

# The 2011 Budget Process

## Introduction

Addressing the various socio-economic challenges find expression in the strategic direction adopted by Government and while the process of arriving at a set of priorities might to an extent be based on political decisions and the proposed policy analysis, the technical processes are as important as it underpins the budget and the feasibility and extent to which the provincial strategic objectives and related programmes and projects could be funded and then executed.

*Outcomes-based approach to budgeting and planning*

Our current budget process aims to marry public policy with available resources and require upfront agreement on what the funding is able to buy and involves balanced trade-offs between priorities and available funding.

Government has moved to an outcomes-based approach to budgeting and planning. The outcomes approach enables government to set measurable targets and deliverables, against which all spheres of government can monitor progress in addressing the challenges South Africa faces.

The focal point of this new approach has been on sectors and achievement of their outcomes and the intergovernmental implications, as opposed to individual department's activities. An outcome-orientated government is able to coordinate different plans, activities and budgets across spheres and departments to ensure that all of these areas are aligned.

National Government has identified 12 targeted outcomes, which include: improving the quality of basic education, improving healthcare and life expectancy amongst all South Africans, creating decent employment through inclusive economic growth and building a safer country.

To pursue its vision of an open opportunity society, the Provincial Government of the Western Cape has developed 12 strategic objectives to address the most pressing challenges and obstacles to development. The consistent application of these strategic objectives and programmes would ensure the necessary synergy and alignment in the priority setting, resource allocation and implementation by government.

Understanding the links between policy formulation and the budget process is important. The Provincial budget represents a convergence between political policy determination and interactions with departments on the detail of their priorities and strategies, both at national and provincial levels and agreement on what the funding is able to buy.

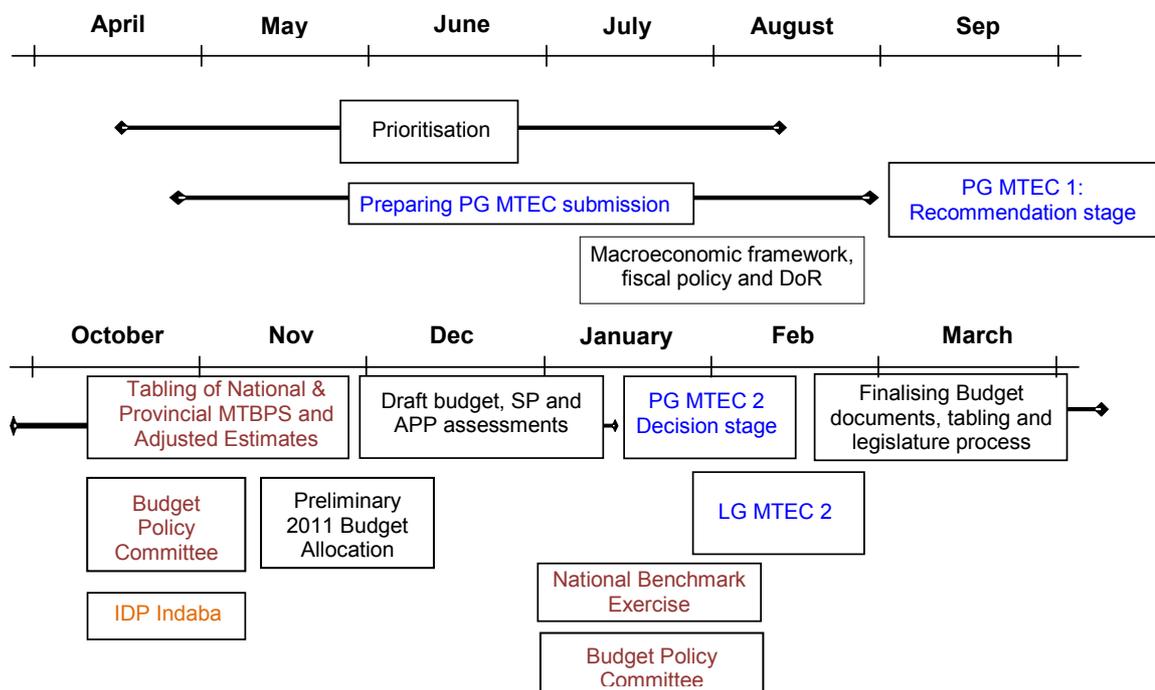
The budget process at national and provincial levels further allows for robust interrogation of policy priorities, its relative mix, the activities required to achieve the desired outcomes and the rationale for a recommended course of action.

### 2011 Provincial budget process

The provincial budget process consists of several distinct but integrated stages that start with the Provincial Cabinet identifying the medium-term spending priorities.

Diagram 1 provides a conceptual view of the budget process staging and highlights the months of the financial year and events planned within a particular month.

Diagram 1:



The economic environment during the 2011 budget process and changes to the budgeting approach posed a number of challenges for the sustainability of budgets. The 2011 MTEF budget process focused on Departments' current service delivery commitments as well as their effectiveness and efficiency, a key feature of outcomes budgeting. Once the Provincial Strategic Objectives were completed, Departments were required to align their budgets and plans to these 12 objectives.

