CHAPTER 9

Effective Intergovernmental Planning and Budgeting for Better Outcomes

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9.1 Introduction

Globally public sector performance management is undergoing a radical change, as internal and external forces converge to make governments more accountable. Governments are increasingly under pressure to demonstrate results to electorates who are no longer just interested in inputs and services delivery outputs, but also want to see actual outcomes and positive impacts of public expenditure. They continue to grapple with questions such as whether policies and public spending lead to the desired developmental goals, whether policy implementation is on track and, more importantly, how to measure progress.

South Africa recently adopted the National Development Plan (NDP), which emphasises state capability as a precondition for development and an outcomes approach to service delivery. The fundamental aim of these reforms is to ensure that government derives value for money from available fiscal levers, and public services stimulate the desired developmental impact. Through the outcomes-based approach, government seeks to measure and evaluate various elements of the service delivery value chain, from inputs, budgets, activities, service delivery outputs to ultimately the policy outcomes. To entrench and implement a Monitoring and Evaluation (M&E) system throughout the various spheres of government, the government has put in place new structures, such as the Department of Performance Monitoring and Evaluation (DPME) in the Presidency and adopted delivery agreements.

Recognising the persistent unevenness in the quality of public services and often ineffective public spending, the government is placing more emphasis on the outcomes of public services and the need to monitor and systematically evaluate outcomes and take prompt remedial action (NDP, 2011). However, the complex decentralisation machinery of government, with powers and functions diffused across three spheres, poses operational problems for implementing a government-wide, outcomes-based M&E system. The concurrent functions (national sector policy-making and planning, but decentralised sub-national budgeting and implementation) create inherent tensions in linking planning and budgeting. These tensions make effective, coordinated, joint implementation (within and across spheres of Government) and shared accountability less likely.

Experiences elsewhere (of outcomes-based M&E systems similar to that in South Africa) suggest that successful implementation can be undermined by problems of coordination, weak accountability, sectoral interdependence, policy ambiguities and rivalry. This chapter assesses how the outcomes-based M&E system can be used to promote effective intergovernmental planning and budgeting. The effective implementation of such an approach requires budget reforms, so that outcomes and budgeting are directly linked, especially where multiple organisations are responsible for a single outcome.

9.2 Achieving Sound Accountability through Managing for Results

9.2.1 Overview

Public sector performance in South Africa needs to improve urgently. The government is facing mounting demands on public expenditure and, in some cases, calls for higher quality services articulated during public protests (Curristine, 2005). The desire to improve performance is not new, as government has always claimed to seek maximum benefits from its spending. What is new is the shrinking overall fiscal envelope in the wake of the global crises, which means that more attention needs to be given to achieving maximum outputs with limited inputs in achieving social service and infrastructure delivery goals.

Building and sustaining an effective results-based M&E system is neither a luxury nor an easy task (Kusek and Rist, 2004). It is a vital necessity for development and requires continuous commitment, time, effort, resources and champions. Once the system is built, it must be sustained through a political process, not just a bureaucratic one. A performance assessment framework, which allows public

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scrutiny of delivery information, can alter political power, challenge conventional wisdom on policy design, drive new resource-allocation decisions and call into question those in positions of power.

9.2.2 Managing for Results and Budgeting in a Decentralised Environment

Performance M&E addresses the fundamental question of accountability and feedback to key stakeholders on the outcome and impact of government spending. Performance M&E tells public sector managers and oversight bodies what progress has been made towards achieving stated targets and goals and provides evidence as the basis for reviewing policies, programmes, or projects (Kusek and Rist, 2004).

Performance orientation holds many promises for governments in developing economies that have already improved their economic capacity. For many countries undergoing rapid development, the pace of state modernisation (characterised by weak accountability, bureaucratic rigidities, corruption and low professionalism) tends to lag behind and slow down development. As the economy matures and personal income rises, expectations of what government can or should do for its people are higher. Citizens pay more attention to government matters and demand better services, which increases the drive for enhanced performance and attention to results (Schick, 2003).

