

The Complexity of Budget Reform and Performance Management in the South African Public Sector Financial Environment

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ABSTRACT

A budget is a key element that indicates whether an institution will be able to achieve its aim. The budget management process is inseparable from performance management and the focus should not only be on expenditure control, but also on the achievement of objectives. The objective of budget reform should therefore be to enable management to measure and enhance a department's performance. Performance management in the environment of public financial management in South Africa is no longer a foreign concept. Performance management systems have evolved to secure a higher degree of service delivery in respect of effectiveness, efficiency, economy, and appropriateness.

Since 1997 the South African public service has been moving towards the utilisation of performance management as a requirement for the executive authority of a department to determine a system of performance management and development for employees. Senior managers are also required to enter into performance agreements with the executive authority of their department. The importance of performance management for senior managers in terms of financial management is illustrated by the fact that a performance agreement has to be signed with the executive authority within the first month of the new financial year. This indicates that performance is directly linked to financial management (budget control) and the measurement of performance. In view of the importance and the significant role of performance management, the budget and the budget process should be further reformed and refined into a mechanism to make

the measurement of performance more effective so as to achieve service excellence.

INTRODUCTION

It is of vital importance for the central government of South Africa to control the amount of money allocated via the Division of Revenue Act¹ to the three spheres of government in order to implement and maintain an effective and efficient fiscal policy. In this regard the budget is the main mechanism to measure the performance of a government institution, and specifically the performance of the accounting officer, to promote and uphold the basic values and principles of public administration referred to in section 195(1) of the *Constitution of the Republic of South Africa, 1996* (the Constitution), such as “a high standard of professional ethics must be promoted and maintained”; the “efficient, economic and effective use of resources must be promoted”; and “public administration must be accountable”. Furthermore, the budget is the norm for public institutions against which their performance should be measured in order to improve their outputs to ensure efficient and effective service delivery.

BUDGET REFORM PHASES

Since 1994 three phases have been at the basis of budget reform: The **first phase** of reform began with the introduction of a new intergovernmental system, which required all three spheres to develop and adopt their own budgets (decentralised budgeting). Budget reform has already taken place as budget management is based on the system of Management-By-Objectives (MBO), which is currently being applied in the South African public sector, together with the implementation of the Medium Term Expenditure Framework (MTEF), which is regarded as the government’s cornerstone of budget reform (Pauw, Woods, Van der Linde, Fourie & Visser 2015:84). “Management by objectives is a process of defining objectives within an organisation so that management and employees agree to the objectives and understand what they need to do in the organisation” (http://en.wikipedia.org/wiki/Management_by_objective Undated). According to the internet website, Wikipedia (http://en.wikipedia.org/wiki/Management_by_objective Undated), Peter Drucker first used the term “management by objectives” in his 1954 book, *The Practice of Management*. As MBO is intended to improve the overall performance of any organisation, including government, a comprehensive

Table 1: The series of budget and financial reforms

Achieved 1995–1999	2000–2015	The future
<ul style="list-style-type: none"> Decentralised budgeting. 	<ul style="list-style-type: none"> Implementation of the PFMA in 2000 and Treasury Regulations, 2001 and 2005, respectively. New national budget format. Implementation of the <i>Estimates of National Expenditure</i> (ENE) in 2001. 	<ul style="list-style-type: none"> Improving transparency. Government institutions should not “camouflage” expenditure for dubious projects. Information around estimates of national expenditure (ENE) needed to be demystified (Parliamentary Monitoring Group 18 March 2003)
<ul style="list-style-type: none"> Multi-year budgeting (MTEF). The Treasury Control Bill [W119-98] which later resulted in the PFMA. 	<ul style="list-style-type: none"> Empowering managers (allowing more discretion). Improving accountability. Linking planning and budgeting. 	<ul style="list-style-type: none"> Building of capacity. The series of reforms implemented during 2000–2014 cannot be successfully implemented and maintained without available capacity.
<ul style="list-style-type: none"> An emphasis on outputs rather than expenditure regulations. Deepening budgetary processes. 	<ul style="list-style-type: none"> Implementing service delivery indicators. Performance budgeting. The addition of one measurable objective (MO) per programme (Parliamentary Monitoring Group 18 March 2003). General Recognised Accounting Practices (GRAP). 	<ul style="list-style-type: none"> Implementation of the Draft Treasury Regulations 2012 (Government Gazette 20 November 2012) (will most probably be implemented on 1 April 2016). Spending reviews by the National Treasury and the Department of Monitoring and Evaluation to examine programme performance and value-for-money (National Treasury 2014).
<ul style="list-style-type: none"> Aligning policy and budgets. 	<ul style="list-style-type: none"> Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000). 	<ul style="list-style-type: none"> Implementation of the objectives of the National Development Plan in the budget and linking it with the strategic objectives of departments over the MTEF period.

Source: (National Treasury 1998:3 and 2000:2)

evaluation system such as performance management needs to be in place. As the **second phase**, the Public Finance Management Act, 1999 (Act 1 of 1999) was introduced with the objective to modernise financial management and to improve accountability (National Treasury 2000:1).

Table 1 provides a summary of budget reforms that have taken place since 1995 and what is envisaged for the future, which could be regarded as the **third phase** of reform.