Provincial Treasury had intensive interactions with provincial departments and selected entities during the 2011 budget process, aimed at getting a better and common understanding with regard to the strategic direction and spending priorities, as well as the relevant challenges and constraints. This allowed for more informed, recommended resource allocations, relative to the demand, the capacity to absorb in line with delivery plans and, very importantly, within the financing envelope available to the Province.

### **Prioritisation**

During prioritisation, Accounting Officers reviewed and updated their Annual Performance Plans (APP) and MTEF budgets within the current baseline allocations. The process is aimed to guide Departments in formulating new spending priorities in addition to the assessment of their current baselines and possible reprioritisation of spending priorities.

A national review of the macroeconomic and fiscal framework and the preliminary Division of Revenue takes place between July and August of each year. The macroeconomic and fiscal framework and the division of revenue form the basis for key economic and policy decisions that impact on all spheres of government. Provincial Treasury provides guidelines each year which details the policy, process and preparation for the following year's budget which includes the process leading to the Medium Term Expenditure Committee meetings (MTECs).

The MTEC process facilitates discussion on the development of budget proposals to fund departmental priorities. This process entails preparing the budget proposals and provides an opportunity for departments to consider its priorities, plans and budgets; and for Provincial Treasury to make relevant recommendations.

### **Engagements with departments (PG MTEC)**

Provincial departments, following the interactions at the national level, have two formal engagements (MTEC 1 and MTEC 2) with Provincial Treasury. These are in addition to numerous ad-hoc interactions with the budget and expenditure analysts in the Provincial Treasury responsible for particular departments.

The Medium Term Expenditure Committee meetings (MTECs) were held in September/October 2010 (PG MTEC 1) and January 2011 (PG MTEC 2), with follow-up bilaterals to further clear policy and technical elements. These provided a mechanism through which departments can communicate its priorities, submit bids for additional funding, and demonstrate prioritisation within its budget. These interactions provided opportunities for Provincial Treasury and the Department of the Premier to discuss their assessment of departments' plans and budget proposals. The first stage of the medium-term allocation process occurs during the MTEC meetings.

An assessment of any bid, referred to as a policy option, required departments to align their own strategic objectives as taken up in their individual annual performance plans to the Provincial Strategic Objectives as well as show evidence of capacity to implement and monitor.

### **Policy publications and preliminary allocations**

National Government during October 2010 publishes the national Medium Term Budget Policy Statement (MTBPS) and the Adjusted Estimates of National Expenditure.

At a provincial level, the Provincial Government produces the 2010 Provincial Economic Review and Outlook (PER&O) publication in November that gives a snap-shot of the economic and socio-economic situation of the Western Cape. This socio-economic information, together with the National MTBPS and the Provincial Government's Strategic Objectives, is used to formulate the Western Cape MTBPS. The Western Cape MTBPS focuses on the preliminary resource envelope and expenditure policies that were proposed to be taken forward into the 2011 MTEF period.

Based on the resource envelope spelled out in the WC-MTBPS, the Provincial Cabinet approved preliminary allocations in late November 2010 based on the recommendations of the Budget Policy Committee. This Committee consists of the MEC for

Finance, Economic Development and Tourism, the Director-General of the Province, the Strategic Advisor of the Premier and the Head Official of the Provincial Treasury, and supported by other officials from the Department of the Premier and Provincial Treasury. The aim of the Committee was to ensure that the budget is aligned to provincial policy priorities.

Preliminary allocations are used by departments to compile their draft Budget documentation, Strategic Plans and Annual Performance Plans and were submitted to Provincial Treasury during December 2010 for assessing, allowing time for final review of these, as well as of the third and final drafts of the APPs to end of January 2011.

The PG MTEC 2 process, led by Provincial Treasury, aims to find a better and common understanding with regard to the challenges and constraints facing departments. The PG MTEC 2 process also recommends appropriate resource allocations and practical implementation of budgets leading up to the finalisation of the 2011 MTEF allocations, budgets and annual performance plans.

### **Engagements with National Treasury (Benchmark Exercise)**

Concurrent with the provincial process, the National Treasury, as part of its oversight responsibilities, conducts annual assessments of provincial governments' budget proposals before these are finalised by the various Provincial Executive Councils. These assessments (called the annual Benchmark Exercise) culminate in a bilateral between the National Treasury and the respective Provincial Treasury with reporting to the Budget Council.

*Ensuring alignment between provincial and national sector plans and enhance expenditure efficiencies*

The purpose of these meetings is to evaluate nationally whether budget priorities as agreed at the Budget Council and the Extended National Cabinet (the latter including provincial Premiers) have been included in provincial budgets.

The Benchmark exercise also evaluates the proposed preliminary allocations to departments and the degree of alignment to the various sectoral strategies and priorities. The analyses further considers growth rates, particularly in those areas that directly impact on service delivery and assesses whether a province has adequately provided for statutory expenditure items, such as: Personnel expenditures, Improvement of Conditions of Service (ICS), the Occupational Specific Dispensation (OSD), etc.

