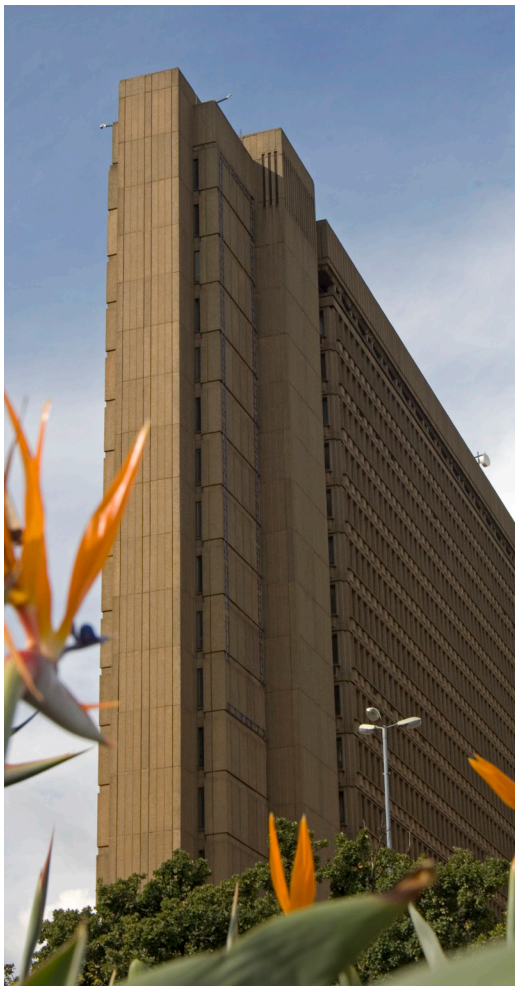
FINANCIAL AND FISCAL COMMISSION

POLICY BRIEF

5/2013

Effective Intergovernmental Planning and Budgeting for Better Outcomes

EXECUTIVE SUMMARY



Governments are under pressure to improve public sector management and to demonstrate value for money. South Africa has adopted an outcomes-based approach to service delivery, which seeks to measure, monitor and evaluate the service delivery value chain. Yet South Africa's decentralised government system makes inter- and intra-sphere planning and budgeting, joint implementation and shared accountability difficult. Part of the problem is that the outcomes approach was superimposed on an existing performance management and budgeting framework, which still follows a sectoral or line item approach. Programme-based or portfolio budgeting offers a way to integrate planning, budgets and outcomes, while simultaneously introducing incentives, which can strengthen performance measurement and accountability. However, in South Africa the existing performance incentives are not directly linked to an outcome, but are meant to trigger improved spending. The public sector management reforms need to be broadened to include budget, costing and accounting reforms. The introduction of an outcomes-oriented M&E in a decentralised government system requires the clear assignment of roles and responsibilities, a strong and committed political leadership, clear-cut accountability for outcomes (between administrators and politicians), and levers to hold people accountable. Reforms should be introduced to reconcile the collective responsibility for delivery agreement outcomes and the individual department-focused budget-bidding process. Collaboration can be encouraged through introducing incentives that reward individual departments for their contribution and achievement of delivery outcomes.

BACKGROUND

Efficient and effective public sector management is the mantra of modern-day public services management. Electorates throughout the world are putting governments under increasing pressure to produce results. Governments need to demonstrate value for money and so are looking to introduce new and better forms of management. However, often these reforms overlay existing performance management and budgeting systems, which have inherent, country-specific, institutional, systemic and process weaknesses. In South Africa, public services delivery took a new leap following the adoption of an outcomes-based approach to service delivery and the National Development Plan. Recognising the unevenness in the quality of public services and often ineffective public spending, the new approach seeks to measure, monitor and evaluate the different elements of the service delivery value chain. However, South Africa's decentralised government system, with powers and functions diffused across three spheres, poses operational problems for implementing such an approach. The concurrent nature of functions creates inherent tensions which makes inter- and intra-sphere planning and budgeting, joint implementation and shared accountability difficult. The Financial and Fiscal Commission's research looks at ways in which the outcomes-oriented delivery system can function in a decentralised system and be used to promote effective intergovernmental planning and budgeting.[1]

