficiency. Thereafter, the theoretical practices in South Africa will be compared to the international practices to determine possible gaps in terms of theory relating to measuring efficiency from a treasury perspective, as outlined in policy documents, strategic plans and budget statements, and how the Department of Health complies in the above respect. Possible gaps in terms of practice will subsequently be identified.

1.6 Overview

To provide an overview of the thesis a brief description of what will be discussed in each of the next four chapters is provided below.

Chapter 2 will provide the theoretical background to the study by scrutinising various definitions of efficiency. Performance measurement practices will be discussed to enable the reader to understand how efficiency could be measured.

In Chapter 3 some practices implemented to improve efficiency in public service will be discussed. The reason for incorporating these techniques into the study is because of their perceived relevance in the improvement of the efficiency levels in government.

To provide some particular focus to the study, Chapter 4 will only cover two reports, the In-year Monitoring (IYM) narrative report based on information by the provincial Department of Health and a quarterly expenditure report to the Provincial Cabinet, to indicate how the Western Cape Treasury analyses numbers and information. This will provide an example of how the Provincial Treasury approaches the notion of efficiency.

The objective of the last chapter, Chapter 5, will be to fill any possible gaps and to provide some recommendations on how the Provincial Treasury could improve its performance management ability.

1.7 Summary

Chapter 1 sets the background and rationale for the study. It outlines the research question, design and methodology of the study. The next chapter will define efficiency, the key term upon which the study is based. It will also describe how efficiency could be measured by means of performance measures. Lastly, it will discuss the importance of service delivery against a public sector background.

Chapter 2

2. The importance of efficiency in government

Chapter 2 provides the theoretical background and overview of the thesis. The chapter analyses aspects of efficiency in government and performance measuring techniques from a theoretical perspective.

2.1 Introduction

Chapter 2 provides the theoretical background to the study by scrutinising various definitions of efficiency. Performance measurement techniques are discussed to enable the reader to understand how efficiency could be measured.

Efficiency relates to the cost of a service compared to the eventual service delivered. If one accepts that the level of service delivery remains constant, there are basically two means by which treasuries are able to lower the cost of such service delivery. Firstly, items of expenditure could be directly controlled and the authority of departments to spend on personnel services, supplies, and other operating inputs restricted. Alternatively, departments may be granted greater operating discretion within fixed budgeting limits. The first option provides treasuries greater involvement in the details of expenditure, while the latter requires it to withdraw from most of the details, seeking efficiency in the allocation of public resources. The latter clearly represents the spirit of the PFMA (RSA, 1999: 28), as stipulated in section 18(1)(a) that “a provincial treasury must prepare the provincial budget”, while in terms of section 38(1)(b) “the accounting officer for the department is responsible for the effective, efficient, economical and transparent use of the resources of the department.”

As discussed in the previous section, the role of treasuries in terms of the PFMA (RSA, 1999) is to withdraw from the detail management of a department or spending agency and instead to focus on outcomes or results. Departments, on the other hand, need to become accustomed to their responsibilities regarding the expenditure of funds.

In this regard, efficiency should not only be a measurement of budget against expenditure, but also of whether departments deliver on their initial goals and objectives. It thus requires measurement instruments that focus on output and outcome based on targets determined at the start of the process or period, as opposed to merely measuring financially the relevant expenditure against budget. A clear understanding of the meaning of efficiency and specific practices to progressively measure and enhance efficiency in the public sector is thus needed.

The aforementioned provides the context to the discussion throughout the rest of the chapter. Different concepts of efficiency are discussed, followed by graphical explanations of the different types of efficiency. To indicate the universal meaning of efficiency, public and private efficiency is compared with each other. A government definition is determined, whereafter a discussion follows on the need for government intervention in delivering services. Some principles of efficiency are discussed, followed by a discussion on the link between efficiency and performance. The measuring of performance will provide information on the level of efficiency in government. Various performance measurement techniques are briefly discussed.

2.2 Defining efficiency in government

Before providing any detailed analysis of efficiency, a brief definition will firstly be discussed. In its Western Cape Expenditure Review 2004 working paper, the Provincial Treasury describes efficiency as “achieving the maximum outputs from a given level of resources used to carry out an activity”. It thus seems as if the relationship between outputs, in terms of goods, services or other results, and resources used to produce them, determines the level of efficiency. Abedian & Biggs (1998: 481) defines efficiency as the optimal employment of resources over time. It is a measure for government to examine how well it is performing the tasks it is supposed to do within a given time frame, without any regard of whether the right things are being done. In what follows in this chapter, various comparisons and definitions of efficiency will be compared.

2.2.1 Engineers vs. economists

Different fields of study have different interpretation of the same terminology. Regarding efficiency, Dollery (2005) discusses the different perceptions between engineers (from a production side) and economists (from a theoretical and financial perspective). An engineer would typically regard efficiency as an indication that output from a given input is maximised. An economist, on the other hand, would define efficiency in terms of output reflecting a consumer's preferences in terms of price and scarcity of the product. Appropriateness and effectiveness have a role to play in the economist's view of efficiency. In general, however, most observers would share the engineer's viewpoint.

2.2.2 Quality and Efficiency

Potter & Smedley (2006) integrated efficiency with quality by defining efficiency “as making the best use of the resources available for the

provision of public services”. This ties in with the British Government’s emphasis on using resources saved through improved productivity to rationalise ‘back office’ functions, thus delivering higher levels of services.

To further explain the link between efficiency and quality, Potter & Smedley (2006) identified four ways of achieving efficiency. According to them efficiency is improved when:

- Lower inputs in terms of money, people, assets, etc, are used, while outputs remain on a similar level.
- Prices of procurement, labour costs, etc., are reduced, while outputs are maintained constant.
- Output is increased or quality improved, while keeping input constant.
- The increased output or improved quality result in a proportionally smaller increase in resources than the increase in output.

To fully understand the above, a clear understanding is required of what is meant by quality. Potter & Smedley (2006) define quality in terms of the following:

- “Technical issues”: Where quality is measured in terms of service outputs assessed against a defined input.
- “Standards”: A standard, i.e. the level of technical performance.
- “Customer”: How quality meets the customer’s aspirations, which may include accessibility, effectiveness, acceptability, equity, responsiveness, timeliness, reliability and openness.
- “Value for money”: Where the level of expenditure at which the service is delivered, is acceptable.

2.2.3 Efficiency and productivity

Salerno (undated) refers to terms being used interchangeably, such as productivity and efficiency, assuming they are equivalent, when in fact they are distinctly different. Salerno defines productivity as “the ratio of output produced to physical inputs used”. Efficiency is seen as an index of productivity. Productivity is a value assigned to the rate at which inputs are converted into outputs and efficiency is a ranking of different values.

The Auditor-General of Canada (1990) examined efficiency in terms of productivity, but expanded its scope by stating that efficiency is the comparison of productivity (output to input) with a performance standard.

Meyer (1986) said that efficiency implies a 'through-put' view of productivity, i.e. outputs divided by inputs. This is viewed in terms of well-structured tasks (such as administrative typing and filing), in which inputs and outputs are measurable. According to this study efficiency is sometimes called 'productivity'. It is achieved through the reduction of the cost of business transactions through mechanisation or automation. This measurement is generally only applicable to well-structured and routine administrative tasks.

Abedian & Biggs (1998: 483) referred to the statement by Fabricant that “productivity refers to a comparison between the quantity of goods produced and the quantity of resources employed in turning out these goods and services”.

2.2.4 Efficiency and employee performance

By bringing productivity into play when discussing efficiency, it is clear that production factors play a role in determining the level of efficiency. The Canadian Auditor-General (1990) discussed the notion that improving what he called 'operational' efficiency, often meant dealing with technical and human complexities. To improve efficiency it is thus necessary to improve

these resources. New computer hardware and software may well assist in the automation of tasks, allowing organisations to move toward more efficient, cost-effective operations. This would ensure a better motivated and capacitated workforce, which will contribute to better teamwork, less “red tape”, a common understanding of the department's goals and mission and a lower rate of staff turnover – thus a more productive workforce.

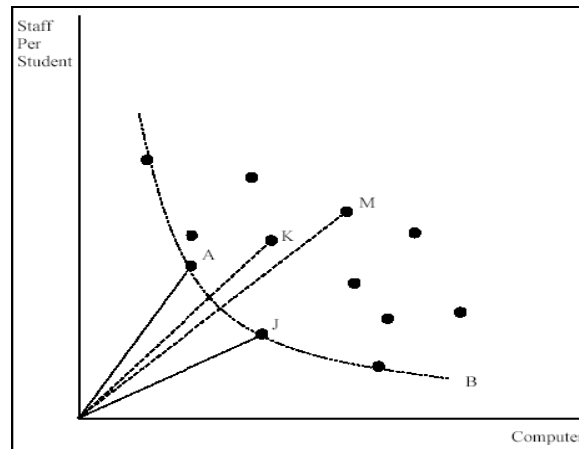
Not all tasks undertaken by employees can, however, be measured, as not all employees perform structured work. Meyer (1986) refers to managers and professionals performing relatively unstructured, non-routine work, which incorporates the making of decisions as well as the concomitant effort in this regard. Their work is not amenable to measures of inputs and outputs. Very few managers can specify what a day of their time is worth, although the costs of time are clear. Thus administrative efficiency measures do not apply to managers and professionals.

2.2.5 Efficiency definitions, a graphic illustration

From an educational perspective, Salerno (undated) graphically illustrates three types of efficiencies relevant to this discussion. For the sake of simplicity, Salerno (undated) considered the case of one output (education) and two physical inputs, number of staff and number of computers. The two axis measure the inputs used per student. This is done so that institutions of different sizes can be compared. The least amount of input per output will determine efficiency. As may be deduced from these types of efficiency, the difference mainly lies in the level of perfection achieved. The basic concept remains unchanged:

- (a) **Technical efficiency:** A measure of the extent to which an institution efficiently allocates the physical inputs at its disposal for a given level of output. Graphically it is illustrated by line B in Figure 1 and any point on the line may be regarded as an acceptable combination of input.

Graph 1: Technical Efficiency

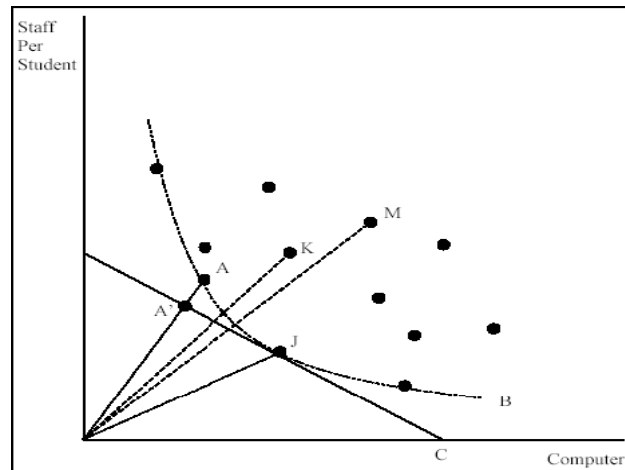


Graph by Salerno (undated).

From a health care perspective, Peacock, Chan, Mangolini & Johansen (2001), use technical efficiency to indicate how health care interventions, for e.g. the treatment of illnesses, are performed with the least amount of inputs. They regard efficiency as having two components, technical efficiency and allocative efficiency. Technical efficiency is achieved by applying cost-effective procedures with the least inputs. It is compared with allocative efficiency, which is attained by choosing a set of technically efficient programmes to achieve the best possible improvement for the population.

- (b) **Allocative or price efficiency**, according to Salerno (undated), measures the extent to which inefficiency occurs, because an institution is using the “wrong” combination of inputs in terms of purchase cost.

Graph 2: Allocative and Overall Efficiency



Graph by Salerno (undated).

In terms of the previous discussion, point A and A1 in Figure 2 would be regarded as technically efficient. However, when considering cost, A is not totally efficient, because it is operating above the cost line (line C).

From another viewpoint, Abedian & Biggs (1998: 481) see exchange efficiency (no further allocation of goods would raise welfare) and technical efficiency as two components of allocative efficiency. They regard allocative efficiency as the point when inputs are used in optimal proportions, given their prices, productivity and the preferences of society.

Peacock et al (2001) also used allocative efficiency in his health study, where he refers to a set of technically efficient interventions that would yield the highest possible number of improvements.

- (c) **Economic or overall efficiency**, as described by Salerno (undated), jointly considers technical and allocative efficiencies.

Thus, since point J in Figure 2 is on both lines, delivery is both technically and allocatively efficient, hence it is overall efficient.

According to Somanathan, Hanson, Dorabawila & Perera (2000) technical efficiency implies producing maximum output with given inputs, or as an equivalent, using minimum inputs to produce a given output. Production units that are economically efficient use the minimum cost combination of inputs. Technical efficiency is necessary, but not sufficient for economic efficiency.

- (d) Somanathan et al (2000) state that a service may be highly or absolutely efficient in a “macro” sense, in other words a large quantity of the service is produced with a minimum allocation of resources. However, there may be considerable variations in the performance of individual facilities, and it is thus possible to identify parts of the service that are “relatively inefficient” in relation to other comparable facilities.

2.3 Comparison between private and public sector efficiency

2.3.1 Introduction

To ascertain whether efficiency as applied in the private sector is fundamentally different from the application in the public sector, it is necessary to analyse how the term is applied in the two sectors.

The assumption has traditionally been that the private sector with its profit driven mentality is more efficient than government. Therefore, the general notion is that a service delivered by the private sector or in a profit driven way will automatically be efficient. Abedian, Strachan & Ajam (1998: 78) state that in the private sector a firm's performance could easily be evaluated by a single benchmark, namely the amount of profit it has

generated in a particular time period. This indicator captures both the efficiency of the production process, as well as the customers' perceptions of the quality. Public sector managers, on the other hand, often have no idea of the extent to which their efforts are contributing to government's goals and objectives or how performance could be evaluated.