The meeting also gives the Province an opportunity to provide National Treasury with deeper insights into the policy considerations that underpin the Western Cape budget and to assess the link between budgets and strategic and performance plans.

### **Recommendations from the Budget Policy Committee**

The Budget Policy Committee proposed a two-step approach in preparing the preliminary estimates for 2011/12 – 2013/14. The Committee maintained an approach aimed to firstly only propose funding departments to enable them to maintain the current level of services as far as possible. This is considered a stabilisation phase - making provision for the Improvement in Conditions of Service, Occupation Specific Dispensations, inflation adjustments, deferred infrastructure and other commitments necessitated by the substantive adjustments to the Provincial Equitable Share formula and funding adjustments as to how some of the conditional grant funding should be applied and managed.

The second step related to the 2011 MTEF priority requests as submitted during the first round of budget inputs. These requests were initially filtered and ranked based on a set of criteria developed by the Budget Policy Committee and presented to Cabinet with the understanding that further work would include: the refinement of the filtered list of policy options, recommendations on possible funding levels and the implementation of fundable projects.

The Budget Policy Committee has further deliberated on the key interventions required to achieve the Western Cape Government's strategic objectives. Key amongst these are:

Improving governance through reducing destabilising risks and the strengthening of resource utilisation and fiduciary competencies to ensure value for money delivery and effective operation of internal controls;

Creating an investor- and growth friendly economic environment was an overarching consideration and main objective of the Committee; and

Social and cultural objectives as taken up in the Provincial Strategic Objectives.

After having considered the submitted policy options, inclusive of those that have reached the prioritised list as submitted to Cabinet on 24 November 2010, within the context of the available fiscal envelope and the desired thrust of Budget 2011, the ultimate resource proposals have been able to navigate a balanced approach between the broad thrusts of Government policy, i.e. to: improve governance, further the economic imperatives as mooted in the Provincial Strategic Objectives and meet other objectives so as to improve the life chances of people living in the Western Cape.

The proposed funding of priorities is staggered over the 2011 MTEF. Some would be funded from the first year; others would only receive "seed" funding in the first year, while the remainder would be funded as of the second year of the MTEF.

The Committee has also proposed that funding, specifically to promote the economic objectives as aspired in Strategic Objective 1 et al (i.e. economic growth initiatives, roads infrastructure and CBD regeneration) at this stage not be allocated as part of the departmental baselines but be kept in reserve for allocation subject to the submission of sound business and implementation plans and recommendations by the Economic and Infrastructure Strategic Sector Committee to the Budget Policy Committee.

### **Tabling of the Budget and Legislative process**

Following the PG MTEC 2 process, the Budget Policy Committee presented the final recommendations to the Provincial Cabinet, who in turn make a final decision as to proposed allocations. With the approval of the Provincial Cabinet, departments and entities finalised their budgetary documentation taking into account the various conditions attached to their allocations.

Refined versions of annual performance plans and budgets are re-assessed during mid-February and final opportunity is given to departments to make improvements to foster the tabling of credible budgetary documentation. Final allocations to departments were communicated to Accounting Officers through allocation letters after Provincial Cabinet approval.

The Appropriation Bill, Budget Overview of Provincial Revenue and Expenditure, Estimates of Provincial Revenue and Expenditure, the Local Government Gazette on budget allocations for the 2011 MTEF, Annual Performance Plans of departments and provincial public entities will be tabled on 1 March 2011 in the Provincial Parliament.

A legislative process in Provincial Parliament follows to finalise the 2011 Budget, which includes the review, analysis and discussion of Government's proposed spending plans in relation to policy priorities over the medium-term. The final stage in the legislative process is the third reading of the Western Cape Appropriation Bill 2011, for approval by the Provincial Parliament and for assenting by the Premier before end of March 2011.

### **Engagements with municipalities**

2011 marked the sixth round of annual Local Government Medium Term Expenditure Committee (LG MTEC) engagements. These engagements were introduced in 2005 and have by now become institutionalised interactions between the Province and municipalities. LG MTECs provides for structured face-to-face engagements on planning, budgeting and service delivery, and has also become a vehicle for provincial and municipal administrations to discuss the various service delivery challenges they encounter.

The LG MTEC 3 engagements give effect to the statutory requirements of the Municipal Finance Management Act (MFMA). This Act requires Provincial Treasury to provide comments on municipal draft budgets and any budget-related policies and documentation, which must then be considered by Councils when finalising their annual budgets.

### **Conclusion**

The national and provincial budget processes have grown in maturity particularly as a result of the outcomes-based approach to planning and budgeting. Various consulting mechanisms have been established to deepen the participation of key stakeholders in the budget process. Placing emphasis on the links between policy formulation and the budget is a key feature of the 2011 MTEF. Particularly important for policy makers and treasuries is how policy translates into budget priorities which ensure the lives of Western Cape citizens are improved.

More work on the operational front is planned in collaboration with key departments and entities through the Quarterly Performance Reporting, Dashboard and PERMIS reporting systems to improve individual and institutional performance.