Decentralisation is considered an enabling factor for public sector performance and involves dispersing central functions as manageable activities across spatially distributed and semi-autonomous units of sub-central governments or institutions. The potential for decentralisation to address the shortcomings of intergovernmental performance has attracted considerable interest in most democracies (Hutchinson and Lafond, 2004). Justifications for decentralisation range from fostering social and political cohesion, increasing allocative efficiency, bringing government closer to its constituents (subsidiarity), to increasing oversight by communities.

However, decentralisation does not always have positive effects and is sometimes associated with costs and risks. These include hazards associated with poor electoral accountability and severe coordination problems in government, including the extent to which the activities and policy choices of one institution take into account those of another organisation (Mullins, 2003).

Decentralisation makes policy formulation and implementation, budgeting, and M&E more complex because of concurrent functions (designated by the Constitution as competences shared by two or more spheres of government e.g. education, health and transport). Therefore, a decentralised system requires intensive sectoral and intergovernmental coordination across the policy-making, planning, budgeting and implementation processes.

9.2.3 Performance Budgeting and its Relation to Managing for Outcomes

According to the Organisation for Economic Cooperation and Development (OECD), the introduction of performance-based budgets leads to the reconciliation of policy objectives, planning and implementation. Other solutions to coordination problems lie within the system of performance management itself and include moving towards complete contracts, introducing incentives and sanctions (Flynn, 2004).

Widely regarded as an important tool for linking funding and outcomes, performance-based budgeting takes many forms. In its simplest form, performance-based budgeting can be defined as any budget that depicts information on what government has done or plans to do with the money provide (Schick, 2003). This can simply refer to performance information presented as part of the budget documentation or to a budget classification in which appropriations are divided by groups of outputs or outcomes.

A strict version of performance-based budgeting is budgeting that links allocated funds to measurable results. These results are measured as outputs and/or outcomes, and resources are matched either directly or indirectly to the results. All relevant budget information must be fully disclosed in a timely and systematic fashion by spheres responsible for a particular outcome. To work, this version must be supported by cost measurements that enable the government to link increments in resources to increments in results (Schick, 2003). For many developed countries, performance budgeting has proven a challenging task because of technical complexities and behavioural changes required of policy-makers.

Recognising the limitations of performance budgeting, most governments have taken a wider perspective, choosing instead to "manage for results". Managing for results is similar to other approaches, such as result-oriented management and evaluation, result-based management and governing for result. The main idea behind managing for results is that performance information should be used in a number of ways, including strategic planning, increasing public accountability and resource allocation (Moynihan, 2006). Whereas performance budgeting attempts to link resources and allocations, managing for results calls for a looser link between the two, with performance information guiding (not determining) allocations.

Many developed countries have used various models of managing for results and performance-based budgeting with moderate success. In most cases, the reforms are aimed at using formal performance information to improve public sector performance and budgetary allocations. For example, in Australia government departments are required to undertake mandatory programme evaluations every three to five years, while Canada uses a more explicit programme alignment architecture, which identifies and links group-related activities logically to the strategic outcomes they support, and links planned resource allocations to each programme at all levels, against which financial results are reported. The UK government has a dedicated Prime Minister's Delivery Unit and follows a more hands-on approach, which seeks to accelerate lagging programmes, unblock selected delivery outputs, and design effective and efficient delivery systems through a customer journey mapping. One of the key champions attributes the success of the UK's M&E system to increased ministerial focus and sharper accountability, introduction of incentives, provision of tailored and targeted support, collaboration across government and capacity to intervene where necessary.

9.3 Historical M&E Practices in South Africa

The focus on linkages between budgets and results in South Africa began as part of broader public sector reforms, which require national, provincial and local governments to table their annual budgets concurrently with strategic plans and Annual Performance Plans (APPs) for scrutiny and approval. The intention is to make more explicit the linkage between outputs and resource allocation in budget programmes, through institutionalised reporting requirements for which administrative heads of government departments are held accountable.