2.3.2 Reflection on the private sector

To discuss the similarity between efficiency in the public sector compared to the private sector, it is revealing to observe the efficiency of commercial banks as discussed by Wheelock & Wilson (1995). In commercial banks efficiency is defined in terms of inefficiencies, where inefficiencies are seen as wasted resources, that is firms produce less than the feasible level of output from the resources employed, or are using more expensive combinations of resources to produce products or services.

According to Wheelock & Wilson (1995), the following types of efficiency are present in commercial banks:

- “Measured efficiency: the difference between observed input and output levels and the corresponding optimal values.
- Allocative efficiency compares the observed mix of inputs or outputs with the optimal mix that would minimize cost, maximize profit or obtain any other behavioural goal. Allocative efficiency can be combined with technical efficiency to measure overall efficiency.
- Scale efficiency involves comparison of the observed and optimal scale or size of the firm.
- Scope efficiency involves comparison of the cost of producing the observed mix of outputs in a single firm with the cost that would prevail if each output were produced in a separate firm.”

Mester (2003) refers to a further type of private sector efficiency, namely social efficiency, i.e. to minimise the costs borne by society for a given level of “output”.

2.3.3 Private versus public sector efficiency

After firstly discussing efficiency as seen from a public sector viewpoint, its application in the private sector was discussed in the paragraph above. It is interesting to also compare the two sectors with each other.

This will be done by referring to a discussion by Ferguson (1991), who drew a comparison between private and public sector efficiency. She regarded efficiency in the private sector as supported by competitive markets, the discipline of profit and loss, and the incentives to monitor. This is in agreement with Abedian et al (1998: 78) who wrote that in the private sector a firm's performance could be evaluated by the amount of profit it has generated in a particular time period.

Ferguson (1991), said that these issues are driving the accountability in terms of which private sector decisions are made. The difference between the two sectors is not only a matter of the difference in the quality of the managers they have. The perception that the public sector only needs to be run by more capable managers to work better, is according to Ferguson untrue. The private sector is not just efficient because it has superior managers, but the better managers are there *because* of the filtering mechanisms of competition. This ensures that only managers with the ability to make the correct decisions survive and prosper.

Although the private sector may be relatively more efficient in relation to the public sector, it does not mean that there are no cases of a lesser degree of success or poor performance in the private sector, nor cases of good performance in the public sector. The private sector, however, differs from the public sector in the sense that, because it is profit-driven, investments

based on bad decisions would not survive. In contrast, in the public sector, bad managers or politicians not wanting to admit that a certain project was actually a failure, can easily conceal their mistakes to prevent the negative effect it may have on their career(s).

Somanathan et al (2000) refer to two accounting cost studies regarding the relative efficiency of public and private providers. They referred to a study by Gilson, who compared the costs of government and mission dispensaries in one district of Tanzania with each other, finding that the costs were higher and service delivery lower in the mission facilities. The higher costs could be partially attributed to lower levels of utilisation. Somanathan et al (2000), furthermore, refers to a study by Bitran comparing public and private dispensaries in Senegal. Comparing the facilities that are most alike, Catholic dispensaries and government dispensaries, indicated that performance depended on the level of output of the facility. At lower levels of utilisation, government facilities have lower average cost, while at higher levels of output it appears as if the missionary dispensaries were more efficient. Although drug availability was better in the mission facilities, the quality of the process varied everywhere.

It thus seems as if the role of government in delivering a service should not necessarily be based on a measurement of the level of efficiency. Political decisions also play a role, based on the political system and the knowledge, insight and perceptions of politicians. It would, however, be the responsibility of officials to see that a service, if indeed delivered by the public sector, is delivered in the most efficient manner.

2.3.4 Efficiency – a government definition

Abedian & Biggs (1998: 484) referred to a discussion by Niskanen that bureaucrats are driven by factors such as salary, the size of the staff component and the staff complement's compensation, also reputation, power and status. A bureaucrat will not allocate resources to their optimum,

unless they enhance his or her own career, resulting in less efficient use of funds. It is said that when measuring efficiency in a public sector environment, cognisance should be taken of this factor.

In government there is a typical additional reality that certain services are required because of the need for these, regardless of whether or not it is profitable to deliver such services. In this regard Abedian & Biggs (1998: 479) refer to social efficiency, which is especially of importance in the public sector. The public sector's goal should be to provide public goods and services, but it should always pay regard to social factors, such as the contribution of a product to the community at large. As an example, the tarring of a road to a small town with 100 inhabitants may not be profitable at all, but the long-term result may have a very high social impact. The inhabitants of the town may for example be provided with better business opportunities, tourism possibilities and easier access to medical facilities. The tarred road would thus improve the living standards of the inhabitants.

For the purpose of this discussion the definition by Gershon in his report for the British Treasury (2004: 6) will be accepted and adapted. Efficiency in the public service thus comprises those reforms in processes of delivery and the use of resources that achieve -

- A reduction in the number of input whilst the same level of service provision is maintained;
- The payment of lower prices for the resources needed to provide the services;
- Additional outputs while utilising the same level of inputs;
- Improve the ratio of output per unit cost of input, and
- Enhance the social needs of the community.

2.3.5 Why is Government intervention necessary?

Although the study of efficiency has hitherto been undertaken under the presumption that the public sector is supposed to deliver certain services, it is not always a given fact. It is not a certainty that society at large would always benefit from government's interventions. What government tries to achieve and what actually happens on the ground may, in fact, be very far removed from each other. Similar to the free market system, failure may also be a feature in government because of insufficient funding, lack of motivation, insufficient capacity to raise revenue, and the multiplicity of needs that government must try to satisfy. This is why, in the next chapter, a discussion will follow on privatisation techniques used in the public sector to ensure delivery of service on a private sector basis.

Somanathan et al (2000) said that cost-minimisation is only one of the many possible objectives of the public sector. Cost minimisation is not always relevant in delivering a public service, because of so-called social efficiency. Government has a multiplicity of goals, which it needs to deliver. It may lead to compromises between, for example, improving access and minimising cost. Such incentives and constraints facing the public sector may lead to managerial behaviour, which is not consistent with cost-minimisation. Thus "efficient" production is not always a realistic policy goal. Government's objective should rather be to improve efficiency.

2.3.6 When should Government deliver a service?

Barrett (1999) referred to the perceived trade-off between accountability and efficiency in government. The Australian Government increasingly shifted its focus to privatisation and outsourcing of public sector services and activities. A framework was then developed to measure whether government needs to deliver a service. Barrett said that the following

framework of principles could be applied when determining whether the public or the private sector should deliver a service:

- Assess whether or not there is a role for government to play.
- If yes, decide which level of government, and assess whether or not government objectives are clearly specified and provided for.
- Assess whether or not activities are being conducted on a 'best practice' basis.

As stated by the World Bank in its expenditure policy (2005), there are two different types of justification for public sector interventions in public economics – firstly, to improve the distribution of income, and, secondly, to improve the efficiency of the economy. If government is to deliver a service, government should be able to demonstrate that it can adhere to either one of the aforementioned goals. To justify government's intervention in service delivery, the focus should thus be on government's ability to improve economic efficiency by utilising public funds.

2.3.7 Government self-assessment

According to Minogue (1998: 44), because public service managers “are given greater freedom to manage, they must, correspondingly, be under an obligation of accountability for their performance. This means meeting specified targets within specified resources. This can only be achieved through a system of performance management, involving performance agreements and performance targets. Monitoring will require a system of performance measurement, using performance indicators, and can be the basis for performance rewards and incentives”.

To view government's performance, it is necessary to take regard of how a government sees itself. In this regard, the South African Government submitted a self-assessment report to the African Peer Review Mechanism (APRM) that evaluates the country's progress against African Union targets.

Boyle, B. (2006) discussed the self-assessment report in an article in the Sunday Times. The report cites action against Travelgate Members of Parliament and former Deputy President Jacob Zuma as evidence of a commitment to clean government. Corruption in the public and private sectors has been identified as a problem facing democratic South Africa. Getting rid of corrupt leaders and managers is thus seen as a way of ridding itself of “bad” managers.

The assessment condenses South Africa's challenges from a government point of view to four key themes: poverty, unemployment, underdevelopment and HIV/Aids. Remedial measures are proposed under four themes — democracy and good political governance, economic governance and management, corporate governance and socio-economic development. In terms of the report these four themes thus indicate what needs to be achieved to ensure, amongst other, a more efficient level of government.

Boyle (2006) is of the opinion that the South African country self-assessment report is both critical and defensive of progress in South Africa since 1994. Government strongly argued that poverty levels in South Africa are declining whereas many civil society organisations and organised labour fiercely disputed this. Several provincial submissions suggested that Government has trouble implementing its good policies, has poor inter-governmental communication, offers uncoordinated and duplicated assistance efforts to communities and suffers from capacity and skills deficits. Thus, although the SA Government is of the opinion that its level of performance is overall positive, it does not necessarily agree with the public's perception. It is not clear whether Government is indeed as good as it perceives itself to be.

This is where the aspects as previously mentioned, which have been listed in the document ‘Serving the American Public: Best practices in

Performance Measurement, Benchmarking study report, June 1997', is of importance to ensure improved service delivery, namely:

- Financial considerations: Government should ensure efficient, effective and economical use of available funds.
- Customer satisfaction: Are the citizens really happy with the service they receive from the public sector?
- Internal business operations: Eliminate corrupt and overly bureaucratic services.
- Employee satisfaction: is the average public sector employee happy in the service?
- Community satisfaction: Is the community at large happy with the way in which the country is administered?

2.4 Efficiency principles and measures

2.4.1 Efficiency: Some basic principles

It is now clear that efficiency relates to the ratio between input and output. Furthermore, there are varying levels of efficiency, depending on the level of exactness. To ascertain what is expected from efficiency, it is thus necessary to put some principles on the table.

The British Government Guide to Completing Annual Efficiency Statements for the Department of the Premier (2006) lists some principles of efficiency. The following are relevant to this discussion:

- “Efficiency is about raising productivity.” In this regard Mester (2003) refers to efficiency as “a measure of the deviation between actual performance and desired performance.”
- “Even if expenditure rises or is held constant, there can still be efficiency.”

- “Not everything that leads to reduced cost is necessarily efficient.” In this regard the Auditor-General of Canada (1990) said that "a service provided at a lower cost is not more efficient if the service level is reduced or the quality of the service has been lowered to an unacceptable level.”
- “Improvements in the quality of service may be due to efficiencies.”
- “Improved outcomes are not necessarily an efficiency indicator.”
- “To drop standards, cut services or reclassify services are not efficiency gains.”
- “Efficiency is about measuring yourself against your previous performance.”
- “Efficiency gains may be generated by delivering services in partnership with another body.” Note later discussions on public-private partnerships in this regard.
- “An important way of achieving efficiency is by improving performance while keeping costs constant.”

2.4.2 Characteristics of measures to improve efficiency

Somanathan et al (2000) state that, before implementing ways to improve the efficiency of public service delivery, there should be some means to measure the current level of service delivery. This is relevant to a previous statement by Mester (2003) that efficiency is “a measure of the deviation between actual performance and desired performance”. As Somanathan et al (2000) said, such means or measures need to be easily collectable. It should provide information on the monitoring of overall performance trends.

According to the Office of Procurement and Assistance Management, USA, (2005) efficiency measures need to be -

- ‘Controllable’ – a minimum of outside influences should be involved.
- ‘Simple’ – it must be easily understandable and measure only one matter at a time.
- ‘Timely’ – it should measure current performance.
- ‘Accurate’ – it needs to be reliable and precise.
- ‘Cost-effective’ – it must be inexpensive enough to make collecting such data worthwhile.
- ‘Useful’ - the data should assist in improving the management of the business.
- ‘Motivating’ – the targets achieved have to improve the business.

2.5 From efficiency to performance

2.5.1 Introduction

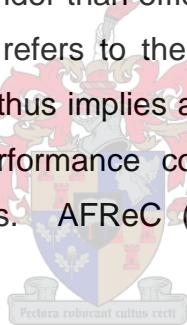
Performance is mostly used as the measure to determine the level of efficiency. It is thus necessary to put efficiency in context with performance to determine the link between efficiency and performance.

Dollery (2005) says that efficiency relates to the use of resources in producing goods or services. To measure efficiency, therefore, requires a focus on the provision of a specified volume and quality of service using the lowest level of inputs capable of meeting that specified output. Financial indicators would consequently be the accepted means of reflecting efficiency. Salerno (undated) writes that “the main indicators of efficiency are usually unit cost per unit of service or partial productivity measures, such as service per employee”. Such measurements can be easily applied in a manufacturing unit, but is not relevant when trying to measure a

government department's level of efficiency. As the main goal of the public service is the delivery of a service to the citizens, it is not always possible to measure input versus output. This is why it is necessary to measure an organisation's performance in order to determine whether it is functioning efficiently.

2.5.2 Efficiency in context with performance

According to Premchand (1993: 194) any effort aimed at measuring the performance of an organisation is intended to provide a basis for assessing the efficiency with which that performance has been accomplished. Efficiency is seen as a rather narrower concept than performance. It is an expression of the relationship between the resources used and the outputs achieved. Performance is wider than efficiency, but it includes the latter. In addition, performance also refers to the quality of the contribution of the organisation. Performance thus implies a level of accountability in terms of the results achieved. Performance covers the concepts of economy, efficiency and effectiveness. AFReC (Pty) Ltd. (2000) refers to these components as follows



- *Efficiency*: “How well resources are being used to produce goods and services”.
- *Effectiveness*: “The extent to which the policy objectives are achieved”.
- *Economy*: “The extent to which the cost of inputs is minimised”.