However, effective performance management requires realistic and achievable targets that can challenge the institution and its staff (National Treasury 2009:100).

The budget process is inseparable from performance management and the focus should not only be on expenditure control alone, but also on the achievement of objectives, on over-spending as well as under-spending, risk management (including unauthorised, fruitless and wasteful and irregular expenditure) and on departmental performance. In an overview of the audit outcomes of national and provincial departments, the AGSA (2011:44) identified that one of the root causes for the poor performance of institutions is that the leadership of institutions do not prioritise the development of performance objectives, indicators and targets that are necessary to achieve the mandate of the institution. This type of shortcoming which will impact on effective performance management and service delivery.

In the interest of public accountability this state of affairs needs to be addressed. According to the AGSA (2011:79) "...the tone of the leadership will have to change to turn the situation around if the target of clean audit is to be achieved by 2014. Regressions in audit outcomes should be prevented at all costs by ensuring that key controls, comprising (i) leadership (ii) financial and performance management, and (iii) governance, are implemented and adhered to" (AGSA 2011:79). The 2013/2014 financial year has come to a close and the 2014/2015 financial year has started, but the objective of "clean audit 2014" has not been realised although the AGSA announced steady improvements for the 2013/14 financial year (AGSA 26 November 2014). In a presentation on 2 September 2014 to the Portfolio Committee on Cooperative Governance, the AGSA submitted that the previous administration introduced the "Operation Clean Audit 2014" programme, but municipalities were often confused about how to obtain a clean audit (Parliamentary Group 2 September 2014). The author is of the opinion that in order to obtain a clean audit or to improve audit outcomes, performance management is a crucial aspect. In this regard the budget is an important instrument to measure performance against the effectiveness of control over the budget as required by section 39 of the PFMA. It would appear that the situation (in terms of improvement) has not changed. The AGSA, when announcing the audit results for 2014/2015, said that he had observed

that managements at most auditees (73%) “(H)ave been slow to respond to the (audit) recommendations aimed at assisting them to improve key controls and addressing identified risk areas. This contributed to audit outcomes for 2014–15 that only improved slightly since 2013–14” (AGSA 2015:1). He further reiterated that “(M)y message from the previous year is still relevant. There should be a focus on these departments to ensure a meaningful movement towards accurate, accountable and transparent financial and performance reporting. This should be underpinned by sound internal controls and good human resource management, including enhancing personal accountability and consequence management” (AGSA 2015:5). These comments by the AGSA point directly to the performance standards of accounting officers and their senior managers.

It can be assumed that the main objective of budget reform is the optimal achievement of the goals set by the government of the day, which have to be realised by departments in all three spheres of government in the most effective and efficient manner with the available but limited funds. However, the successful implementation of budget reform and the realisation of the above-mentioned assumption depend entirely on the performance of accounting officers and senior management in all three spheres of government.

PERFORMANCE MANAGEMENT AND BUDGETING

A multitude of policies, strategies, structures and programmes are in place to achieve effective budget management in the South African public sector. These include legislation, regulations, directives and practice notes and all of them play a role in the budget reform process. The intention of government is to provide accounting officers, chief financial officers (CFOs), departmental accounting staff, and financial and operational managers with a framework enabling them to perform to the best of their abilities within the financial management environment. The approach of the PFMA is also in line with regulation B1 of Part VIII of the Public Service Regulations (2001), which prescribes a performance-driven system based on measurable outputs. Performance agreements should be linked to the achievement of objectives in the strategic plan, the implementation of the Annual Performance Plan (APP), and the annual budget as the latter is inseparable from the strategic plan and the APP. At the end of the financial year each official's performance must be reviewed in relation to this agreement (National Treasury 2010:9). This viewpoint is also supported in a White Paper published by the Government of St Lucia (nd:27)²: “The inability of the budget system to reflect priorities, analyse and cost programmes realistically, allocate cash and control expenditure in a way that makes managers accountable and provide timely and accurate financial and accounting information”.

Since 1997 the South African public service has been moving towards the utilisation of a performance management system (White Paper on Human Resource Management in the Public Service 1997:42). It states that the executive authority of a department shall determine, in terms of Regulation B1 of the Public Service Regulations, 2001 (in White Paper on Human Resource Management in the Public Service 1997:42), a system of performance management and development for employees of that department. Senior managers are also required to enter into performance agreements with the executive authority of their respective departments in terms of paragraph 8.1 of the *Senior Management Service (SMS) Handbook* (2006:12). The importance of performance management for senior managers in terms of financial management is confirmed by the fact that a performance agreement has to be signed with the executive authority within the first month of each new financial year (SMS 2006:12). This indicates that performance is directly linked to budget control and therefore to financial management.

In addition to the significant role played by the APP in the measurement of financial management performance, the National Development Plan (2012) (NDP) has become a further factor to be considered in the budgeting process and performance measurement. In the Treasury Guidelines for the "Preparation of the Estimates of National Expenditure 2014", departments must now also provide information on how the departments' strategic goals and objectives link with the NDP, and how elements of the NDP relevant to a department will be implemented over the MTEF period (National Treasury 2013:7). The National Treasury will play a critical role in actively managing the financial resources of South Africa to ensure that funds are directed towards the achievement of the goals of the NDP (National Treasury 2014:16).

