

Lynda Loxton

Cape Town – The Financial and Fiscal Commission last week cautioned the government about placing too much reliance on accrual output-based budgeting (AOBB) when trying to determine service delivery outputs.

In its annual submission to the government to provide input to the next budget, the commission said AOBB was being considered by the government because the management information systems inherited by the public sector in 1994 did not allow it to measure actual levels of service delivery or to calculate the costs of that delivery to each beneficiary.

As a result, more attention had been paid to using output-based budgeting techniques in an accrual accounting system.

Cash-based accounting systems reflect monies paid out and received but do not measure the full cost of any government function.

Accrual accounting takes into account all the costs involved in producing a specific result. It is favoured in many countries, but few have moved to full AOBB because of the complexities involved.

The report said AOBB differed from other accounting systems in that it acted as an “information hub”, compiling information about all purchases, ranging from the reason they were needed to their cost and effectiveness. Departments could use this system to identify the best deals for their needs.

But the system had been complicated, if not made ineffective, in some countries, which had included things such as replacement and capital charges in the equation. This had made the cost structures of some government departments appear inflated and uncompetitive when compared with private sector competitors, which were applying different accounting rules.

As a result it was difficult to compare real costs, and “savings” apparently generated by AOBB could be “illusory”, the commission said. This would lead to “inappropriate” decisions on spending or outsourcing and a failure to improve cost structures.

There were many other variables that made AOBB a questionable solution to ensure real value for money. Much more research into the system was needed before deciding on “a sound basis for deciding on the appropriateness of a system for South Africa”, the report said.

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State cautioned against using output budgeting

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