From a treasury perspective it is necessary to better explain the relationship between efficiency and performance in terms of government's performance budget reforms. In Part 2 of the Western Cape Provincial Treasury's template for preparing the quarterly performance reports (2005) it is stated that “budgeting and financial management involves a process of policy

formulation, developing current and future plans and deciding on the best strategy to deliver services to the public. The monitoring and evaluation of performance and the reporting thereon in the annual report completes the process and also informs future planning. Integrating strategic planning, budgeting and monitoring of service delivery performance enhance the link between the services that the department provide and the benefits and cost of such services. This would invariably provide detail as to what the department has achieved with the resources allocated to it from the fiscus and it would also reinforce accountability and transparency in public reporting. It is therefore required that departments strive for alignment between the quarterly reports, annual reports and strategic plans to the extent possible, as this will facilitate performance measurement and efficiency over time”.

2.5.3 The measurement of performance

In a discussion in Australia on the Performance Measurement of New South Wales Government Businesses, the Steering Committee for the Review of Commonwealth/State Service Provision (1998: 1) defines performance as "how well a service meets its objectives, given the external constraints placed on it". The measuring of performance in the public service will thus provide information on the implementation of policy and indicate to management the level of efficiency of a department. Furthermore, it would indicate where productivity improvements are necessary. Performance measurement will also assist in prioritising resources between competing needs based on performance and requirements.

According to Abedian et al (1997: 101) performance information is a management and transparency tool. Where governments in the past focused on assessing the inputs of various departments, such as money, staff and other resources, they should now concentrate on outputs and outcomes.

The Office of Procurement and Assistance Management, USA, (2005) define performance as “a process of assessing progress toward achieving predetermined goals, including information on the efficiency with which resources are transformed into goods and services (outputs), the quality of those outputs (how well they are delivered to clients and the extent to which clients are satisfied) and outcomes (the results of a program activity compared to its intended purpose), and the effectiveness of government operations in terms of their specific contributions to program objectives.”

In the document, ‘Serving the American Public: Best practices in Performance Measurement, Benchmarking study report, June 1997’, the authors, the National Performance Review Committee, state that a high level of performance can only be achieved and attained through performance measurement and performance management systems. As President Bill Clinton said on signing the US Government’s Performance and Results Act (USA: 1993), performance measures should -

*. . . **chart** a course for every endeavour that we take the people’s money for, see how well we are progressing, tell the public how we are doing, stop the things that don’t work, and never stop improving the things that we think are worth investing in.*

The document quoted above adds that performance measurement systems should not be used to compile unnecessary data, but should provide management with information and intelligence for decision-making purposes. Performance measures should relate to a department’s strategic goals and objectives and indicate progress made toward achieving these predetermined goals. The measures should indicate how well a program has achieved its intended purpose and whether activities and operations contributed to the program objectives. Performance measurement enables the organisation to track progress and direction toward fulfilling its strategic goals and objectives.

As mentioned by the US Government document (1997), public service departments should be interested in the following aspects of performance, which would ensure improved service delivery:

- “financial considerations
- customer satisfaction
- internal business operations
- employee satisfaction
- community satisfaction.”

The measuring of these areas of performance will contribute to a successful performance measurement system.

The US Government document (1997), furthermore, as already previously discussed, refers to profit as the principal measure of successful performance in the private sector. In the public sector, on the other hand, such straightforward and widely accepted measure of performance is not attainable. In the public sector performance needs to be judged against the initial goals of a department and whether the department performed in such a way that the desired results and outcomes have been achieved. The public sector has to improve its operations and ensure delivery of products and services at a more efficient level and at the lowest cost to the taxpayer. Performance measurement is a useful tool in this regard, since it formalises the process of tracking progress toward achievement of the initially established goals. Through eventual improved management decisions, performance measurement could assist in improving the quality and cost of government activities.

It should, however, be noted that not every public sector field of interest is measurable. According to Meyer (1986) there are cases in which no tangible measures of results are available. As an example he states that it is virtually impossible to measure the quality of a strategic plan. In the same vein many administrative and support tasks cannot be measured. To solve

such problems, Meyer says that the focus should rather be on the process than on the eventual outcome.

2.5.4 Performance measurement techniques

The following techniques, which may be used to measure performance, have been identified from various sources. It should be noted that in this study the detailed functioning of the techniques and all the advantages vs. disadvantages of using them were not discussed, since this deviation from the central theme would cause the study to become overly technical and would not essentially contribute to the core investigation in this study. It is, however, deemed necessary to take note of the various techniques, as these may support the eventual recommendations.

- (1) Benchmarking analysis, which compares performance of an institution against an ideal level of performance, based on samples of comparable service providers. It is subdivided into -
 - (a) Parametric, or regression based estimators (stochastic frontier estimation), and
 - (b) Non-parametric, or mathematically programming estimators (data envelopment analysis)
- (2) Ratio analysis/measures
- (3) Regression analysis
- (4) Data envelope analysis
- (5) Internal performance measurement
- (6) Comparative performance indicators
- (7) Graphs
- (8) Economic evaluation and cost efficiency
- (9) Accounting-based costs
- (10) Statistical methods

Although, according to Peacock et al (2001), all the available techniques could be divided into two complementary types of efficiency measurement

techniques, for the sake of completeness all the techniques will be discussed separately below. The two techniques to which Peacock referred, are:

- (a) Benchmarking techniques, which are used to assess the level of technical efficiency relative to certain benchmark units. A problem with this technique is that a specific benchmark may not use cost-effective procedures, but could still be assessed as relatively efficient within the sample.
- (b) Economic evaluation, which is useful for establishing the outcome / output relationship. The problem with economic evaluation is that it does not take into account the possibility that one service provider may be able to manage resources and administer services better than another.

In view of the above, the relationship between the various techniques is diagrammatically set out in the table below:

Table 1: Efficiency measurement techniques

Efficiency measurement techniques		
Benchmarking analysis		Economic analysis
<i>Parametric, or regression based</i>	<i>Non-parametric, or mathematical</i>	
•Stochastic frontier analysis	• Simple ratio analysis	•Cost minimisation analysis
•Regression analysis	•Data envelope analysis	•Cost effectiveness analysis
•Statistical methods	•Unit cost analysis	•Cost-utility analysis
	•Graphs	•Cost-benefit analysis
	•Internal performance measurement	
	•Comparative performance indicators	
	•Accounting-base cost	

2.5.4.1 Benchmarking analysis / techniques

- (a) Parametric, or regression based estimators (stochastic frontier estimation), and**
- (b) Non-parametric, or mathematically programming estimators (data envelopment analysis)**

Peacock et al (2001) regard benchmarking analysis as inclusive of simple ratio analysis, unit cost analysis, stochastic frontier analysis and data envelopment analysis. It compares service providers, individually or collectively. Data envelopment analysis is seen as the most useful benchmarking technique. It extends the frequently used simple ratio analysis by producing more informative efficiency measures than partial productivity indicators. As benchmark units do not always incorporate cost-effective procedures in their measures, a service could still be assessed as relatively efficient within a sample, although in reality it is not. Benchmarking analysis refers to the efficiency with which a service provider performs a variety of services.

In the document 'Serving the American Public: Best practices in Performance Measurement, Benchmarking study report, June 1997', benchmarking is discussed as a technique widely used in developing performance measurement systems and maintaining a high level of performance. It is mostly used in external benchmarking and competitive benchmarking, where the operations of one organisation are compared with those of similar organisations. Internal benchmarking, on the other hand, is when a business unit would compare itself with similar business units within the same organisation.

2.5.4.2 Ratio analysis

Somanathan et al (2000) wrote that the simplest way of measuring efficiency is through the use of simple ratios, such as the number of visits per health worker or the consumption of drugs as distributed per health

worker. Such ratio indicators are easy to calculate by using routinely available data. The disadvantages of ratios, however, are that they tend to focus on one issue only. Other relevant indicators are left out of the picture.

Premchand (1993: 195) referred to ratio analysis as a comparison between the current year's performance with progress made in previous years, referring to specified targets or goals. It could be used to compare the organisation with similar organisations, or alternative approaches of achieving the same goal. The aim is to determine best practice. Unit costs for the service (cost divided by output) or the output or productivity factors (ratio between inputs and outputs) may be calculated for this purpose. Ratio analysis is one of the easiest and cheapest methods to use. Ratio analysis techniques, however, are unable to capture factors that affect the management of an organisation compared to other similar organisations over a period of time. It can thus not be used to determine whether a government was better or worse than a preceding government.

2.5.4.3 Regression analysis

Premchand (1993: 195) refers to regression analysis as a statistical approach with wider application. The purpose of this analysis is to relate output to a set of inputs and then explain the changes in one set by referring to changes in one or more of the ingredients of the other set. In public sector organisations this technique could be and has been applied by comparing the exception to the rule. The main limitation of this technique is that the results achieved do not offer a significant insight into the process. For such insight to be available, subjective understandings need to be added to the technique. The results in terms of measurement of efficiency by means of this technique do not necessarily indicate best performance.

2.5.4.4 Data envelope analysis

According to Premchand (1993: 195) data envelope analysis is still a relatively new approach and its purpose is to examine the input-output relationship of an organisation. Dollery (2005) mentions that this analysis technique has been used to evaluate performance, specifically in local governments in some of the Australian states. Services such as libraries, waste management, the planning function, and regulatory services are discussed. This analysis measures the relative performance between councils, allowing the ranking of individual councils in specific service areas.

2.5.4.5 Internal Performance Measurement

From an Australian viewpoint Dollery (2005) discusses this technique when referring to councils evaluating themselves on the efficiency and effectiveness of their service delivery to assist in monitoring, controlling and improving productivity as well as quality. It is, for example, executed by means of surveys of residents trying to determine the public's satisfaction with the provision of services. Similarly, community needs may be linked to service delivery for information purposes and to enable residents to judge outcomes against initial plans.

2.5.4.6 Comparative Performance Indicators

Dollery (2005) refers to this indicator as by far the most important means of evaluating municipal performance in Australian local government. It forms the basis on which councils are assessed and policy decisions are made.

2.5.4.7 Graphs / charts

The document on the US Government (1997), describes graphic presentation of key information as a critical element of the analysis and

review process. Charts could be used to identify meaningful trends and it is easily understandable for management. By plotting indicator data against intended targets, trends could be visualised easily, which enable management to take the required action.

2.5.4.8 Economic evaluation

As mentioned before, economic evaluation may be regarded as the alternative technique to benchmarking. Economic evaluation includes techniques such as cost minimisation analysis, cost–effectiveness analysis, cost–utility analysis and cost–benefit analysis.

2.5.4.9 Accounting-based costs

Somanathan et al (2000) refer to a study by Barnum and Kutzin in which it is said that two types of studies using accounting costs could be distinguished in the literature. The first uses detailed step-down analyses of accounting, which are time consuming and compare only a small number of factors. A second approach uses aggregated accounting data together with assumptions about the relative resource intensity of different activities (e.g., outpatient visits and inpatient days) to arrive at an estimate of average costs.

2.5.4.10 Statistical Methods

Somanathan et al (2000) also refer to statistical methods for measuring efficiency. The two main approaches in this regard are, firstly, those that use residuals from cost or production functions that are fitted through the “middle” of the data. Secondly, there are frontier methods. Frontier approaches are either stochastic frontiers, which look at deviation from optimal performance because of factors outside management’s control, or systematic inefficiencies, or linear programming, also named data envelope analysis, which have already been discussed above.

2.5.5 Efficiency measurement techniques in banks

To indicate that the techniques used in the public sector are much the same as those used in the private sector, the techniques used in the Federal Reserve Bank of Philadelphia will now be discussed. Mester (2003) refers to the so-called common frontier efficiency estimation techniques in use in central banks. They are data envelopment analysis (DEA), free disposable hull analysis (FDH), the stochastic frontier approach, the thick frontier approach, and the distribution-free approach. The first two are nonparametric techniques, and the latter three are parametric methods. Mester's preference is for the parametric techniques, because the nonparametric methods generally ignore prices and could, therefore, only account for technical inefficiency where too many inputs are used or too few outputs produced.

With regard to efficiency in commercial banks, Wheelock & Wilson (1995) refer to four measuring techniques, namely –

- The stochastic cost frontier approach, where deviations of a firm's actual versus predicted cost are presumed to be because of random error and inefficiency.
- Thick-frontier approach, in which deviations of a firm's actual cost from predicted cost is presumed to be because of random error and inefficiency.
- Distribution-free approach, when data for more than one year are available – inefficiencies are stable over time, while random errors average out over time.
- Data envelopment analysis – which is a linear programming measure indicating the distance of a specific unit from best practice.

2.6 Summary and deductions

In this chapter a theoretical background of efficiency is given. Efficiency is put into context, linking it to delivery on initial goals and objectives. A short definition of efficiency is given, whereafter the term is further discussed in terms of the different perceptions thereof by engineers and economists. The relationship between quality and efficiency is discussed, linking it up with productivity and employee performance.

After illustrating efficiency graphically, a reflection on the private sector follows, discussing efficiency measurement techniques in banks. Subsequently efficiency is compared between the private and public sectors. A discussion follows on the need for government involvement in delivering a service. Finally, a brief look is taken at a South African Government self-assessment report to determine how government sees itself.

Following, some basic principles of efficiency is discussed and a government definition of the term is determined. Characteristics of measures to improve efficiency are discussed. To measure the level of efficiency it is necessary to analyse performance. Efficiency and performance should thus be put into context, whereafter the measurement of performance as well as ten performance measurement techniques are briefly discussed.

In the next chapter practices to ensure improved efficiency levels will be discussed, as well as practices to introduce private sector motivation into the public service. A discussion will follow on the success of these practices in South Africa. The Treasury introduced certain procedures to measure efficiency in the South African Government, and these measures form the final part of the next chapter.

In Chapter 4 a discussion follows on how the National Treasury and the Western Cape Provincial Treasury use a number of indirect measures to provide indications of efficiency in spending. Spending ratios (the ratio analysis technique and benchmarking analysis) for expenditure in the social sector (health, education and social services and poverty alleviation) in comparison with the balance of the provincial spending, or spending on compensation of employees compared to other expenditure, are examples of ratio analysis techniques which have been used to derive to efficiency measures. Furthermore, indicators such as overspending and underspending (internal performance measures), as well as non-financial information regarding the delivery of services are discussed, together with deductions based on such information, as well as graphs and tables.