FINDINGS

In 2009 a dedicated Ministry of Performance Monitoring and Evaluation (M&E) was introduced in South Africa. The new approach is outcomes oriented, focusing on 12 strategic delivery areas. The president signs performance agreements with ministers and intergovernmental protocols with premiers for a specific sector. Sectors are further required to set up executive and technical implementation forums for each outcome area. The current M&E reporting framework is complex and cumbersome, with multiple reporting points, and emerging practices suggest that it will create a significant administrative burden. Furthermore, a scan of on-the-ground practices reveals severe anomalies and raises substantial

[1] For the full study, see Rakabe, E. 2013. Effective intergovernmental planning and budgeting for better outcomes, Chapter 13 in Financial and Fiscal Commission (2013). 2014/15 Submission for the Division of Revenue Technical Report, Midrand, South Africa.

concerns about the process.

- The need to coordinate activities and budgets across many delivery partners could potentially render the negotiation process of delivery agreements unworkable.
- Lead departments may have to run parallel mini-budgeting processes, to motivate other delivery partners to make the necessary budgetary allocations.
- Holding delivery partners collectively accountable to an outcome (and the M&E of such an outcome) will be difficult if individual departments have not made allocations to key activities within an outcome.

A review of four of the 12 service delivery agreements found that none of the agreements include individual delivery partners' budgetary allocations/contributions towards the applicable outcome, nor the service delivery and accountability chain.

The outcomes approach has been introduced late in the process of public sector reform and was superimposed on an existing performance management and budgeting framework that has a history of unilateralism[2], which may explain part of the problem. The budget-bidding process still follows a sectoral or line item approach, where departments bid for additional resources individually, and programme budgets are determined independently within respective departments and spheres. Treasuries do not have the power to enforce allocations during the budget process.

Integrating planning, budgets and outcomes is not an easy task. One solution lies in adopting programme-based or portfolio budgeting, whereby expenditure is classified by broad functions or programmes aggregated across ministries. An important principle underlying portfolio budgeting is that the programme structure may transcend organisational boundaries, but accountability is at programme level. However, the introduction of portfolio budgeting needs to be weighed up against the possible diluting of budgetary control and fiscal accountability. Successful implementations of results-oriented budgeting simultaneously introduce incentives, which can influence decisions and guide actions towards improving efficiency. In so doing, performance measurement and accountability are strengthened, while individual departments have greater autonomy and flexibility. Currently, performance incentives in South Africa are not directly linked to an outcome and are meant to trigger improved spending, rather than produce expenditure outcomes.

[2] Unilateralism refers to the tendency for budgeting and planning to focus on an individual public institution's objectives and for the accounting officer to make budget decisions in isolation, rather than joint action and joint resourcing of common government-wide outcomes with shared accountability for results.

CONCLUSION

The introduction of an outcomes-oriented M&E in a decentralised government system requires the clear assignment of roles and responsibilities among partners, a strong and committed political leadership that can drive and inculcate a culture of performance across all government spheres, clear-cut accountability for outcomes (between administrators and politicians) and levers to hold people accountable. In South Africa, public sector management reforms need to be broadened, beyond outcomes M&E, to include budget, costing and accounting reforms.

With respect to effective **intergovernmental planning and budgeting for better outcomes**, the Commission recommends that:

- National Treasury and the Department of Performance Monitoring and Evaluation (DPME) introduce budget process reforms necessary for reconciling the collective responsibility for delivery agreement outcomes and the individual department-focused budget-bidding process by:
  - Realigning the budget process along service delivery agreements, such that MTEC hearings are conducted at an outcome level, where applicable, rather than the current sectoral, individual institutional approach.
  - Directly linking resource allocation to realistic, measurable and limited performance targets per outcome. Programme expenditure reviews must be undertaken at the end of each targeting period.
- In order to incentivise collaboration, Government consolidates and reorients existing conditional grant incentives to reward successful achievement of delivery targets/outcomes, rather than individual, department-specific programme objectives.
- Delivery partners, who are party to service delivery agreements, are evaluated on the basis of their contributions and participation in implementing delivery agreements, where aspects such as required budgetary contributions, and meeting agreed-to targets and timelines are constantly monitored.
- Service delivery agreements are fully compliant with the requirements of the M&E guideline document before being accepted or signed into a binding document.

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