Coordinated planning and performance-linked budgeting remain a work in progress. A major deficiency in the current South Africa's intergovernmental system is the dual responsibility of national government and provinces for concurrent functions, which creates multiple points at which executive and legislative decisions can be and are taken over the same mandate (The Presidency, 2009). The conventional line-function culture of budget votes per department, specialist ministerial mandates, and rewards and sanctions for individual performance creates disincentives for joint implementation and accountability for shared outcomes. These problems can be attributed to weak alignment of key components of strategic plans within and between spheres, and a disconnection between placing and enforcing administrative and political accountability.

9.3.1 Performance Management Information for Planning and Budgeting

The new M&E system in South Africa essentially overlays an existing framework of performance management and evaluation carried out by various government institutions. National Treasury collects financial performance information through monthly and quarterly reports, while both the Presidency and selected offices of the premiers play an integral role in collecting performance information. The Presidency undertakes periodic performance reviews (e.g. every 10 and 15years), using information from official statistics, government database (annual reports) and research by local and international institutions.

Some departments have long-established, sector-specific M&E systems, which focus mainly on outputs. For example the Department of Education has institutionalised an Education Management Information Systems and periodically carries out national standardised testing in selected grades. The Constitution empowers the Public Service Commission (PSC) to oversee and evaluate the overall functioning of the public service. The PSC carries out evaluation exercises, such citizen satisfaction surveys, miscellaneous programme reviews, and publishes regularly a report on the state of public service, which assesses adherence by national and provincial departments to core principles of public administration. The office of the Auditor-General (AG) performs audits of predetermined objectives, where actual performance information reported by departments is verified and assessed against planned performance. The AG also carries out sector-specific performance audits where the focus is on economy, effectiveness and efficiency. Statistics South Africa also plays an integral role in collecting complementary information (through the General Household Survey, Non-financial Census of Municipalities and National Census) for measuring outcomes and setting standards for assessing and certifying statistics produced by government departments and other state entities.

9.3.2 Emerging Practices in Managing for Results

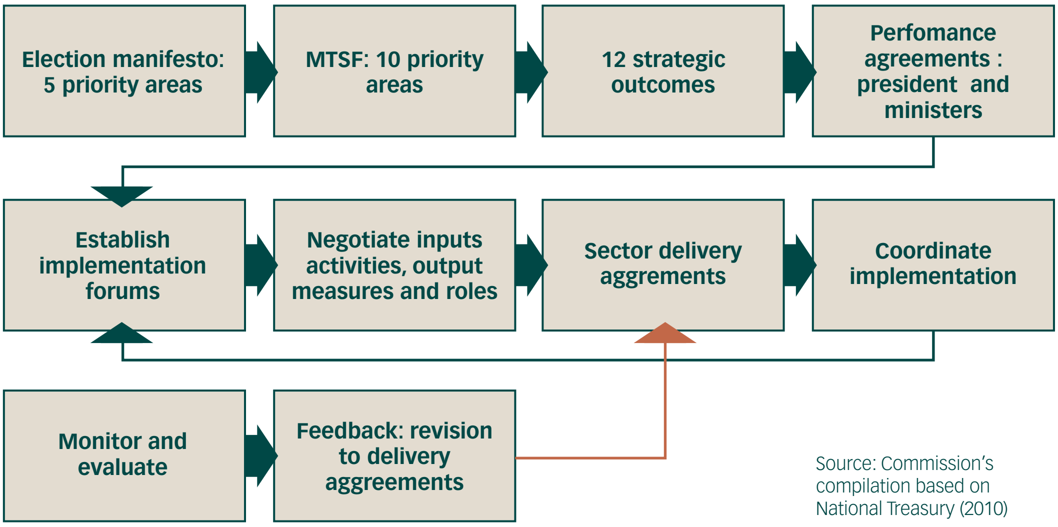
In 2009, managing for results in South Africa took a new step, when a dedicated Ministry of Performance Monitoring and Evaluation was introduced. Unlike the existing input/output-based M&E, the new approach is outcomes oriented, monitoring 12 strategic areas. It attempts to circumvent challenges related to the alignment of government planning, budgeting, activities, reporting and accountability for shared outcomes by introducing new institutional mechanisms, such as performance agreements between the president and the minister or group of ministers, sector delivery agreements and delivery forums.