Chapter 3

3. Efficiency practices in the public sector

In this chapter efficiency practices in the public service are discussed by means of actual practices and procedures in various governments. What the British Treasury has implemented in this regard is specifically accentuated. Current South African practices that guide efficient measurement are analysed.

3.1 Introduction

In this chapter some practical practices implemented to improve efficiency in the public service are discussed. The reason for incorporating these practices into the study is because of their perceived relevance in the improvement of the efficiency levels through improvement in performance in government. As discussed by Pollitt & Bouckaert (2000: 64) “the restructuring of organisations is a ubiquitous feature of public sector management reforms”. They classify restructuring in four ways, i.e. specialisation, coordination, centralisation / decentralisation and scale. The following practices are all chosen for their possible contribution to performance improvement, but can all be linked to at least one of these classifications.

A part of this discussion is dedicated to the British Treasury’s efforts at addressing efficiency by means of efficiency gains measures. To some extent it is a search for the optimal size of organisations (scale), but has also to do with centralisation / decentralisation of functions. The processes introduced by Her Majesty’s Treasury are seen as an important source of reference for improving the level of efficiency in government.

Shared service and public expenditure tracking surveys are further practices, which could assist in improving the level of efficiency in the public service. Privatisation practices are discussed, because of their relevance to the public / private sector service delivery debate – who can do it the best?

An assessment is made to indicate why these practices have variable levels of implementation in South Africa. In the final part of the chapter the way in which practices similar to the British efficiency gains measures are applied in the South African context, are discussed.

Abedian et al (1998: 58) refers to governments as having acquired a reputation for inferior services, products and attitudes. In many countries the recipients of public services have demanded improvements in service delivery and have applied pressures to achieve change. Increasingly, governments' response is to be more result-orientated.

Some of the practices discussed in this chapter have their limitations and are, therefore, not generally applied in the South African context. It is, however, important to discuss these practices here, as they are perceived by a portion of the general public as being the magic alternative to the state's service delivery problems. They also form part of what Pollitt et al (2000: 77) refers to as specialisation (single purpose versus multi-purpose organisations) or coordination (coordinate across different functions, levels and sectors).

PETS is a practice where the flow of public funds is traced from input to output stage in a specific project. From its application, mostly from a donor funding perception in disadvantaged countries, it does not seem relevant to South Africa, especially not the Western Cape.

Shared services are another practice, which has never become popular in the Western Cape, because of its slower processes (especially

procurement). Furthermore, it also does not allow for full costing of a function in a specific department.

Although privatisation practices are popular and successfully utilised in Western countries such as the USA, in South Africa with its strong labour movements, high level of unemployment and socialist tendencies, privatisation is not a popular practice. This is why divesture practices, such as those suggested for Spoornet, Telkom and other large state corporations, were never fully implemented.

Because of the stringent requirements by the National Treasury for PPPs, very few such projects have been implemented in the country. In fact, in the Western Cape, only the Chapman's Peak Toll Road has been successfully introduced as a PPP.

Contracting out practices have been implemented with reasonable success in services such as the daily cleaning of offices and hospitals, security, maintenance work and cafeteria services. The social implications of such practices are, however, sometimes questionable.

It is thus clear that only the British efficiency gains measures practice remains as an option. It could be introduced or has already been introduced with reasonable success in South Africa. It is an easier and straightforward way to introduce efficiency and requires only the buy-in of management and politicians. In the rest of the chapter a discussion follows on specific views in South Africa with regard to this subject matter.

3.2 Efficiency practices employed in the United Kingdom (UK)

3.2.1 Introduction

Although not the first government to introduce or investigate the concept, the UK approached efficiency with new vigour in the build-up to its 2004 budget. The British Treasury (2004: 13) commissioned an independent review to identify opportunities for and the development of proposals to deliver sustainable efficiencies in the use of resources within the British public sector. Gershon (2004: 41) undertook the review and in the process worked closely with departments and other stakeholders, such as non-departmental public bodies, suppliers in the private sector and the wider public sector. Gershon's viewpoint was that the achievement of greater efficiency enabled resources to be released to services in the front-line, such as education and health, which would ensure improvements in the performance of the public sector as a whole.

3.2.2 Efficiency gains measures

Gershon (2004) introduced efficiency gains measures, such as investment in information and communications technology (ICT), to ensure better delivery of services to the public. Other measures that he introduced were the reduction in the cost of transactions, a decrease in paperwork, the sharing of administrative duties, a reduction in the number of public service employees and decreasing administration cost in real terms. The electronic procurement of the public sector's requirements was seen as a further measure to contribute to efficiency.

Gershon (2004: 17-19) found that efficiency could also be improved by redeploying employees across the whole public sector to areas where they are more needed in terms of service delivery. The sharing of

information, implementation of best practice and better management of sick leave are further measures.

Not everything that seems a gain, however, necessarily contributes to improved levels of efficiency. Bedding (2005), identifies activities, which do not provide efficiency gains. Amongst others he referred to:

- Cuts and blanket reduction in funding allocations, which result in poorer service delivery to the public, and
- Increased revenue achieved by means of an increase in the fees charged to the public.

3.2.3 Second review (United Kingdom)

Pollitt et al (2000:91) discusses the fact that governments are keen to announce the plans they have in mind for improvement of performance, but slow at accounting for what has happened after implementation. In this regard it is interesting that, as a follow-up to the above process, on 19 July 2005, the British Treasury launched a second spending review, in which further requirements were set for achieving efficiency gains (HM Treasury second spending review, 2005). Some of these requirements were the following:

- An investigation should be undertaken to determine the long-term trends and challenges which would shape the next decade, such as demographic and socio-economic change, globalisation, climate and environmental change, global uncertainty and technological change;
- Government should understand what the public requires from the public service and needs to respond to these challenges, and

- Government should ensure that the infrastructure is sufficient to support service delivery, not only in the public sector, but also in the wider economy.

In this review process the British Government placed a strong emphasis on outcome targets by means of the provision of higher standards of service.

3.3 Public expenditure tracking surveys (PETS)

Kurey (2002), refers to Public Expenditure Tracking Surveys (PETS) as a new tool introduced to eliminate inefficient transfers of funds among public sector agencies, such as leakage of funds that prevents spending from reaching the intended end producer. It also detects delivery deficiencies of end users, waste and corruption. It is thus, to use the terminology of Pollitt et al (2000) a case of lack of coordination, because the different levels of delivery do not work together and thus have very little control over the public expenditure.

In a study on PETS, the World Bank Group (2005) determined that when market and external distortions are removed, poor performance in the public sector still remains an important constraint to growth and the reduction of poverty in many of the low-income countries. For this purpose *public expenditure tracking surveys* (PETS) of service facilities were introduced.

Winkler (2005) states that PETS is a method to study the flow of public funds and other resources, with the aim of measuring how much government funding actually reaches the end source and identifying the major points of resource leakage and misuse. PETS has, to date, been carried out in approximately 35 countries in Africa, Asia, and Latin America. Uganda conducted the first PETS in 1996, finding that only 22 percent of the funding, excluding compensation for employees, intended for schools actually reached its purpose. A Ghana PETS found that only 51 percent of funding for books and other instructional materials reached schools. A

Zambia PETS found that increased public sector spending on education had no effect on outcomes, because parents reduced household spending on education by an equivalent amount. In Peru, PETS revealed the complexity of the flow of funds from the national government through regional governments and down to schools.

Kanungo (undated) said that PETS provided useful information, inter alia, about leakage of financial and material resources, misappropriation of resources (for instance through stealing), problems in service delivery (e.g. absenteeism) and lack of demand for services because of inefficiency, high cost and low quality of the service providers. The data obtained from such surveys revealed operational problems and lead to improved levels of efficiency.

3.4 Shared services practices

Another efficiency technique is the sharing of administration services in a government, especially by smaller departments, to improve efficiency. As discussed by Pollit et al (2004: 79), it sometimes seems as if governments should move away from a centralised system to commercialise activities within the public sector and as such attain better performance.

An example of such an internal, but specialised service is the shared services concept in the Gauteng Shared Services Centre, commonly known as the GSSC. The GSSC's vision, as discussed by Roussos (2004: 84), is to provide consolidated operational support services to all the Gauteng provincial departments in the areas of internal audit, information technology, human resources, procurement (supply chain management) and finance, in order to achieve optimum return on investment for the Gauteng Provincial Government.

The UK BuyIT Best Practice Network and Shared Services Advisory Group in its Guideline on Shared Services in the Public Sector (2006) also refers to

shared services improving the delivery of services to citizens. The Canadian province of British Columbia, for example, uses one revenue and debt collection agency across 44 public sector organisations, which has improved efficiency (saving over \$382m over ten years).

BuyIT (2006) mentions that, following the setting up of a shared service centre for finance and administration, the BBC has not only been able to introduce direct efficiencies by 50% in operating costs, but also ensured better management information. Resources released by the setting up of the centre could be redeployed for use in the making of quality programmes.

3.5 Privatisation practices

In previous paragraphs efficiency gains measures were discussed. The aim of such measures is to improve the public sector from within. To indicate that there are other, completely different, ways in which this sector can improve efficiency, privatisation will now be discussed. This discussion stems from the general perception that the public sector is not always able to execute its manifold tasks efficiently and, therefore, the private sector should be tasked with delivering the service.

3.5.1 Introduction

Pollit et al (2004: 79) says that when specialised services in government are taken to an extreme, it leads to privatisation. Reference is, furthermore, made to the perception that privatisation cannot go together with responsible government, as government relinquish control of large parts of its delivery enterprises. This is, however, not necessarily true. The problem does not lie with the principle of privatisation, but rather the way in which it is executed (Pollitt et al (2000: 161)).

Utt, R. (2001) defines the term “privatisation” as “the process or act of transferring government assets and/or the performance of routine public

services to the private sector. Several different processes or practices exist by which the transfer can be accomplished. It includes divestiture, public–private partnerships, vouchers and contracting out. The nature of the government asset or activity, as well as the environment in which it operates, will mostly determine the specific technique to be used.” Two of these practices will be discussed in the next few paragraphs.

3.5.1.1 Public–Private Partnerships (PPP)

Utt, R. (2001) refers to PPPs as partnerships where “private investors and businesses, in cooperation with the government, build and/or operate major public infrastructure projects”. Examples of such projects are wastewater treatment plants, airports, highways, public roads and prisons. Where previously such services were typically constructed with public sector funds, this sector could lower its spending, while maintaining or increasing service delivery by means of PPPs.

The South African National Treasury, in its PPP Manual (2004), refers to two types of PPPs, although a combination of the two is also possible:

- “The private party performs an institutional function, or
- The private party acquires the use of state property for its own commercial purposes”.

In its PPP Manual (2004), National Treasury states that a PPP in South African law is defined as “a contract between government institution and private party where the private party performs an institutional function and/or uses state property in terms of output specifications. Substantial project risk (financial, technical, operational) is transferred to the private party. The private party benefits through unitary payments from government budget and/or user fees.”

In order for National Treasury to approve a PPP, it states in its PPP Manual (2004), that a project has to be (1) affordable, (2) provide value for money, and (3) transfer an appropriate amount of risk to the private partner.

It should be noted that the only noteworthy PPP agreement in the Western Cape was signed on 21 May 2003, when a concession agreement was signed with Entilini Concession (Pty) Ltd for the financing, design, construction and operation of Chapman's Peak Drive as a toll road. The concession was granted for a period of thirty years.

3.5.1.2 Competitive Contracting

A different technique of privatisation, according to Utt (2001), is competitive contracting with the private sector. Utt sees this only as the process by which basic services, both for and by the public sector, are provided by private companies operating under contract to the government. The resources, expertise, and management skills available in the private sector are used, as well as the cost benefits of open competition. It enables service delivery at a much lower cost.

Kengor (2001), however, has a different view of competitive contracting. He regards better efficiency in public sector spending not necessarily only as privatisation. According to him it is much more important to introduce competition. If the public sector is able to deliver a service cheaper and more efficiently than the private sector, the service needs to remain in the public sector.

Kengor (2001) warns that privatisation is not always a lower cost alternative, although it usually does save money. He, however, warns that contracting can make the control of quality and oversight difficult.

With her competitive contracting programme, Morrison (2002) wanted to introduce competition into the administration of the City of Philadelphia to

ensure best service delivery without necessarily contracting out to private contractors. Morrison was of the opinion that the inefficiencies in Philadelphia were not as a result of the inability of managers or bad employees, but ultimately because of the system and incorrect incentives. She wanted to eliminate inefficiency by strengthening the accounting system, transparency, reducing cost and improved incentive system for managers and employees.

From a USA perspective Cox (1995) discussed that the increased cost of government resulted in serious budget difficulties in the USA. Government should provide services at a cost that is not unnecessarily high. Competitive contracting has been introduced to apply market forces to government services according to Cox, and with overwhelmingly positive results. Competitive contracting does not necessarily result in private operation of public services, but saves money because competition induces lower costs than monopoly.

WashACE (2006) also refers to competitive contracting and other forms of privatisation. It is, however, not so easy to launch such a process, as it must be clear what the performance standards for the tasks are. Reference is made to potential areas for competitive contracting, especially in health and education, such as maintenance of buildings and ground, landscaping, laundry services, and cafeterias.

3.6 Practice and procedure in the South African and Western Cape governments from a treasury perspective

Since 1994 the South African public service has implemented various reforms to ensure better service delivery, better performance and increased levels of efficiency. Abedian & Biggs (1998: 492) refer to the difficulties experienced in the post-1994 South Africa in attempts to transform the old public service, which was more rules and top-down driven, into one which is

representative, responsive to needs, responsible and accountable. To be efficient require departments to be able to use their available production factors optimally. It should be noted that efficiency does not require of a service provider to know whether factors were combined in terms of the right choices, only whether they were efficiently applied.