As previously stated, the implementation of the MTEF was one of the first steps in the budget reform process in 1998, which was a step forward in the openness and transparency of the budget-making process (National Treasury 1997). "Budget reforms have been aimed at the improvement of budgeting by programme, in particular the strengthening of the linkages between expenditure and performance information at the budget programme level linkages between expenditure and performance information at the budget programme level" (National Treasury 2012).

The above guidelines also determine that there should be a selection of performance indicators comprised of the output, outcome, and efficiency indicators and targets from those that are included in departmental APP and ministerial delivery agreements (National Treasury 2013:6).

For the purpose of successful budget management the applicable legislation, regulations and guidelines need to be applied in practice, with specific reference to the following aspects:

LEGISLATIVE FRAMEWORK FOR EFFECTIVE SERVICE DELIVERY

The Constitution places a high premium on the provision of services to the people and the effective performance of institutions within the limits of their budgets. The following are of significance in terms of the Constitution:

- Everyone has the right to have access to adequate housing (section 26(1)).
- Everyone has the right to have access to -
 - health care services, including reproductive health care;
 - sufficient food and water; and
 - social security, including, if they are unable to support themselves and their dependants, appropriate social assistance (section 27(1)(a)-(c)).
- Municipalities must give priority to the basic needs of the community (section 153(a)).
- Services must be provided impartially, fairly, equitably and without bias and the needs of people must be responded to (section 195(1)(d) and (e)).

It is, however, also important to note that section 27(2) of the Constitution determines that “(T)he state must take reasonable legislative and other measures, **within its available resources** (my emphasis), to achieve the progressive realisation of each of these rights”. It has to be acknowledged that “available resources” will always have a bearing on the “right of access” to services as required by the Constitution.

In addition to the above the White Paper on Transforming Public Service Delivery, 1997 (Batho Pele White Paper) with its eight principles of consultation; service standards; access to information; courtesy; openness; transparency; redress and value for money further emphasises the need for government performance to ensure that services are delivered to the citizens. The budget should therefore be structured in such a way so as to ensure the realisation of the Batho Pele objectives.

SERVICE DELIVERY EXPECTATIONS AND REQUIREMENTS IN BUDGET MANAGEMENT

In essence ineffective budget management means poor management of the institution and consequently the objectives of the institution in terms of its strategic plan to meet the legitimate expectations of the public for effective governance will not be realised (Pauw *et al.* 2015:101). Taxpayers’ money should be spent wisely and prudently to ensure that with limited resources the best possible services are rendered to the citizenry. Role-

players in the public service must therefore be familiar with the relevant legislative framework, namely the PFMA, Treasury Regulations and Supply Chain Management (SCM) guidelines with regard to the management of their budget. In the case of local government, the Municipal Finance Management Act, 2003 (Act 56 of 2003) provides the legislative framework for financial management in that sphere of government. It is also important to note that in the case of Parliament, although it is also funded from the National Revenue Fund, the PFMA is not applicable, but the Financial Management of Parliament Act, 2009 (Act 10 of 2009) (FMPA). The Executive Authority³ may also make regulations or issue instructions in terms of sections 65 and 66 of the FMPA. If not complied with, financial mismanagement, resulting in unauthorised expenditure, fruitless and wasteful expenditure and irregular expenditure, will be the order of the day and budget management becomes dysfunctional. In 2012 the national government had to take emergency measures in terms of section 100 of the Constitution because the Limpopo province was basically bankrupt (National Treasury 19 January 2012). The interventions outlined in the budget speech of the Minister of Finance on 22 February 2012 include holding to account officials who misspend, overspend or do not spend their allocated funding (South Africa (Republic) 2012. Public Sector Manager March 2012). However, the question could be asked whether there were really any consequences (in other words, holding officials who have misspent to account) relating to the interventions envisaged in the budget speech of the Minister. This viewpoint is supported by the AGSA when he said in his media release on the 2014/2015 audit outcomes that “consequences for poor performance and transgressions, as the cause of a poor internal control environment, were inadequate” (AGSA 2015:7).

It may also be important to refer to the new draft Treasury Regulations of 2012 (National Treasury 2012). The draft regulations focus on the following areas, which is also an indication of the importance of good governance and therefore good performance relating to budget management:

- Supply chain management for procurement of goods and services;
- Supply chain management for procurement of delivery and maintenance of infrastructure (which is a new focus area);
- Introduction of the following new chapters:
 - Financial management regulatory framework,
 - Monitoring and reporting, and
 - Electronic systems.
- Corporate governance (alignment of duties of internal audit, audit committee and risk management to the King III Report); and
- Certain practice notices from the National Treasury have also been incorporated into the draft regulations (National Treasury, e-mail dated 5 July 2013).

Complexity of the budget management control process

All the potential consequences due to poor budget management mentioned in the previous section become the responsibility of the accounting officer as he or she is accountable for them (section 39 of the PFMA). In South Africa, with its three spheres of government, and a national budget of more than one thousand billion rand, this is a complex and challenging task for the accounting officer of a government institution⁴ (Minister of Finance 22 February 2012:3). In addition to this, the delegation of authority to subordinates makes the control process even more complex as requirements such as skills, experience, and trustworthiness come into play. The objective is therefore the development of a service-delivery-oriented, multi-skilled and multi-cultural workforce (White Paper on Human Resource Management in the Public Service 1997:10). Player, in Gurd and Byrne (2010:13), stresses the importance of “capable, committed and empowered people” when it comes to decentralisation (and therefore also delegation) and adaptive processes.