Under the new approach, the president signs performance agreements with ministers and intergovernmental protocols with premiers, which outline high-level outcomes, input activities and output measures for a specific sector. At their six-monthly meetings, the ministers and premiers report back to the president on predetermined output indicators and take political accountability for progress on government-wide outcomes.

In addition to ministerial performance agreements, the new approach requires groups of departments, spheres or sectors responsible for a particular delivery outcome to have sector delivery agreements signed by the relevant ministers, Members of Executive Councils (MECs) and local mayors. These agreements describe in detail the desired sectoral outcomes, output indicators, service delivery chain, agreed delivery norms and standards, timelines, budget prioritisation and alignment to delivery agreements, capacity required, and consultation process followed in negotiating service delivery agreements and conflict resolution processes. For each outcome indicator, delivery agreements must also include national targets, baselines, data sources, quality assurance processes, frequency of reporting and minimum required changes per output indicator.

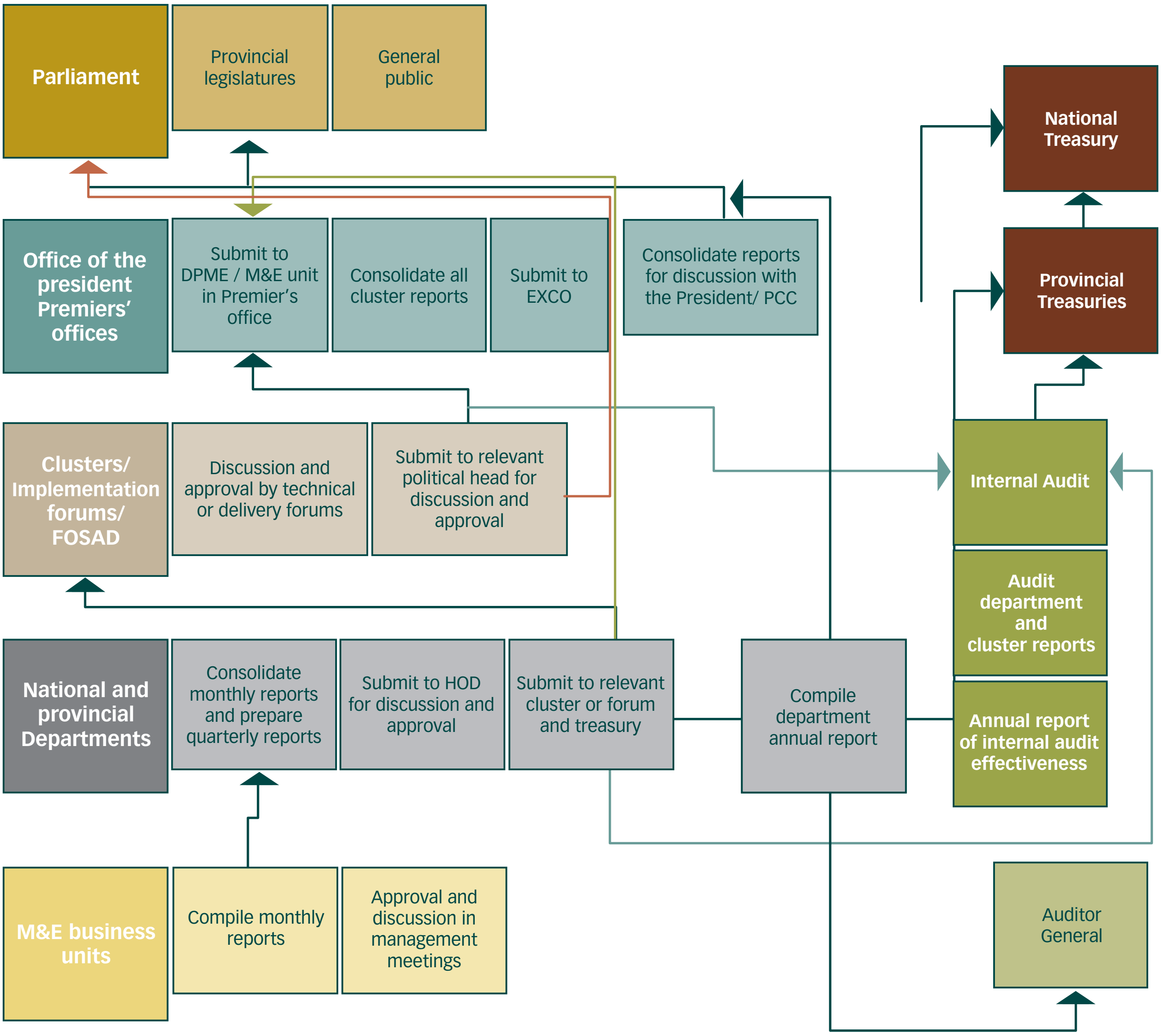
Sectors are further required to set up executive and technical implementation forums for each outcome area. These forums are required to coordinate government work for achieving the outcome, negotiate delivery agreements, agree on the implementation process and activities underpinning outcomes and, most importantly, specify how each institution contributes to the outcome, within a specified timeframe and budget. Figures 19 and 20 depict the outcomes-oriented performance management process and reporting framework.