As discussed before, there are various practices to measure the performance of a department. With regard to the practices discussed, it is interesting that Abedian & Biggs (1998: 501) are of the opinion that some or most of these practices actually only exist for outside analytical purposes. More conventional ways should be used for internal performance monitoring. This would enable the average treasury analyst, who is less qualified in economics, to utilise such practices and provide management with data, which they can comprehend and apply in their decision-making. It is also important to collect the correct data.

In a presentation on the National Treasury's Output-Outcome Database (4 August 2004), Dr Annatjie Moore of the National Treasury stated that the source documents on which analyses and discussions could be built are strategic plans, budget statements, quarterly performance reporting, annual reports, relevant research documents, applicable newspaper articles and the in-year monitoring (IYM) budget documentation reflecting monthly spending patterns. The methodology followed is not unique to South Africa, since this country in fact, to a large extent emulated international practices followed by, for example, the UK, New Zealand and Australia.

In the rest of the chapter the source documents and their relatedness or contribution to performance / efficiency measurement will be discussed in more detail. As discussed by Politt et al (2004: 66), it is sometimes necessary to introduce financial management reforms which are more related to performance than savings. In this regard, as a first step, it is necessary to simply publish performance information alongside the annual

budget documents. As a second step, budgets must be linked to strategic plans. In the following paragraphs it will be indicated how this was done in South Africa.

3.6.1 Strategic plans and annual performance plans

In South Africa all government departments are required to state their objectives publicly in strategic performance plans. As discussed in the document, “Preparing the Budget 2006: Provincial Treasury Guidelines” by the Western Cape Provincial Treasury (2005), the development of strategic plans became legally compulsory with effect from the 2002/03 financial year by means of legislative requirements stated in the National Treasury Regulations and Public Service Act (Proclamation 103 of 1994). It is thus possible to hold a department accountable to achieving its priorities by measuring it against pre-set, negotiated standards. Spending priorities and trade-offs, as well as economic and service indicators (key measurable objectives) – e.g. kilometres of tarred roads, school enrolments, infant mortality rate, life expectancy rate – are the inputs in determining competing needs across sectors. It should, however, be borne in mind that the important aspect in performance measurements is not input, but the relationship between input and output.

The strategic plan (five year plan updated with an annual performance plan), budget and annual report are perhaps the most important documents tabled by any South African department every year. The strategic plan and budget of a department are forward looking. They set out what the department intends to do with the funds allocated to it for the coming financial year. This practice links somewhat to the British review of government expenditure to refocus on critical issues. The annual report, which will be discussed later, on the other hand, is backward looking, as it reports on actual performance at the end of the financial year. As mentioned by Abedian et al (1997: 103), the South African process is similar

to the one followed by New Zealand, that also enacted legislation, which binds the government to transparent fiscal targets, full and frequent disclosure of performance against those targets and reconciliation afterwards if there are deviations between targets and actual performance.

In the National Treasury's Medium Term Expenditure Framework, Treasury Guidelines (2006), reference is made to the importance of strategic plans and annual performance plans for departments. Government's broad objectives must be to grow the economy, to advance social development and to achieve greater equity in society. The medium-term plans of departments should inform these broad objectives, while department should set out specific output and targets in their various programmes and sub-programmes.

3.6.2 Budget statements and annual performance plans

It is not the purpose of this document to discuss the provincial budget process in detail. It is, however important to note that departments are required to submit two drafts and a final version of their Budget Statement to Treasury during a budget process, as required in the Provincial Treasury Budget Guidelines, 2006 (2005). Treasury would analyse these submissions, which have to provide an indication by means of a three year medium term expenditure framework (MTEF) how it intends to reach its targets as set out in its strategic plan.

Only one five-year strategic and performance plan per department should be produced per election cycle and this lays the foundation for the development of the annual performance plans. The purpose of the annual performance plans (APP) is to set out what the provincial department intends to do in the upcoming financial year towards progressively achieving the full implementation of the five-year strategic and performance plan.

In the Medium Term Expenditure Framework, Treasury Guidelines (June 2006), the guidelines for the preparation of the budget proposals for the 2007 MTEF (2006), drafted by the National Treasury, it is stated that a secondary focus area of the APP is to provide annual updates on any changes made to the strategic planning framework set out in the five-year strategic and performance plan – for instance changes resulting from new policy developments or changes in environmental circumstances. The APP should cover the upcoming financial year and the following two years in line with the MTEF. The APPs should inform and be informed by the budget and the MTEF and should indicate how the provincial department's future service delivery plans link to its MTEF.

The main purpose of monitoring the budget and expenditure against strategic plan performance is to ensure that departments utilise the resources allocated by the Legislature optimally and in terms of the annual Appropriation Act. Monitoring provides an opportunity for departments and the provincial treasury to take corrective measures where necessary.

3.6.3 Quarterly performance reporting

National Treasury, in its document, "Quality of non-financial data in provincial departments" (August 2005), said that quarterly performance reporting has been introduced as the building block needed between the strategic plan and the annual report to monitor the implementation progress of strategic objectives during a financial year.

In the Western Cape Provincial Treasury's Budget 2006 Overview reference is made to the increasing importance of monitoring and evaluation. The quarterly non-financial reporting introduced by National Treasury forms the basis of the monitoring and evaluation framework. In the Provincial Quarterly Performance Report Overview for the Third Quarter (October – December 2005), Dr. A G Moore stated that by extending the reporting process to non-financial information, departments are able to interrogate

what was achieved by the money allocated to them in the budget, and could link those outcomes back to the measurable objectives identified in the departments' strategic plans. The establishment of a strong evidence base for interventions thus became increasingly important.

3.6.4 Annual reports and political oversight

Another important report used to measure the performance of a department, is its annual financial report, which is tabled and discussed in Parliament and provincial legislatures, after completion of auditing the department's financial statements. The in-year implementation monitoring of the APPs is done through the quarterly performance reports, while the end-year reporting is done in the departmental performance section of the annual report.

The National Treasury, in its *Guidelines for legislative oversight through annual reports* (January 2005) refers to section 68 of the Constitution vesting the National Assembly and provincial legislatures with the power of oversight over the respective executives

In order to facilitate provincial legislatures, oversight of the provincial executive organs of state, section 133(3)(b) of the Constitution requires that "Members of the Executive Council of a province must provide the legislature with full and regular reports concerning matters under their control. The Constitution recognises that legislatures have a critical role to play in overseeing better performance by departments and public entities. The challenge facing members of Parliament and provincial legislatures is to improve the capacity of portfolio committees to hold departments and entities to account for their performance, using the strategic plans, budget documents and annual reports".

Annual reports were thus introduced to allow Parliament and legislatures to "evaluate the performance of a department after the end of the financial

year. Annual reports are required to contain information on service delivery, in addition to financial statements and the audit report. It is meant to be a backward-looking document, focusing on performance in the financial year that has just ended. It reports on how the budget for that financial year was implemented”.

3.6.5 Annual reports and the Auditor-General

The Auditor-General, in terms of section 188 (1) of the Constitution, must audit and report on the accounts, financial statements and financial management of, inter alia, all national and provincial state departments and administrations.

Section 20(2) (b) of the Public Audit Act (No. 25 of 2004) stipulates that:

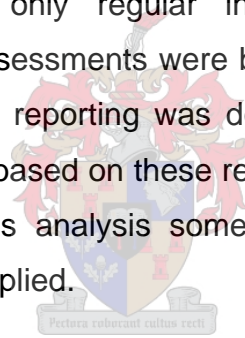
“An audit report must reflect such opinions and statements as may be required by any legislation applicable to the auditee who is the subject of the audit, but must reflect at least an opinion or conclusion on the auditee’s compliance with any applicable legislation relating to financial matters, financial management and other related matters”

The approach for auditing and reporting on financial management essentially involves identifying root causes or underlying problems for audit findings and the assessment of these root causes against prescribed levels. Depending on the outcome of the Auditor-General’s investigation, departments are categorised into various levels in terms of a model, based on the Canadian audit office’s capability model, as adapted for South African purposes. These levels are important in that they view departments in terms of the implementation and performance on control frameworks. A department moves up in the levels depending on adherence to these targets. Level 4 is, for instance, the level at which departments is expected to start performing, thus move beyond just compliance.

The relevance of this to performance measurement is that a department cannot be expected to perform if all the basics are not in place. According to the 2005/06 Auditor-General reports of the Western Cape departments, none of the departments has been placed on the level of performance.

3.6.6 In-year monitoring of expenditure

The monitoring, in terms of numbers, of a department's performance against its strategic plan is performed through monthly in-year monitoring reports based on the actual and projected expenditure and revenue submitted by the department to the Treasury. This assessment enables the department to determine whether expenditure performance is adequate. It is done in terms of section 40 of the PFMA (RSA, 1999: 48). For a long period these IYM reports were the only regular in-year reporting submitted by departments and most assessments were based on information from these reports. No performance reporting was done. Treasury officials prepare detailed narrative reports based on these reports, which will be discussed in the next chapter. In this analysis some of the practices discussed in Chapter 2 are regularly applied.



3.6.7 Qualitative research

As Dr Annatjie Moore discussed in a presentation on the National Treasury's Output-Outcome Database (4 August 2004), Treasury officials are required to analyse the budget statements and IYM reports. Analyses are the connection between the original strategic plan and the interim or eventual outcomes. They need to ask questions in the above regard in the execution of their analysis. A narrative methodology lends itself to participatory change processes, because it relies on people to make sense of the relevant issues.

Treasury analysts have to be able to do general research based on information in the general media and on the internet pertaining to public

service departments. In the document “How to use strategic plans in the budget analysis process” Dr Annatjie Moore (2004) refers to qualitative research methods “such as interviews, documents and participant observation data”, to understand and explain the context of the phenomena being dealt with. Examples of such research are “action research, case study research and ethnography. Qualitative data sources include observation and participant observation (fieldwork), interviews and questionnaires, documents and texts, and the researcher’s impressions and reactions.” The main skill needed for qualitative analysis using a narrative framework is the ability to listen and ask the correct questions.

3.7 Summary and deductions

In this chapter some of the efficiency practices utilised by government to improve its input / output ratio were discussed. The UK introduced an efficiency gains measure technique with its 2004 Budget, which was reviewed in 2005. In terms of this method departments need to set up prior targets, which they wish to achieve. This technique is similar to what is being done in South Africa, where departments are expected to perform in terms of prior goals and strategic plans. South Africa, however, followed to a large extent the prevailing practice in Australia and New Zealand.

PETS traces the flow of public funds from input to output stage in a specific project and is applied mostly for donor funding, which is relevant only to a limited extent in South Africa. Shared services is a slow process (especially regarding procurement) and does not allow for full costing of a function in a specific department. Two privatisation practices are discussed, namely PPPs and competitive contracting, but these are not really taking off in South Africa, because of the negative social and employment issues associated with them.

Practices and procedures applied in South Africa and the Western Cape from a Treasury perspective were discussed, referring to strategic and

annual performance plans, budget statements, quarterly performance plans, the role of annual reports in political oversight, audit reports, research and the in-year monitoring reports.

In the next chapter specific reports drafted in the Western Cape Government will be evaluated, i.e. the IYM narrative report and the quarterly expenditure report to the Provincial Cabinet. The performance measurement techniques used will also be discussed. It will be indicated how integrating strategic planning, budgeting and monitoring of service delivery performance enhance the link between the services that the department provide and the benefits and cost of such services. This will provide detail as to what the department has achieved with the resources allocated to it based on its initial strategic plan, which indicated the department's objectives. It reinforces accountability and transparency in public reporting (Part 2 of the Western Cape Provincial Treasury's template for preparing the quarterly performance reports (2005)).



Chapter 4

4. The Provincial Treasury and the measurement of performance

This chapter discusses how efficiency is measured from a Treasury point of view, concentrating on reports drafted for the WC Health Department. It looks at the application of performance measurement techniques as discussed in Chapter 2. Reasons are given why only so few of these techniques are applied.

4.1 Introduction

It is a certainty that in delivering services to the public, government needs to play a role because of especially equity and social efficiency reasons. By their various analyses, Treasury officials fulfil their research function and capacitate senior Treasury officials and other managers of other departments on the level of efficiency in the various departments.

The rationale or objective of this chapter is to determine how the theoretical aspects regarding efficiency, as discussed in Chapters 2 and 3, are applied. It would be determined that for a treasury to influence a department's level of efficiency, it should either directly control that department's budget, or, the preferred route, give departments greater operational discretion within fixed budgetary limits. This chapter will illustrate how this preferred route was implemented. By investigating what the level of service delivery in, for example, the Western Cape Department of Health is, it can be determined whether the department indeed delivers an efficient service to the public.

As will be clear from this chapter, treasuries, to a large extent, use mostly expenditure monitoring and measurement to determine the level of performance of departments. This is also in line with the PFMA (RSA, 1999) which prescribes that treasuries should monitor the expenditure of departments on a monthly basis (sections 32 and 40), although, in terms of sections 6 and 18 no such functions and powers have been bestowed on treasuries.

There is, however, other legislative provision enabling Treasuries to evaluate department's performance. As stated by the National Treasury in the document Quality of non-financial data in provincial departments (2005), "the Treasury Regulations, Public Service Regulation (PSR) and the PFMA (RSA, 1999) provide for the evaluation of performance in the following sections: Section 36(5) of the PFMA (RSA, 1999: 44) and PSR of 199, Chapter 1, Part III. Implementation of the referred to regulations aim to promote accountability and to ensure the gathering of performance-related data on predetermined strategic plan goals and objectives, which would be reported on in quarterly and annual reports."

The National Treasury and the Western Cape Provincial Treasury use a number of indirect measures to provide indications of efficiency in spending. Spending ratios (the ratio analysis technique and benchmarking analysis) for expenditure in the social sector (health, education and social services and poverty alleviation) in comparison with the balance of the provincial spending, or spending on compensation of employees compared to other expenditure, are examples of ratio analysis techniques which have been utilised to derive to efficiency measures. Furthermore, indicators such as overspending and underspending (internal performance measures), as well as non-financial information regarding the delivery of services have been used and analysed. Deductions based on such information, together with some graphs and tables, are taken up in various assessments and narrative reports. These provide departmental managers and the executive a basis

on which to make management decisions. The idea with choosing these indicators is to determine whether the basic principles of efficiency (see paragraph 2.4.1) are being achieved. To put it in other words, a determination must be made whether expenditure has risen, cost has been reduced, performance improved against the previous year's expenditure, or performance improved while cost remains constant.