The budget reform of government includes the integration of strategic planning and budgeting. The accounting officer of an institution must prepare a strategic plan that includes the forthcoming MTEF period of three years and in addition to this put procedures in place to facilitate effective performance monitoring, evaluation and corrective action (Treasury Regulations 2005:5.1.1 and 5.1.3).

Reform initiatives complicate budget management and management of performance processes even further because organisational structures are to be reorganised, service delivery indicators created and performance measures implemented (Treasury Guidelines 2001:35–38). The aspect of budget reform in this article therefore addresses the budget control process, the achievement of budgeted objectives and performance standards for financial management such as the responsibilities and functions of financial and operational managers. The article is concluded with an explanation of options to strengthen the budget reform initiatives of government of which performance management is an integral part.

Accountability components

The accountability components in the budget process range from preparing and developing strategic plans (Treasury Regulations 2005:5.1–5.3) and medium-term budgets to implementing expenditure plans, monitoring and measuring service delivery and performance (Treasury Guidelines 2001:28), and compiling accurate annual financial statements and reports (sections 26, 32(2) and 40 (4) (b) and (c) of the PFMA). These components are inextricably linked, reinforcing the benefits of integrated planning and budgeting and contributing to improved financial management in the public sector.

Key role-players in budget management

The implementation of the MTEF in the 1998 budget of national and provincial departments is at the centre of the South African budget reforms and frames all policy discussions in the country (Fölscher & Cole 2006:1). The adoption of the PFMA and its implementation in 2000 represents the second phase of programme reforms (National Treasury 2001:2). The third phase of reforms includes the introduction of robust output performance measures or service delivery indicators as well as integrating the tasks of financial and operational managers. It is therefore essential to focus on the functions and responsibilities of financial managers.

Financial managers

In a department in the national or provincial sphere, a financial manager is usually referred to as the Director Financial and Budget Management and is part of the senior management structure of the department (see Figure 1). The Director Financial and Budget Management reports to the Chief Financial Officer (CFO) of the department and also signs a performance agreement with the CFO to perform the key responsibilities indicated below.

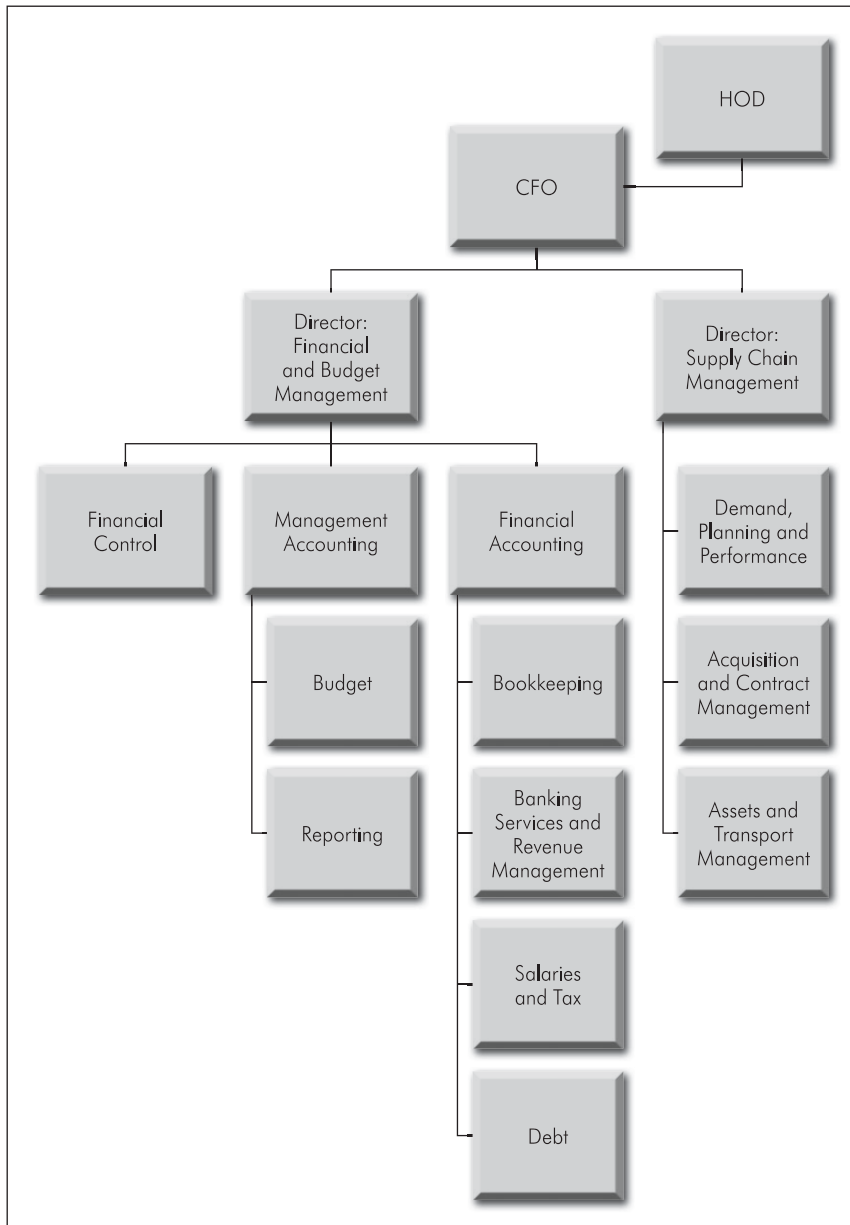
The key responsibilities of the Director Financial and Budget Management would be to:

- Manage, control and compile the budget and cash flow of the Department, together with the compilation of compliance reports in terms of various Acts;
- Manage the finances of the Department effectively and efficiently and to report thereon monthly, quarterly and annually in terms of the PFMA and other legislation;
- Manage the cash flow of the Department in line with National and Provincial prescripts, taking into account the needs of the Department;
- Conduct special investigations to prevent financial fraud within the Department;
- Oversee and manage the development, implementation, monitoring and periodic review of departmental financial accounting policies, procedures and processes;
- Ensure that the finances of projects in the Department are managed effectively;
- Manage accountancy services in the Department; and
- Plan, coordinate and manage resources within the Directorate.

(Personal interview with the Director Financial and Budget Management of the Free State Department of Cooperative Governance and Traditional Affairs 17 October 2014).

It is clear from the above that the financial manager in the public sector plays a significant role in effective budget management, and that this position requires

Figure 1: Organisational structure



Source: (Personal interview with the Director Financial and Budget Management of the Free State Department of Cooperative Governance and Traditional Affairs. 17 October 2014).

someone with a high level of expertise in the field and also specialised skills such as persuasiveness and even a degree of charisma. Financial managers should also maintain sound interpersonal relationships with all their colleagues, clients and stakeholders to ensure a harmonious and productive working environment which will culminate in effective and efficient financial and budget management.

Managing performance

The PFMA has introduced performance management in the public sector (sections 36(5) and 40(3)(a) of the PFMA). Section 27(4) of the PFMA also determines that measurable objectives must be submitted for each programme. Measurable objectives are defined as “specific, quantifiable outcomes that can be achieved within a foreseeable time period. They serve as a roadmap for achieving the department’s goals and define the actual impact on the public rather than focusing on the level of effort that is expended. Measurable objectives are tools to assess the effectiveness of an agency’s performance and the public benefit that is derived” (Roos 2009:28).

The National Treasury (2001:7) emphasises that in traditional systems of management, the separation of strategic planning on the one hand, and accounting for expenditure of financial resources on the other, reduce the ability of government to deliver services efficiently and effectively. The integration of strategic plans and budgets therefore indicates that managers are accountable for the inputs needed to execute their duties and tasks, but they are also responsible for outputs in terms of strategic priorities and the PFMA. The changing roles and responsibilities of financial managers, and senior managers in general, require them to work as a closely knitted senior management team to be able to achieve the applicable budget objectives. The National Treasury will examine past performance as it is a critical step in strategic planning and the preparation of expenditure estimates (Treasury Guidelines 2011:5). Performance information contained in submissions will be analysed to assess, among other things, whether value for money has been realised over time in respect of previous budget allocations (Treasury Guidelines 2011:13).

Measuring performance and service delivery

The strategic goals of the National Treasury (2014:14) are to “prepare, finance, publish and monitor the execution of the annual national budget to provide accurate and clear financial information and **associated indicators of service delivery and performance** [my emphasis]”.

The current national budget format – the *Estimates of National Expenditure* (ENE) – extends the scope and quality of information regarding the government

spending plans. The 2001 ENE, for instance, encouraged departments to specify their outputs and start developing output performance measures or specific service delivery indicators. The purpose of the new format is also to align the budget with international data classification requirements. This action focuses on performance as measured against the budget and service delivery plans, and will indicate to managers where corrective action is needed. The objective of the ENE is also to enhance accountability (National Treasury 2001:5–6).

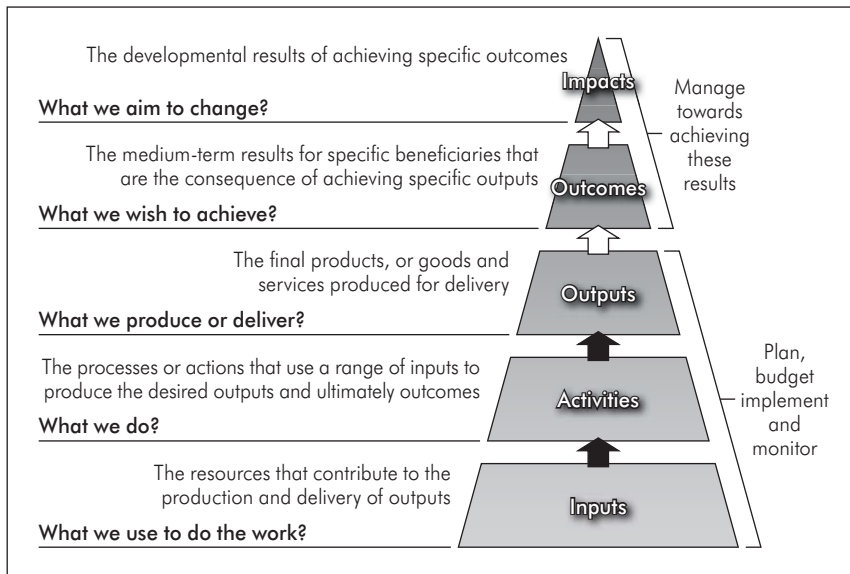
Developing output performance measures

Developing suitable output performance measures can be described as a complex task, but managers have to develop performance measures according to their strategic plans (Treasury Guidelines 2001:35–38).