Figure 19: Outcomes Oriented Performance Management Process



Source: Commission's compilation based on National Treasury (2010)

Figure 20: Outcomes Reporting Framework



As Figure 20 shows, the current M&E reporting framework is complex and cumbersome, and has multiple reporting points. Superimposing an additional M&E institutional mechanism on existing frameworks invariably increases the frequency of reporting and compliance costs. Emerging practices suggest that M&E will create a significant administrative burden, as multiple reports (generated on a monthly, quarterly and biannual basis) are directed at different reporting points.

9.3.3 Practicality of New Approach and Implementation for Budget Process

Notwithstanding the good policy intentions outlined in various M&E frameworks and guideline documents, a quick scan of on-the-ground practices reveals severe anomalies and raises substantial concerns about the budget process. The new approach, which promotes joint responsibility for outcomes, could potentially render the negotiation process of delivery agreements unworkable because of the need to coordinate activities and budgets across many delivery partners. For example, the Department of Basic Education has identified at least 17 national and nine provincial departments as delivery partners and contributors to Outcome 1. A similar pattern can be discerned from other outcome areas (See Table 32). In order for these delivery agreements to be implemented in the manner envisaged, certain budget process reforms would be required.

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A concern is that lead departments may have to run parallel mini-budgeting processes, to motivate other delivery partners to make budgetary allocations towards their respective activities within the outcome. Yet budget coordination is best achieved during the early stages of budgeting value chain. The current configuration of intergovernmental budget and policy forums, such as MinMecs, 4X4s and 10X10s, are not structured to deal with determining interdepartmental/sectoral budgets. Furthermore, both the envisaged executive and technical implementation forums are neither statutory nor part of the institutional forums responsible for budgeting. These forums are perhaps not entirely new institutional bodies, which is cause for further concern. It is envisaged that implementation forums will be based on existing structures such as MinMecs, technical MinMecs, Headcoms, cabinet clusters and FOSAD (the Forum of South African Directors-General). Over the past years, these structures have performed suboptimally with respect to coordination.