To make the study more focussed, it was decided to concentrate on only two reports, the IYM narrative report based on information by the provincial Department of Health and a quarterly expenditure report to the Provincial Cabinet. The investigations involve analysing numbers and information, which provides an indication of how efficiency is measured in the Western Cape. This is done against the background of the various submissions from departments, as discussed in Chapter 3. Due to the fact that performance reporting per se is not yet at the required level, expenditure monitoring is the most reliable alternative currently available for measuring performance.

4.2 In-year expenditure monitoring process

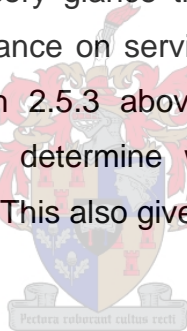
In-year expenditure monitoring reports, as briefly discussed in Chapter 3, are submitted by all departments to the Provincial Treasury by the 15th of each month and to National Treasury by the 22nd in terms of section 40 and 32 of the PFMA (RSA, 1999: 41 & 48). These reports provide information on the expenditure up to the end of the previous month, as well as projections for the rest of the financial year and compare these with the budgeted figures. As such, it thus provides information on spending against the original budget. As the budget is a financial plan to achieve the department's goals in line with its annual performance plan, the level of expenditure gives a clear indication of the department's movement to achieve its goals and deliver on its targets. Underspending will be a clear indication of slow or non-delivery, while spending, which is not according to

the budget, might indicate that there has been a move away from the original strategies.

The National Treasury has a monthly in-year reporting process in place that monitors expenditure at both the national and provincial levels. This process provides data on the outcome for the current month, as well as projections of expenditure for future months.

Based on the information submitted by provinces, in-year section 40 reports are drafted, which eventually form part of the section 32 data published in the Government Gazette on a quarterly basis reflecting expenditure for that quarter. On 28 April 2006, for the 2005/06 financial year, an underspending was recorded at national level (and, for that matter, also in the Western Cape Province). At a cursory glance these underspending values could imply serious underperformance on service delivery in some departments. As discussed in paragraph 2.5.3 above, through this measurement of performance can Treasury determine whether a department needs to increase its spending level. This also give an indication of productivity.

4.3 IYM narrative reports



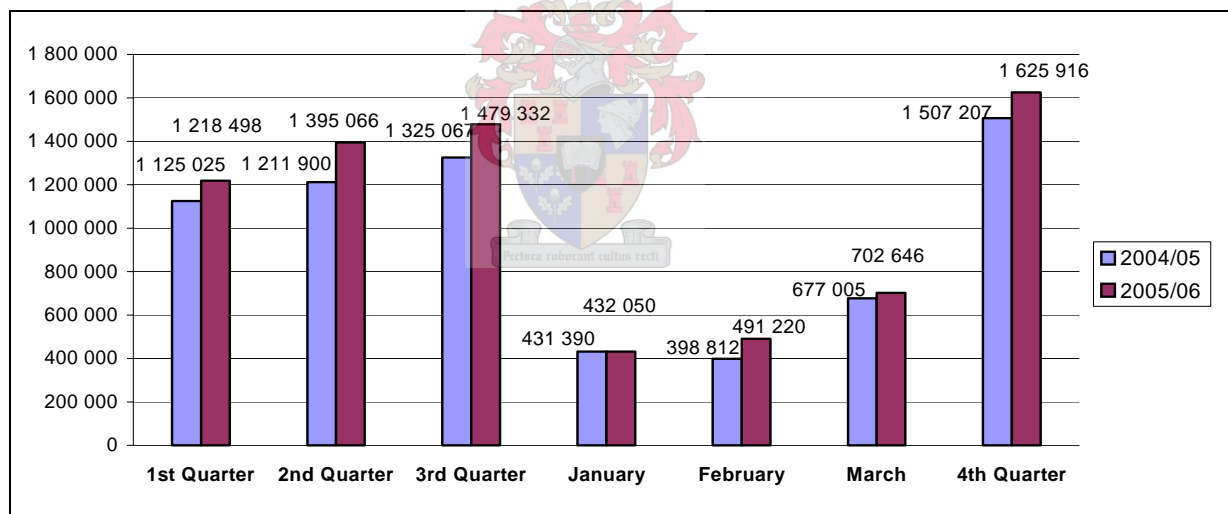
The Public Finance directorate of the Provincial Treasury compiles on a monthly basis and distributes on a quarterly basis to departments a narrative report based on information in the in-year monitoring reports. It is based on narrative assessments received from all components in the Provincial Treasury and thus provides an overall picture of the departments' financial positions from a Treasury perspective. The reports are also used as management tools in departments, as they are distributed to all heads of departments and chief financial officers.

What follows is a discussion based on the fourth quarterly narrative report of the provincial Department of Health for the 2005/06 financial year as drafted by Tombey. It provides an indication of how ratio analysis techniques,

benchmarking techniques and graphs, referred to in paragraph 2.5 above, are combined with qualitative research to give a pointer to the efficiency performance of the department. These specific techniques are used here due to their ease of application, as indicated in paragraph 2.5. The required information is easy to gather and no intricate economic formulas are needed. The results can be linked to the research objective of the thesis that only through assessing the quality of the services delivered, can it be established whether government derives maximum value from every Rand spent.

Graph 3 below compares the actual expenditure of the first 3 quarters (totals only) and the fourth quarter (on a month-to-month basis and the total) with the corresponding period of 2004/05.

Graph 3: Quarter Comparison



The graph indicates what the department has spent on a quarterly basis, in percentage terms, in 2005/06. From this it can be deduced that the bulk of the expenditure in the fourth quarter occurred in March 2006. This is a phenomenon generally found in the public service and is referred to as the "March spike". Determining the reason for the occurrence of the spike gives a clear indication of the efficiency in a department, as these funds are often spent in such a way that they do not really contribute to improved service

delivery. An assessment of the “March spike” in departments has thus become standard practice in treasuries. Later on a discussion will follow on a specific “March spike” report submitted by the National Treasury to a national forum.

The spike in Health is mainly as a result of increased spending, because of the payment of invoices affected ahead of schedule. Whilst the Provincial Treasury does not have an objection to more resources being made available for the improvement of health care through the purchase of medical equipment and consumables, the timing of the expenditure raises questions around the ability of the department to plan its spending and associated service delivery over the full duration of the financial year. As alluded to above, the spending increase can be linked to the availability of funds at year-end.

Table 1 below uses benchmarking analysis and reflects the provisional outcome per programme for 2005/06.

Table 2: Summary per programme

	Audited Outcome R'000	Adjusted Budget R'000	Under/(Over) Expenditure R'000	
Administration	167,291	182,144	14,853	8.15%
District Health Services	1,629,951	1,640,479	10,528	0.64%
Emergency Medical Services	255,851	255,109	(742)	-0.29%
Provincial Hospital Services	1,295,905	1,288,031	(7,874)	-0.61%
Central Hospital Services	1,980,705	1,963,483	(17,222)	-0.88%
Health Sciences and Training	79,009	83,648	4,639	5.55%
Health Care Support Services	93,075	90,203	(2,872)	-3.18%
Health Facility Management	217,025	273,725	56,700	20.71%
	5,718,812	5,776,822	58,010	1.00%

The department spent approximately 99% of its adjusted budget in 2005/06. Compared to the audited outcome of 99,92% in 2004/05, the department spending slightly decreased by 0,92%. The underspending of 1,21% in 2005/06 was requested for rollover and was reallocated in the 2006/07 financial year. The amount(s) a department eventually request

for rollover is also an indication of the extent to which that department achieved its spending goals. To a certain extent it also indicates which services have not been satisfactorily delivered in a specific year.

To analyse the underspending per programme within the department requires from analysts to pose questions to the department to gather information. It is thus clear that qualitative research plays a very important role in the drafting of reports.

Part of a department's funding is received by means of national conditional grants, where a national department allocates funds to a provincial department for specific purposes. By, for example, measuring the internal performance on the Hospital Revitalisation national conditional grant it has been determined that the following inefficiencies occurred:

- Slow performance by contractors on the building projects resulted in a delay in the purchasing and installing of medical equipment.
- A project was delayed because of a hold-up with the approval of the business plans between the department and the National Department of Health
- The late approval of the business plans for another project by the National Department of Health resulted in the late appointment of consultants to drive this project.

This must be viewed as a move towards determining Gershon's (2004) efficiency gains measures as discussed in paragraph 3.2.3 above. He refers to the fact that governments should ensure that the infrastructure is sufficient to support service delivery.

Other inefficiencies detected were that the department spent 39,29% of the national conditional grant allocation for the Provincial Infrastructure Grant in the last quarter, because of on-site problems, late submission of claims and the journalising of expenditure wrongly classified.

By specifically analysing the compensation of employees, it was determined that an underspending of 4,33% or R134,672 million, was because of the slow filling of funded vacancies. These funds have been reallocated to other purposes, which, although delivery was ensured, may not have been in terms of the initial departmental goals. As discussed in paragraph 3.2.2 above, Gershon (2004) referred to the fact that cuts and reductions in funding allocations might result in poorer service delivery to the public, especially in as far as personnel expenditure is concerned in a staff driven department such as Health.

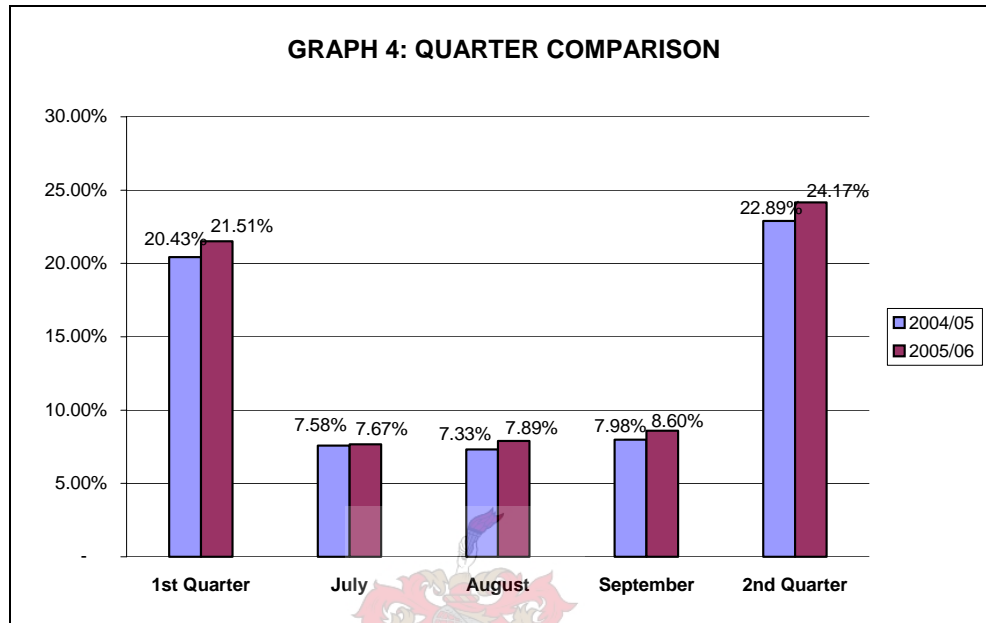
By evaluating the expenditure as such, it is thus possible to indicate whether spending patterns are normal, and where deviations are found, what the reasons for such deviations are. The techniques mostly used are benchmarking analysis, ratio analysis, measuring internal performance and graphs.

4.4 Quarterly expenditure reports to Provincial Cabinet

What follows is a discussion based on the actual and projected 2005/06 expenditure inputs as at 30 September 2005 submitted by departments as part of the In-year monitoring (IYM) reporting process on 14 October 2005. The report was drafted by Pick. It is further examples of how ratio analysis techniques, benchmarking techniques and graphs are combined with qualitative research. Most of the analysis is done on the basis of comparative performance indicators, where the departments are compared to each other. This relatively dated report is used to prevent any secret or confidential information being leaked. Later reports are, however, based on the same template.

At the stage of drafting this report the Province was projecting a net over expenditure of R2,935 million. By comparing the various departments with each other, one can determine each one's outcome. Graph 4 gives an aggregate comparison of actual expenditure of the Province for the first

and second quarters of 2005/06 (on a month-to-month basis and in total) with the corresponding period of 2004/05.



Although 50% of the financial year has passed, in aggregate departments have managed to spend 45,7%. This slow spending can be an indication of the performance against the original goals in the strategic plan. This, again, can be compared to what Gershon (2004) stated, as discussed in paragraph 3.2.2 above, that cuts in funding allocations might result in poorer service delivery to the public.

When compared to the corresponding period in 2004/05, the expenditure was 2,4% higher. As per Graph 4 above, the expenditure for the second quarter of 2005/2006 was 1,28% higher than that of the 2004/05 actual outcome. When comparing the projections for the future quarters, departments were projecting collectively to spend 27,4% of their “adjusted” budget in the third and 27% in the fourth quarter, while in the corresponding periods in 2004/05 the Province incurred expenditure of 25,83% and 28% respectively. The Western Cape’s expenditure for the

first half of the year was the 7th highest when compared to the rest of the Provinces.