Finalising annual financial statements and reports

The annual report of a department should present a view of the general state of affairs, financial results and conditions at the end of the financial year. The annual report should review performance and achievements against the plan approved by the legislature at the beginning of the financial year (section 19 of the PFMA).

Figure 2: Key performance information concepts



Source: (National Treasury 2010)

Challenges in budget management and performance

The absence of a profit motive in the public sector makes the analysis and evaluation of management performance even more difficult in comparison to the profit-orientated private sector institutions such as companies and businesses, with reference to the relationship between the quantity and quality of inputs, and their related cost. Efficiency in this regard refers to the extent to which inputs are optimally used to produce outputs in the public sector (The Presidency nd:6). Effectiveness refers to a condition in which an institution is able to achieve stated objectives as measured by a given set of criteria, and/or the extent to which a programme is achieving or failing to achieve its stated objectives (Fox & Meyer 1995:41). Appropriateness is measured by the extent that outcomes of a programme reflect the priority of the government and address the real needs of the community (Visser & Erasmus 2002:43).

Budget management in the public sector as instrument faces various challenges in the process of achieving service excellence. Three main challenges can be highlighted, namely the reorganisation of structures, the development of service delivery indicators and performance measures to improve service delivery.

Reorganisation of structures

The budget reform initiatives of government imply that financial and line managers have to work more closely together, which requires the reorganisation of the existing structures of public sector departments. At the design and building stage of the organisational structure the hierarchical plan is based on a formal layout of the main activities or functions of a department. Each division has vertical lines that stipulate the hierarchy from top to bottom. Communication channels also link the entire framework that flows up and down (Reynders 1967:141). Cloete (1980:85) is of the opinion that organisation as a generic administrative process consists of different stadia to ensure that all officials work together to achieve the objective. Specific functions are allocated to top management, but with the delegation of powers (section 20 of the PFMA) specific functions can be delegated to middle and lower level management. With the implementation of the PFMA, as previously indicated, all officials are held accountable for their actions. Effective budget management therefore requires the appropriate reorganisation of possible outdated structures.

The question is now – what is the present status regarding the reorganisation of structures? The integration of strategic planning and budgeting necessitates considerable work. The integration process should be monitored to determine the progress made. However, institutions may not amend existing or institute

new computerised systems without the prior written approval of the National Treasury (Treasury Regulations 2005:17.3.1). The improvement of performance and service delivery also depends on the degree to which political office bearers support the budget reform process. In this regard the AGSA (2015:8) is of the opinion that "(A)lthough we have always emphasised the role of leadership towards strengthening the controls in departments and entities, the large number of areas requiring attention can be fixed when leadership (political and administrative) takes firm steps to correct control deficiencies. We are still convinced that with more firm, resolute action and ongoing support from leadership, these audit deficiencies could easily be addressed."

Service delivery indicators and performance measures

The second challenge is to develop service delivery indicators and performance measures. Visser and Erasmus (2002:250) contend that the development and establishment of performance measures should be built on a few sound principles to ensure the enhancement of the management-for-results approach. These principles include the following:

- Financial resources must be optimally planned and allocated;
- The investment in total assets must be quantified and economically funded;
- The use of financial resources requires monitoring and controlling relative to the business plan;
- Internal controls must be designed, implemented, and maintained; and
- Accountability for performance is of vital importance.

With these principles in mind, management can develop and establish performance measures. The success of measurement rests on the one hand on establishing indicators in each key performance area, and on the other on norms against which performance can be measured. According to Jordaan (2013:130) "performance is the achievement of agreed results within the funding provided, without diluting their quality and respecting the prevailing norms of due process".

Without going into detail, it is worth mentioning that the Organisation for Economic Cooperation and Development (OECD) asked senior budget officials of member countries whether there was "evidence that performance data were regularly used to determine budget allocations". 50% of the officials answered in the affirmative (Peters & Pierre 2007:254). This is further evidence that there is a close link between budget processes and performance, especially in terms of service delivery.

Performance measures and service delivery indicators developed by individual operational managers are often the most appropriate as they know

exactly what their tasks entail in the specific situation. For a public official to perform up to the standard agreed upon in his or her performance agreement, a certain level of skill and capacity is required. An Office of Standards and Compliance was established by section 17(1) of the Public Administration Management Act, 2014 (Act 11 of 2014), while section 17(5) determines that “(E)very head of an institution must cooperate with the Office in the performance of its functions and ensure that the employees in the institution do so”.

It is envisaged by the author that, in order to realise the objectives of the Act, significant budget reforms will have to be initiated, such as to bring the budget term of municipalities in line with that of national and provincial government spheres.