An alternative is to attach funding to interdepartmental initiatives through National Treasury's budgeting process. In other words, delivery partners will need to demonstrate budgetary allocations towards collaborative work during the Medium Term Expenditure Committee (MTEC) and bidding processes. However, this approach is not without problems, as evident in the ongoing disputes between national and provincial governments over funding of national priorities. Other likely problems involve competitive scrambles for additional funds by departments/delivery partners, on the grounds that this joint work falls outside of their direct mandate.

An early signal of the aforementioned budget coordination problem is found in the agreements that have been signed so far. Four of the 12 delivery agreements reviewed do not indicate individual delivery partners' budgetary allocations/contributions towards applicable outcomes. Many reasons can explain this deficiency. (1) The system of delivery agreements is still new; (2) The timing disparity between when the budget process is completed and when agreements are signed creates misalignment. (3) The nature of outcomes, wherein responsibility cuts across almost every government function, which increases the intensity of consultation process for lead departments. (4) The weakness of delivery agreements to outline the full service delivery chain with inputs, activities and outputs assigned to various delivery partners. Holding delivery partners collectively accountable to an outcome (and the M&E of such an outcome) will be difficult without individual departmental allocations to key activities within an outcome.

Table 32 : Summary of Delivery Agreements by Outcome Area

Outcome	Lead department/s	No of strategic or delivery partners	No of output measures	Budget allocations per delivery partner
(1) Improved quality of education	Department of Basic Education	17 national departments and nine provincial department of education	4 (37 indicators)	Not provided
(2) Health	Department of Health	11 national departments and nine provincial departments of health and social development, NGOs, CBOs and international health organisations	4 (31 indicators)	Not provided
(4) Decent employment	Different department by different output	16 national departments, nine provinces and 283 municipalities	7 (21 indicators)	Not provided
(8) Sustainable human settlement	Department of Human settlement	six national departments, nine provinces and 283 municipalities and banking industry	4	Not provided

Source: Commission's compilation; The Presidency (2009)

9.3.4 Interface between Planning, Budget Process and Outcomes Value Chain

The interface between planning, budget and outcomes is not strong in the outcomes-oriented M&E value chain. Process issues and underlying inherent coordination problems explain much of the weakness. 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, which has a history of unilateralism.[19] As a result, the interface has largely been carried out retrospectively: delivery partners or departments are requested to link their Annual Performance Plans (APPs) to a relevant outcome, with the DPME assessing whether such linkage takes place or not. For the most part this linkage exercise is theoretical and superficial, since individual APPs do not subsequently inform the contents of service delivery agreements or the other way round.

Furthermore, the MTEC budgeting process still follows a sectoral approach, where departments bid for additional resources individually and separate from the rest of delivery partners responsible for the same outcome. The responsibility for allocating such funds towards different activities within a single outcome becomes the prerogative of each individual delivery partner. The implicit expectation is that departments will allocate sufficient resources to meet their respective activity within an outcome. However, the literature suggests that, when resources are not explicitly tied to the delivery of a given outcome, partners use the situation as an excuse for additional funding. In other words, delivery partners may not link their activities to an outcome or have any incentive to make allocations to activities other than what they consider to be core responsibilities.

As mentioned earlier, the new outcomes approach envisages that executive implementation forums will foster the linkages between planning and budgeting through delivery agreements. For such forums to be effective, certain budget reforms may be required in order to institutionalise participation and align forum activities in the budget process. The Guide to Outcomes Approach further notes that the Presidency, National Treasury, Department of Public Service and Administration (DPSA) and Department of Cooperative Governance and Traditional Affairs (CoGTA) will align their strategic planning and individual performance management guidelines to the 12 outcomes (The Presidency, 2012). Delivery partners are required to include commitments made in delivery agreements in their strategic plans, which National Treasury uses as inputs into the budget process.

The underlying assumption is that the treasuries will persuade delivery partners to allocate funding to agreed outcomes. However, the reality is that programme budgets are determined independently within respective departments and spheres. More importantly, when delivery agreements do not clearly assign activities among delivery partners, treasuries will have difficulty ensuring or monitoring budgetary allocations. Operational and organisational structures do not always map budget programme structures, thus masking the purported linkage between inputs, outputs and outcomes. The disjuncture between operational structures and budget programmes is especially evident in the absence of identifiable expenditure programmes (i.e. conditional grants) associated with a particular outcome. The existing conditional grant framework follows a line-item approach, with a multi-level classification scheme that focuses predominantly on inputs and spending at the macro level.