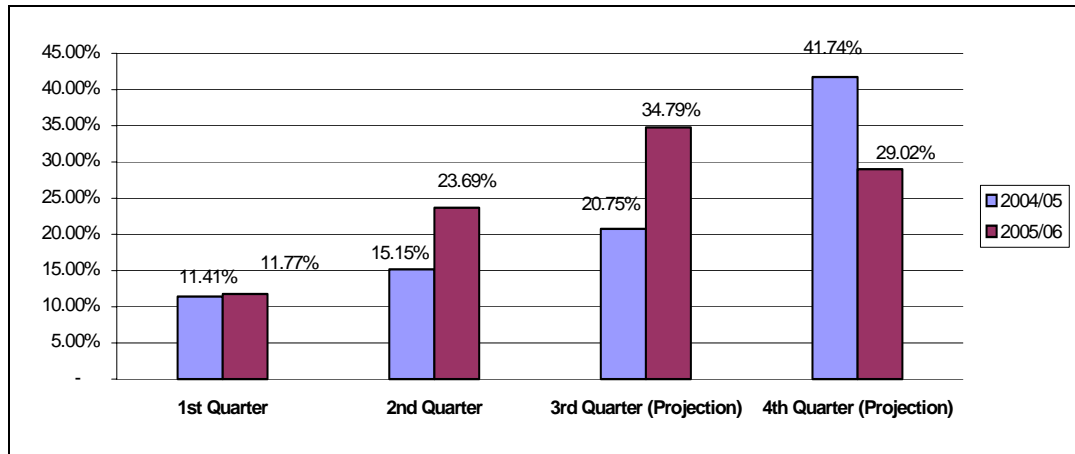
The following table gives the performance per department:

Table 3: Departmental expenditure as at 30 September 2005: Notional benchmark percentage 50% (R'000)							
Departments	2005/06						
	Adjusted Budget	1st Quarter spending	2nd Quarter spending	% Spent of Adjusted Budget	Revised estimate	% Revised estimate vs Budget	Projected (over) under expenditure
Department of the Premier	298,112	65,163	67,550	44.5%	301,277	101.1%	(3,165)
Prov. Parliament	56,143	10,882	13,172	42.8%	53,359	95.0%	2,784
Prov. Treasury	130,338	21,176	27,024	37.0%	115,409	88.5%	14,929
Community Safety	175,123	41,305	47,207	50.5%	175,123	100.0%	0
Education	6,335,716	1,512,712	1,550,885	48.4%	6,335,716	100.0%	0
Health	5,773,116	1,218,498	1,395,066	45.3%	5,766,023	99.9%	7,093
Soc. Serv & P.A.	4,945,891	1,134,736	1,167,433	46.5%	4,936,528	99.8%	9,363
Local Government & Housing	756,577	87,479	175,339	34.7%	747,308	98.8%	9,269
Env. Aff. & D. Plan.	159,186	40,706	36,263	48.4%	159,186	100.0%	0
Transport & P.W.	1,746,488	265,677	462,163	41.7%	1,786,031	102.3%	(39,543)
Agriculture	265,126	56,787	47,306	39.3%	268,792	101.4%	(3,666)
Econ. Dev.	147,405	14,923	40,899	37.9%	147,405	100.0%	0
Cult. Aff. & Sport	167,834	37,468	34,869	43.1%	167,834	100.0%	0
Direct charge	Included in Prov Parliament						
Total	20,957,055	4,507,512	5,065,176	45.7%	20,959,991	100.0%	(2,936)

When analysing the above table, it is clear that the overall expenditure at the time was 4,3% below the notional benchmark percentage of 50% with Transport and Public Works, Agriculture and the Department of the Premier predicting over-expenditures amounting to R46,374 million.

The graph below gives an indication of the Province's aggregate on capital expenditure at the time:

GRAPH 5: CAPITAL EXPENDITURE - 2004/05 vs 2005/06



Capital expenditure (including capital transfers and subsidies) for the second quarter in 2005/06 was recorded at 35,4%, which was higher than the actual of 26,6% incurred in 2004/05. However, the expenditure was alarmingly below the desired notional 50% benchmark for the first half of the year.

The initial projections in 2004/05 were similar to those of 2005/06, in reality the actual spending in 2004/05 spiked in the last quarter with the Province spending 41,7%.

The table below indicates capital expenditure per department.

Table 4: Departmental capital expenditure as at 30 September 2005: Notional benchmark percentage 50% (R'000)							
Departments	2005/06						
	"Adjusted" Budget	1st Quarter spending	2nd Quarter spending	% Spent of "Adjusted" Budget	Revised estimate	% Revised estimate vs Budget	Projected (over) under expenditure
Department of the Premier	29,988	2,586	3,669	20.9%	21,701	72.4%	8,287
Prov. Parliament	551	48	75	22.3%	551	100.0%	0
Prov. Treasury	2,772	74	243	11.4%	1,836	66.2%	936
Community Safety	4,350	668	180	19.5%	4,350	100.0%	0
Education	248,308	46,010	90,656	55.0%	248,308	100.0%	0
Health	384,004	44,191	42,892	22.7%	346,774	90.3%	37,230
Soc. Serv & P.A.	29,166	1,754	466	7.6%	29,166	100.0%	0
Housing	563,449	55,005	133,866	33.5%	563,449	100.0%	0
Env. Aff. & D. Plan.	1,284	37	194	18.0%	1,346	104.8%	(62)
Transport & P.W.	877,148	102,152	248,158	39.9%	909,668	103.7%	(32,520)
Agriculture	64,578	7,837	2,734	16.4%	61,895	95.8%	2,683
Econ. Dev.	200	200	196	198.0%	486	243.0%	(286)
Cult. Aff. & Sport	8,818	42	205	2.8%	8,830	100.1%	(12)
Direct charge	Included in Prov Parliament						
Total	2,214,616	260,604	523,534	35.4%	2,198,360	99.3%	16,256

"Adjusted" Budget includes the adjustments included in the In-year Monitoring Report as at 30 September 2005: Approved rollovers and revenue retention.

Analyses of the table indicates the reasons for the low spending per department. Analysis of the low spending indicates the departments' level of performance. Health, for example, was projecting an under spending of R37,230 million because of delays on the hospital revitalisation grant, a national conditional grant. Transport and Public Works was projecting an over spending mostly because of increased capital transfers to the City of Cape Town and a projected increase in land and buildings purchased to acquire new land to build new schools. As discussed by Gershon (2004) in paragraph 3.2.3 above, government should understand what the public requires and respond thereto. Hopefully this is the reason why additional schools were build.

The table below gives an overview of the expenditure on compensation of employees:

Table 5: Compensation of employees as at 30 September 2005: Notional benchmark percentage 50% (R'000)							
Departments	2005/06						
	"Adjusted" Budget	1st Quarter spending	2nd Quarter spending	% Spent of "Adjusted" Budget	Revised estimate	% Revised estimate vs Budget	Projected (over) under expenditure
Department of the Premier	131,405	28,691	29,416	44.2%	120,754	91.9%	10,651
Prov. Parliament	35,001	7,321	6,391	39.2%	30,225	86.4%	4,776
Prov. Treasury	52,503	9,414	10,918	38.7%	45,643	86.9%	6,860
Community Safety	103,428	22,626	24,453	45.5%	101,764	98.4%	1,664
Soc. Serv & P.A.	269,922	51,346	55,637	39.6%	256,356	95.0%	13,566
Housing	88,417	17,795	18,836	41.4%	79,555	90.0%	8,862
Env. Aff. & D. Plan.	53,857	10,322	12,383	42.2%	52,899	98.2%	958
Transport & P.W.	192,316	39,327	38,792	40.6%	181,788	94.5%	10,528
Agriculture	123,429	27,152	26,551	43.5%	123,384	100.0%	45
Econ. Dev.	37,683	6,686	6,720	35.6%	32,198	85.4%	5,485
Cult. Aff. & Sport	73,505	14,399	15,173	40.2%	65,436	89.0%	8,069
Direct charge	Included in Prov Parliament						
Total (excl. Education and Health)	1,161,466	235,079	245,270	41.4%	1,090,002	93.8%	71,464
Education	5,082,716	1,238,511	1,226,966	48.5%	5,082,716	100.0%	0
Health	3,138,452	699,674	759,547	46.5%	3,060,629	97.5%	77,823
TOTAL	9,382,634	2,173,264	2,231,783	46.9%	9,233,347	98.4%	149,287

"Adjusted" Budget includes the adjustments included in the In-year Monitoring Report as at 30 September 2005: Approved rollovers and revenue retention.

An analysis of the table indicates an aggregate under spending of R149,287 million projected for compensation of employees. The reason for this underspending has again been analysed, indicating the problem in each department.

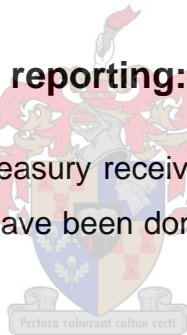
Similarly the transfers and subsidies paid by departments were reflected in the table below and analysed.

Table 6: Transfers and subsidies as at 30 September 2005: Notional benchmark percentage 50% (R'000)							
Departments	2005/06						
	"Adjusted" Budget	1st Quarter spending	2nd Quarter spending	% Spent of "Adjusted" Budget	Revised estimate	% Revised estimate vs Budget	Projected (over) under expenditure
Department of the Premier	5,314	2,232	329	48.2%	9,747	183.4%	(4,433)
Prov. Parliament	9,064	1,762	3,251	55.3%	10,344	114.1%	(1,280)
Prov. Treasury	176	23	141	93.2%	320	181.8%	(144)
Community Safety	27,622	11,132	8,945	72.7%	28,354	102.7%	(732)
Education	501,871	143,089	115,231	51.5%	501,871	100.0%	0
Health	539,147	107,754	138,705	45.7%	540,913	100.3%	(1,766)
Soc. Serv & P.A.	4,402,975	1,047,633	1,045,732	47.5%	4,402,798	100.0%	177
Local Gov. & Housing	583,560	59,559	143,506	34.8%	598,732	102.6%	(15,172)
Env. Aff. & D. Plan.	79,296	26,765	17,862	56.3%	79,317	100.0%	(21)
Transport & P.W.	131,363	7,345	42,016	37.6%	160,324	122.0%	(28,961)
Agriculture	26,739	14,479	1,211	58.7%	26,915	100.7%	(176)
Econ. Dev.	80,141	3,817	27,594	39.2%	81,693	101.9%	(1,552)
Cult. Aff. & Sport	28,883	13,046	1,088	48.9%	28,964	100.3%	(81)
Direct charge	Included in Prov Parliament						
Total	6,416,151	1,438,636	1,545,611	46.5%	6,470,292	100.8%	(54,141)

"Adjusted" Budget includes the adjustments included in the In-year Monitoring Report as at 30 September 2005: Approved rollovers

4.5 Quarterly performance reporting: Analysis

Although the Provincial Treasury receives these reports, only very limited analysis of these reports have been done as yet. It is thus not addressed in this study.



4.6 March spike

In the previous section brief reference was made to the March spike phenomenon as it occurred in the Western Cape Department of Health. This subject matter enjoys a very high priority at National Treasury level. National Treasury drafted a memo in July 2006 to the Technical Committee for Finance in this regard. The report highlighted potentially negative aspects of departmental spending patterns in the final month of the 2005/06 financial year in relation to the budgeting and financial management process.

Especially over the past three years various reports by the National and some provincial Treasuries referred to the “March Spike” anomaly, where departmental expenditure during the month of March rises considerably when compared to prior months of the financial year. National Treasury was particularly concerned about the high volume and magnitude of the transfer payments made in March as a proportion of the total annual transfer payments made in provinces.

From its analysis National Treasury (2006) determined that because of the results of the March spike, the following would be expected from provincial Treasuries:

- (a) “Greater exploitation of data in the financial systems should be undertaken to continually identify and implement improved financial management practices after budget allocations have been made;
- (b) Recognition that, although significant positive strides have been made in financial resource management, Treasury monitoring and reform processes still have some way to go in optimising resource usage for improved service delivery;
- (c) The roles of in-year monitoring, comprehensive accounting policies and detailed audit procedures relating to spending on transfer and goods and services should be strengthened, and
- (d) In addition to strengthening accounting policy and audit procedures as highlighted above, it may be necessary to review the average capacity and skill levels of financial practitioners in line departments, with a view to improving skill levels and/or capacity as may be necessary.”

These are important matters, to which further reference will be made in the next chapter (conclusion), as they impact on the recommendations of this report. This is, furthermore, in line with what Gershon (2004) said, as

discussed in paragraph 3.2.2 above, that greater investment in ICT will ensure better service delivery

4.7 Summary

In this chapter the manner in which performance analysis is undertaken in the Western Cape Treasury was discussed. Currently such reporting is based on the National Treasury's IYM reports by means of monthly narrative reports to departments and quarterly expenditure reports to the Provincial Cabinet. This includes benchmarking and ratio analysis techniques as well as graphs.

Reference was made to the "March spike" anomaly and a National Treasury report in this regard was discussed, specifically referring to National Treasury's recommendations in this regard. This report will also be highlighted again in the next chapter, which will summarise the thesis with a view to providing some recommendations for future implementation.

It is thus clear that currently performance measurement by the Western Cape Treasury is by and large based on evaluation of expenditure against budget. Budgets, on the other hand, are based on annual performance and strategic plans and are drawn up to ensure achievement of the targets. Spending in line with the budget will thus also ensure performance in line with objectives.

As repeatedly referred to throughout the chapter, the measurement practices followed puts South Africa in line with what Gershon (2004) introduced in the United Kingdom.

Chapter 5

5. Conclusions and recommendations

This chapter consist of the study's conclusion and recommendations. It provides a summary of the thesis chapters, as well as concluding remarks based on the analysis in Chapter 4 – what should the Provincial Treasury do to improve its measurement of efficiency in the Western Cape? The research is hereby concluded.

5.1 Introduction

The objective of this last chapter is to provide some recommendations on how the Provincial Treasury may improve its ability to influence departments' performance. The thesis discussed efficiency from a public sector perspective and the measurement thereof through performance measurement techniques mostly based on departments' expenditure. Some practices to improve efficiency were also discussed.

The main findings and conclusion of the study is discussed in the next paragraph by means of a summary of the thesis chapters, indicating how each one of the questions has been answered.

Before the chapter is finalised, some recommendations will be made on a possible way forward. Thereafter the thesis is concluded.