Service delivery expectations and requirements in budget management

Departmental role-players in the national and provincial spheres of government experience extensive challenges in the budget management process due to various influences. Accordingly, the participants/role-players have to apply appropriate, approved managerial functions and skills to achieve departmental objectives. Role-players should realise that they are accountable to the public and must therefore accept responsibility for the tasks linked to their specific posts. The expectations of the public are for government to deliver specific public services and that specific service standards should be maintained in the process. Some kind of financial implication is involved in the majority of decisions taken by management. Various techniques in decision-taking are available to decision-makers to enable them to decide between alternatives. The financial impact and the consequent impact on the community should be objectively considered when decisions are taken. If the envisaged outcome was not realised it will directly reflect on the performance of management and the institution in general.

Budget reform

In view of the responsibilities of key role-players, their performance and the identified challenges and imperfections of budget management, continuous budget reform can contribute significantly to the actions to achieve service excellence in the public sector. In this scenario a new budget model is proposed. The budget management model emphasises the importance of the planning and control function of management in the budget process. The proposed budget management model also focuses on the regulation of the

budget in a provincial or public department to be able to manage revenue, expenditure, assets and liabilities effectively. This is, however, a complex exercise due to certain processes to be followed to effect budget reform and the implementation of a new model.

The budget reform of government includes the integration of strategic planning and budgeting actions (Treasury Guidelines 2001:5). However, this reform initiative complicates the budget management process even further because hierarchical structures have to be reorganised, service delivery indicators created and performance measures implemented.

Wong (2007:21) indicates that China has made significant reform progress over a period of 10 years, but he has mainly focused on technical aspects of the budget process such as revamping budgetary processes; improving government procurement procedures; and introducing a new government financial management information system to improve information flows within the Ministry of Finance and linking it up with provincial databases. However, thus far they have avoided areas that involve political challenges such as redefining the role of government and refocusing budget priorities; limiting policy initiatives outside the budgetary context to improve orderly prioritisation and especially enhancing the role of civil society. Wong's account of China's reform progress bears out a similarity to the South African situation.

Other characteristics of the budget management model include the following:

- The budget management model focuses not only on existing imperfections, but also on what causes these problems and on government's endeavours to improve public service performance in general and specifically that of senior management;
- It serves as a guideline to improve service delivery (Batho Pele principle);
- Promotes the development of skills;
- Focuses on the importance of performance reports;
- Extends the knowledge regarding budget management in general and budget management techniques specifically; and
- Emphasises the role of the Public Accounts Committees at all three spheres of government and their contribution to overseeing the responsible spending of public money.

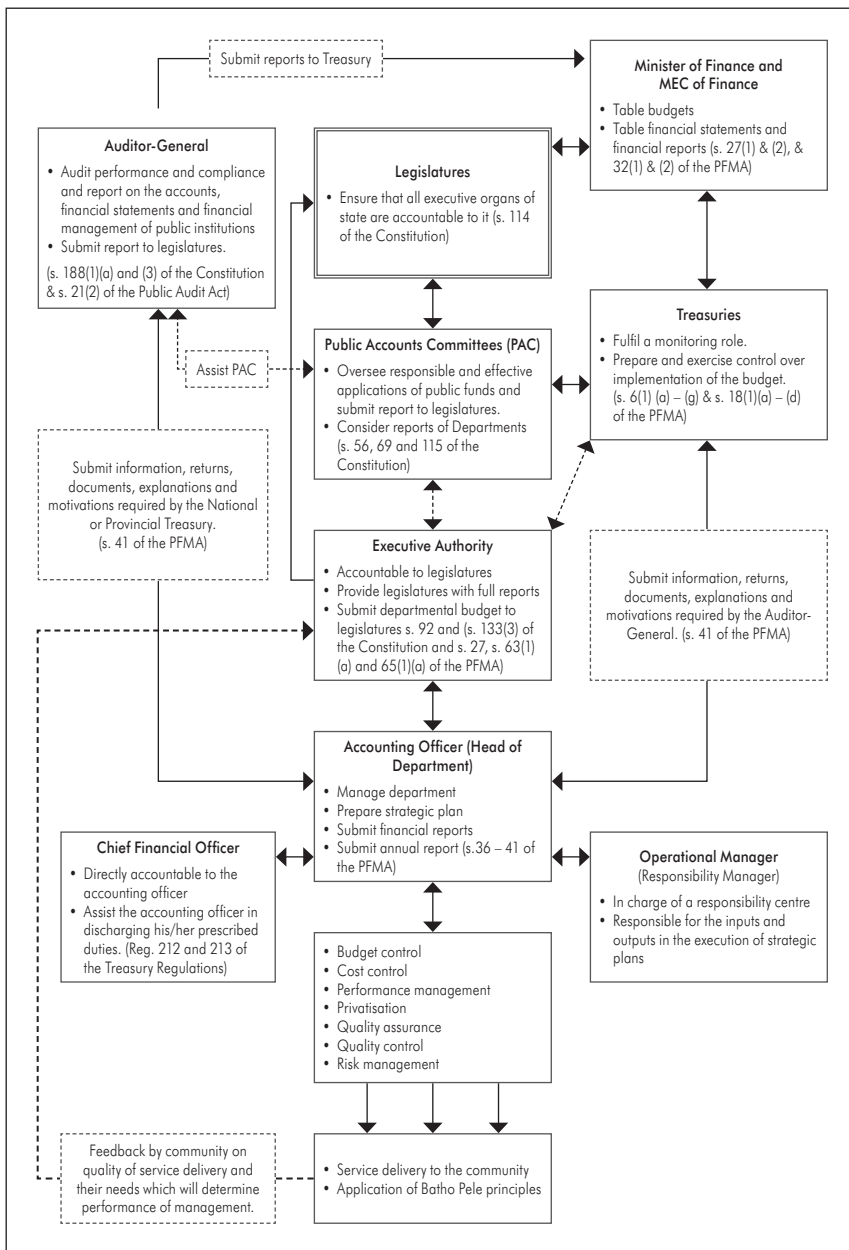
Section 181(e) of the Constitution established the office of the AGSA, and the Public Audit Act, 2004 (Act 25 of 2004) gives effect to the provisions of the Constitution to establish and assign functions to the AGSA and to provide for the auditing of institutions in the public sector. It can be safely assumed that the report of the AGSA is an important tool to measure the performance of the accounting officer. Public accounts committees also rely heavily on the reports of the AGSA for the correctness of financial information presented to them.