Programme or Portfolio Budgeting

Integrating planning, budgets and outcomes is not an easy task. Numerous examples of failed reforms to put into practice the idea of linking broader government outcomes to budgets can be cited. The solution to this elusive ideal lies in adopting and vigilantly implementing programme or portfolio budgeting – whereby expenditure is classified by broad functions or programmes aggregated across ministries. An important principle underlying programme budgeting is that the programme structure may transcend organisational boundaries but must still be accounted for at programme level. Programme budgeting is suited to the new outcomes approach, which by nature disregards organisational boundaries. Unfortunately, international experience has also shown that programme and

[19] 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.

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portfolio budgeting approaches are not easy to implement in practice, since the increased potential for policy effectiveness must be weighed up against the possible dilution of budgetary control and fiscal accountability in crafting the specific institutional arrangements.

Incentives

Countries that have successfully implemented results-oriented budgeting have simultaneously introduced incentives to influence decisions and guide actions towards improving efficiency. Incentives that will change behaviour are required for budget decisions to be influenced by the information contained in performance indicators. A public sector management framework that provides such incentives to achieve a strong focus on performance and outcomes, in turn allows management the flexibility to achieve results in any manner it chooses. The strengthening of performance measurement and greater accountability for results provides scope to give departments greater autonomy and flexibility.
Existing performance incentives in South Africa are not directly linked to the achievement of an outcome. Instead, incentives are formulated around individual performance agreements and a handful of conditional grants. As mentioned earlier, conditional grants are not tied to any specific outcome and their incentives are meant to trigger spending performance rather than expenditure outcomes.

9.4 Conclusion

Efficient and effective public sector management is the mantra of modern-day public services management both internationally and in South Africa, especially in the light of newly adopted NDP's focus on the State's capability. The need to demonstrate value for money increases pressure on governments to introduce new and better forms of management. Often these reforms overlay existing performance management and budgeting systems and are therefore underpinned by inherent, country-specific institutional, systemic and process weaknesses.

The introduction of an outcomes-oriented M&E in a decentralised government system requires numerous practical considerations relating to rules, leadership, accountability and most importantly its design. Complex service delivery partnerships require clear assignment of roles and responsibilities among partners to minimise inaction. Performance orientation also requires a strong and committed political leadership that can drive and inculcate a culture of performance across all government spheres. What is important is to be clear on who is ultimately accountable for outcomes between administrators and politicians, and what levers are used to hold people accountable. The continuous inability to meet performance targets, or to comply with basic guideline requirements without reproach, undermines the credibility of the system and breeds inertia. The design of an outcomes-oriented M&E approach needs to be aligned to existing country-specific circumstances. When new reforms are superimposed on existing processes without making adjustment, the result is often confusion, duplication and low take-up rate.

Introducing new reforms alone is a necessary, but not sufficient, condition for reorienting public sector performance management, and actual delivery and financial performance. The culture and other resources, and behaviour or management need to be recast and primed to perform well. It may also be appropriate to review organisational structures and responsibilities, bureaucratic rules and controls, the way various administrative tasks are carried out, current management practices, the delivery of public services, and modes of accountability.

For South Africa, public sector management reforms need to be broadened significantly, beyond outcomes M&E, to include budget, costing and accounting reforms in order to improve the interface between planning, budgeting and outcomes. Such reforms would entail synchronising organisational structures, budget classifications, and cost accounting systems with closer articulation with individual performance management systems, particular at senior management service level. Most importantly would be synchronising the timing of when the budget process commences and when service delivery agreements are signed.

9.5 Recommendations

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

- National Treasury and the 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 specific, 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.