5.2 Main findings and conclusions

The objective of this document was to analyse four subject matters. How this objective was achieved will be indicated per issue below:-

- *To investigate what is meant by “efficiency” in the public sector.*

For the purpose of this discussion the definition used by Gershon in his report for the British Treasury (2004: 6) was accepted and adapted. Efficiency in the public service thus comprises those reforms in processes of delivery and the use of resources that achieve -

- A reduction in the number of input, whilst the same level of service provision is maintained;
- The payment of lower prices for the resources needed to provide the services;
- Additional outputs while utilising the same level of inputs;
- Improve the ratio of output per unit cost of input, and
- Enhance the social needs of the community.

- *To learn about the different techniques in performance measurement available to measure efficiency or performance.*

It was determined that the measurement of performance is mostly used to determine the level of efficiency. Techniques available to measure performance were discussed, namely benchmarking analysis, which is subdivided into parametric or regression based estimators (stochastic frontier estimation) and non-parametric or mathematically programming estimators (data envelopment analysis), as well as economic analysis.

- *To investigate techniques and their relevance to the Western Cape Government, such as –*
 - *efficiency gains measures,*
 - *public expenditure tracking systems (PETS).*
 - *shared services practices, and*

- *various privatisation practices (especially public-private partnerships and competitive contracting),*

The above practices were discussed as per the initial objective. PETS is a practice where the flow of public funds is traced from input to output stage in a specific project. From its application, mostly from a donor funding perception in disadvantaged countries, it does not seem relevant to South Africa, especially not the Western Cape.

The sharing of certain services by more than one department is another practice, which has never become popular in the Western Cape, because of its slower processes (especially procurement). Furthermore, it also does not allow for full costing of a function in a specific department.

Some of the privatisation practices referred to were public-private partnerships, where the public and the private sectors jointly deliver a service, and competitive contracting, where private competition is introduced into delivering a service, either by the public or the private sector. Because of stringent requirements by the National Treasury for PPPs, very few have been implemented thus far in the country. Contracting out practices have been implemented with reasonable success in services, such as the daily cleaning of offices and hospitals, security, maintenance work and cafeteria services.

It is thus clear that only the British efficiency gains measures remains as an option. This could be introduced with reasonable success in South Africa. It is an easier and straightforward way to introduce efficiency and require only the buy-in of management and politicians.

- *To determine what is being done to measure and improve efficiency in the Western Cape from a Treasury perspective and how this relates to this investigation.*

In South Africa departments have to perform in terms of prior determined goals and strategic plans. Information on the performance is received by means of strategic and annual performance plans, budget statements, quarterly performance plans, annual reports and the political oversight thereof, audit reports, research by Treasury officials and the in-year monitoring reports. All in-year measurements are thus currently based on expenditure analysis, although a start has been made with collecting non-financial performance indicators as well. Treasury officials formally report on the efficiency levels of departments by means of quarterly narrative reports to departments and quarterly expenditure reports to the Provincial Cabinet. In the reports techniques such as benchmarking and ratio analysis techniques as well as graphs are used.

5.3 Summary of thesis

Chapter 1 set the background and rationale for the study. It outlined the research question, design and methodology of the study.

In **Chapter 2** a theoretical background of efficiency was provided. Efficiency was placed into context, linking it to delivery on initial goals and objectives. A short definition of efficiency was given, whereafter the term was further discussed in terms of the different perceptions thereof on the part of engineers and economists. The relationship between quality and efficiency was discussed, linking it to productivity and employee performance.

After illustrating efficiency graphically and providing some basic principles thereof, a government definition was determined. Characteristics of measures to improve efficiency were discussed. To measure the level of efficiency it was necessary to analyse performance. It was thus necessary to put efficiency and performance in context, whereafter the measurement of performance was discussed. Ten performance measurement techniques were discussed.

In a reflection on the private sector, efficiency was compared between the private and public sectors. A discussion followed on the need for public sector involvement in delivering a service. Finally, a brief look was taken at a South African Government self-assessment.

In **Chapter 3** some of the efficiency practices utilised by the public service to improve its input / output ratio were discussed. The United Kingdom introduced efficiency gains measures with its 2004 Budget, which was reviewed in 2005. In terms of this method departments have to set up prior targets, which they would wish to achieve. This practice is similar to what is done in South Africa, where departments have to perform in terms of prior goals and strategic plans. South Africa, however, followed to a large extent current practice in Australia and New Zealand.

PETS is a practice where the flow of public funds is traced from input to output stage in a specific project. From its application, mostly from a donor funding perception, it does not seem relevant to South Africa, especially not the Western Cape.

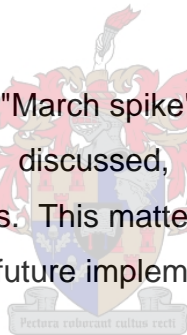
Shared services is another practice, utilised by Gauteng and also in the UK (for IT purposes), British Columbia and by the BBC. The practice has never become popular in the Western Cape, because of its slower processes (especially procurement). Furthermore, it also does not allow for full costing of a function in a specific department.

Privatisation seems to be a straightforward way of introducing efficiency into the public sector, because of the perception that the private sector is more efficient, since its modus operandi is motivated by profit. Two privatisation practices, PPPs and competitive contracting, have been discussed in some detail. These practices are, however, not popular in South Africa, because of the negative social and employment issues associated with them.

In the last part of the chapter the practices and procedures applied in South Africa and the Western Cape from a Treasury perspective were discussed. The different source documents from which analyses could be done were covered in some detail. In this regard the following came under the spotlight: strategic and annual performance plans, budget statements, quarterly performance plans, the role of annual reports in political oversight, audit reports, research and the in-year monitoring reports.

In **Chapter 4** the way in which performance analysis is done in the Western Cape Treasury was discussed. Currently such reporting is mostly based on expenditure as provided in the IYM reports or in the form of quarterly narrative reports to departments and quarterly Cabinet reports. Benchmarking and ratio analysis techniques as well as graphs are mostly used.

Reference was made to the "March spike" anomaly and a National Treasury report in this regard was discussed, specifically referring to National Treasury's recommendations. This matter, amongst others, will be taken up in the recommendations for future implementation.



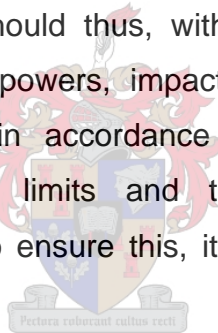
5.4 Recommendations

The author of this study is in full agreement with the recommendations contained in the National Treasury (2006) report on the analysis of the March spike. This is what Provincial Treasuries should implement if they wish to ensure higher levels of efficiency and improved performance measurement in provincial departments:

- (a) "Greater exploitation of data in the financial systems should be undertaken to continually identify and implement improved financial management practices after budget allocations have been made;

- (b) Recognition that, although significant positive strides have been made in financial resource management, Treasury monitoring and reform processes still have some way to go in optimising resource usage for improved service delivery;
- (c) The roles of in-year monitoring, comprehensive accounting policies and detailed audit procedures relating to spending on transfer and goods and services should be strengthened, and
- (d) In addition to strengthening accounting policy and audit procedures as highlighted above, it may be necessary to review the average capacity and skill levels of financial practitioners in line departments, with a view to improving skill levels and/or capacity as may be necessary.”

The Provincial Treasury should thus, without interfering in departments’ independent management powers, impact on departments’ spending to ensure that spending is in accordance with credible budgets, within budgetary and legislative limits and the result of healthy budget management practices. To ensure this, it is required from the Provincial Treasury to



- Influence the credibility of departments’ budgets through engagements related to the Budget, IYM and Adjustments Budget processes to ensure better resource allocation. Already during the allocation phase of the budget will it be clear whether funds is allocated in terms of a department’s strategies, whether funds is parked where it is not needed, or whether the allocation of funds in general is not credible.
- Influence departments to ensure that departments’ spending is in line with budgets, relevant legislative prescripts and at low cost by influencing planning and management of expenditure, ensure, through discussions with departments, an ameliorated March spike, as well as ensuring no over expenditure or only one per cent underspending;

- Monitor departments and inform them of trends and problematic spending patterns to influence delivery of a given output with less money or alternatively higher outputs with a given amount of money.
- Build analytical capacity to be able to provide departments with better information on spending patterns, create and improve internal and external networks to enable better flow of communication, do site visits and field trips which will serve as sources of information and prove of delivery.
- Improve the reporting process on non-financial information so that it can be used to get a hold on what was achieved by the money allocated to departments in the budget, and link those outputs and outcomes back to the measurable objectives identified in the departments' strategic plans.

I am of the opinion that the Treasury official's role in ensuring efficiency in departments is underestimated, not only by the management in Treasury and line departments, but also by the relevant officials themselves. Without the analysis and information provided by Treasury officials, departmental budgets may never be really credible. To influence the credibility of budgets, Treasury officials have to know how departments spent their budgets in terms of their objectives and targets in a previous financial year in order to be able to re-allocate funds for the following financial year. Some departments are managing to receive incremental allocations for certain functions year on year, even though service delivery is not up to standard. Proof of this can be found in the large amounts saved on compensation of employees each year, which are eventually shifted to other services in the adjustments budget, or by means of virement at a later stage in the financial year, without decent political oversight. As Treasuries have great influence on the initial allocation of budgets by evaluating the credibility of budgets,

the analysis of previous year's expenditure must be used as a basis for critiquing future budgets.

The aforementioned, however, only covers the first three bullet points above, namely the credibility of budgets, monitor expenditure and non-financial performance of departments. This could be achieved with reasonable ease by analysing documents and reports currently received from departments and improving the reporting and analyses of non-financial information. It would, however, only provide a two dimensional picture. The full scope of what is needed to ensure performance at a more efficient level require a complete overview and knowledge of what is really happening on the ground in a department. For this it is required to build excellent communication channels with departments.

Apart from what currently takes place in the form of Medium Term Expenditure Committee meetings between the Treasury and departments during the budget process, where budget requests are discussed to ensure that realistic budgets are allocated to each department, as well as other ad hoc discussions pertaining to specific issues stemming from the IYM and adjustments budgets, Treasury needs to be much more informed regarding the internal operations of departments. This cannot be achieved simply through desktop investigations by means of documents received by Treasury officials, but require much closer contact between the Treasury and departments. To evaluate a department's performance, Treasury needs to know how the department is operating internally and know to whom a specific question should be directed. This will provide the detail on the trends which can be picked up from the departments spending trends combined with non-financial reporting.

Consequently, qualitative research becomes to a large extent, the most important source of information available to Treasury. Dr Annatjie Moore's (2004) statement reflects this, when she stated that the main skill needed

for qualitative analysis using a narrative framework, is the ability to listen and ask the correct questions. Treasury officials need to acquire the right relationships with the right people in departments. They have to be confident in their attitudes towards these colleagues in other departments to ensure that they receive the support and cooperation of departmental officials and management, especially also the chief financial officer and, sometimes, the head of the relevant department. In this regard it is important to note that the quickest way for a Treasury official to lose the respect of a department is by not being able to do the basics right. It is at the very least expected from Treasury officials to be able to use software, such as Excel, correctly, know their departments' budgets and always refer to the right numbers, especially when doing narrative reports and analysis.

Performance reporting and the evaluation thereof should eventually also play a very important role in enabling Treasury to obtain real insight in how a department performs. At the moment the submission of performance reporting is still very much merely a compliance issue. All efforts go into ensuring that departments submit these reports, but nothing really emanates from their contents. As soon as these reports start fulfilling their required role and in-year performance monitoring is seriously introduced, could departments be evaluated on progress towards the achievement of their targets and could this information be used to influence departments' performance, productivity and service delivery. The performance reported on can be linked back to the targets set by the department in its initial strategic and annual performance plans. This will enable treasury to determine what departments did with the money allocated to them and whether it contributed to improved service delivery.

Much of what is expected of Treasury in future is thus dependent on the calibre of person employed in the Treasury. As mentioned above, Treasury officials are normally at a lower rank than the colleagues in other departments with whom they are required to interact. To ensure that they

are respected for their knowledge and abilities in the bureaucratic ranking system of the public service, would thus be one of the main abilities with which new and current employees in a Treasury should be capacitated.

5.5 Conclusion

To conclude this thesis, the words of the Minister of Finance, Mr. Trevor Manuel in his 2005 Provincial Budgets and Expenditure Review Address to the National Council of Provinces on 15 September 2005, are quoted, because they so clearly and directly describe the current issues in South Africa. He said that eleven years into democracy, various service delivery accomplishments have been rendered through the resources that have been allocated to provinces. South Africa thus made substantial efficiency gains in the provision of public sector services over the period.

Minister Manuel, furthermore, said that: “one of the areas that need urgent attention is the gathering and collation of non-financial information on the services that the various sectors deliver. Only through assessing the quality of the public services can it be established whether government derives maximum value for every Rand spend to determine whether the country truly progressed towards creating a better life for all”.

With regard to the efficient utilisation of its resources, especially relating to personnel and their capacity, the Minister noted that good management should be “driven by service delivery through improved efficiency and productivity. To this effect, government needs to:

- create a balance in the use of resources, to ensure that non-personnel expenditure is not crowded out by personnel expenditure
- make sure that performance becomes the basis for remuneration and reward systems in personnel policy and management

- create flexibility in the remuneration system of professionals to enable government to compete for scarce and high skills in the labour market through competitive pricing
- empower the public service to drive the development and implementation of policy”.

It is thus clear that efficient service delivery requires dedicated and capacitated people to do the work. We can be informed about and implement all the best techniques, but if these do not contribute to improved service delivery, it would be tantamount to merely another inefficient exercise. Efficiency, in the end, has very much to do with the attitude and work ethics of each individual public sector employee. By being able to measure the service delivery through measures such as performance reporting, government will be able to judge its performance and determine where improvements are needed.



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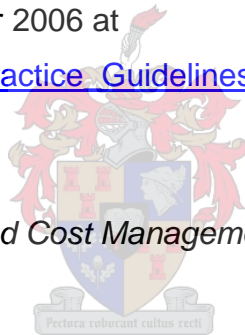
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