The office of the AGSA has exclusively been established to further improve accountable and transparent government and the AGSA's contribution towards achieving effective budget management should not be underestimated. This is also captured by the motto of the AGSA: "Auditing to build public confidence" (AGSA 2015).

A budget management model to assist with budget reform, adapted from Schimper (2005:302), which recognises a specific managerial approach according to which effective budget management in the work environment should take place, is therefore recommended. The proposed budget management model is presented in Figure 3. The main feature of this model is that it promotes simplicity in an already complex budget process. The model identifies the main role-players in the process as well as the communication lines to ensure effectiveness and efficiency in the management of the budget. It further acknowledges the importance of the inputs of the community and the Batho Pele principles in the budget process with service excellence as the primary objective. The budget management model is based on the existing legislative framework which includes the Constitution, PFMA, Treasury Regulations (2005) and the Public Audit Act (2004). Figure 3 indicates the interaction between the various role-players and their main responsibilities and functions. The budget management model can further serve as a foundation for the training of financial and operational managers in the public sector and for the training of students in government management at tertiary institutions.

The budget management model can also improve the budget management process based on the "management by objectives" technique. There are, however, a few steps that need to be implemented to complete the process successfully. The first step is the organisation of structures which clearly stipulates the specific functions and responsibilities of financial and operational managers. The second step is the development of service delivery indicators and performance measures which allow management to measure their department's performances. The third step is to motivate all staff to be committed to the improvement of service delivery. The fourth step will be to teach and train staff, and the fifth and last step is to persuade management to implement a budget management model with the aim of improving performance, achievement of objectives and service delivery. The implementation of these steps could also be a challenge in the sense that it implies a process of change and could influence the attitude of people negatively. However, Van der Waldt (2004:223) is of the opinion that "once one recognises that a specific change produces negative behaviour or a decline in performance, one can use this information to improve the implementation of similar kinds of changes in future". In the management of change, communication plays a vital role to ensure that all staff levels understand the full benefits of the implemented measures (Visser & Erasmus 2002:253).

Figure 3: Proposed model for budget reform



Source: (Schimper 2005:302)

The question could be asked how these challenges should be addressed. There is no one simple solution to this. An all-encompassing approach is required which should include aspects such as clear communication lines and delegations, consequences for poor performance, commitment by senior management and the continuous building of capacity.

CONCLUSION

Visser and Erasmus (2002:365) state that accountability is the obligation to account for responsibilities allocated to an individual, and which cover all the resources under the control of an institution including performance accountability. Although national government has implemented a sound legislative framework to enhance and stimulate performance and service delivery (Batho Pele principles) there is an urgent need to improve accountability and performance measurement in the South African public sector, and that can only be achieved through budget reform and the effective measurement of performance in the public sector.

According to the 2014/2015 report of the AGSA (2015:91) it is recommended that in order to improve the performance and productivity of staff, the leadership should set the correct tone by implementing sound performance management processes, evaluating and monitoring performance. Further, if leadership is consistently taking action it will demonstrate to all officials that poor performance has consequences. In the same AGSA report (2015:91) it is indicated that in the 2014/2015 financial year there were seven heads of department who had not signed performance agreements, and of those who had signed agreements, 15% of their performance measures were not linked to the audit outcomes. There can be no excuse for this non-compliance with paragraph 8.1 of the Senior Management Service (SMS) Handbook (2006:12).

The proposed budget reform model, which is based on the MBO system, can be utilised by management as an executive expedient to improve the accounting report procedure, performance management and service delivery in the public sector.

NOTES

- 1 As there is a new Division of Revenue Act every year, reference is not made to a specific number and year.
- 2 The date of publication of the document could not be established.

- 3 The Speaker of the National Assembly and the Chairperson of the National Council of Provinces act jointly as the Executive Authority with the Secretary of Parliament as the Accounting Officer.
- 4 For purposes of this article, constitutional institutions and public entities as listed in the Schedules 1 to 3 of the PFMA are excluded.

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