Exploring 'Agency-level Performance Budgetary Incentives' as an effective tool to improve policy outcomes: A case study of the Western Cape Government budgeting system.

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Plagiarism Declaration

Declaration

Hereby I, Ezra Mark Josephs declare that Exploring '*Agency-level Performance Budgetary Incentives' as an effective tool to improve policy outcomes: A case study of the Western Cape Government budgeting system*, is my own original work and that all sources have been accurately reported and acknowledged, and that this document has not previously in its entirety or in part been submitted at any university in order to obtain an academic qualification.

Full name: Ezra M Josephs Date: October 2024

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Approved by

Dr Meron Okbandrias

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Abstract

The research study focuses on the adoption and implementation of performance budgeting within the Western Cape province of South Africa, a critical area of inquiry given the ongoing challenges faced by the region, including unemployment, crime, and public health issues. Performance budgeting is understood as a strategic approach designed to enhance the efficiency of public expenditure by linking funding to measurable outcomes. This study aims to explore how performance budgeting can be integrated into the budgetary processes of the Western Cape Government, specifically through agency-level budgetary performance incentives, thereby potentially improving policy outcomes.

The significance of this research lies in its exploratory nature, as it seeks to uncover the mechanisms through which performance budgeting can be effectively utilised in a subnational context. By examining the existing planning, programming, and budgeting systems, the study identifies the current features of performance budgeting incentives, as well as the enablers and inhibitors that may affect the implementation of performance budgeting practices. Through qualitative methods, including interviews with Provincial Treasury officials, the research provides insights into the practicalities and challenges of integrating performance-based approaches in public finance management.

Ultimately, this research study aims to contribute to the broader discourse on public sector reform and governance by providing a foundational understanding of performance budgeting in the Western Cape. It seeks to offer recommendations for enhancing resource allocation and spending efficiency, thereby fostering improved policy outcomes that respond to the pressing needs of the province's communities.

Keywords:

Performance Budgeting, Strategic Planning, Agency-level Performance Budgeting Incentives, WCG budget system, Provincial Treasury, Monitoring and Evaluation.

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Abbreviations

APP - Annual Performance Plan

BPF - Budget Prioritisation Framework

IMF - International Monetary Fund

IYM - In-Year Monitoring

DPME - Department of Planning, Monitoring and Evaluation

GRB - Gender Responsive Budgeting

GRPBMEA - Gender Responsive Planning, Budgeting, Monitoring, Evaluation and Auditing

DWYPD - Department of Women, Youth and People with Disability

FTSF - Fiscal Transition Support Facility

MEC - Member of Executive Committee

MTBPS - Medium-term Budget Policy Statement

MTEC - Medium-term Technical Committee

MTEF - Medium-term Expenditure Framework

NDP - National Development Plan

OECD - Organisation for Economic Co-operation and Development

PFMA - Public Finance Management Act

PPF - Project Preparation Facility

PSP - Provincial Strategic Plan

PSIP - Provincial Strategic Implementation Plan

WCG - Western Cape Government

https://uwcscholar.uwc.ac.za/home

List of Tables

Table 1:Influencing the Resource Allocation Process: Schedule of Questions. 41

Table 2: Research Study - Data Collection Methodology....60

Table 3: Research Participants - Provincial Treasury Officials....64

Table 4: Coding Technique of Research Data....66

Table 5: Proposed Assessment for Efficacy of Performance Budgeting Incentives....70

List of Figures

Figure 1: Relationship between Budget and Presentation of Performance Information (PI)....27

Figure 2: Types of Incentives and Sanctions of Funding Mechanisms....33

Figure 3: Webber - Expenditure Management Framework....37

Figure 4: Australia's Outcomes Budgeting and Reporting Framework....39

Figure 5: Accountability chain of command....45

Figure 6: South Africa: Initial Budget Medium-Term Expenditure Framework....47

Figure 7: National Integrated Budget and Policy Cycle....51

Figure 8: Budget Prioritisation Framework (BPF)....52

Figure 9: Overview of Performance Budget Mechanisms within Aligned Budget and Policy Cycles....72

Figure 10: Western Cape Government Strategic Framework 2019-2024....73

Figure 11: WCG 2024 MTEF Budget Process....78

Figure 12: WCG Budget Cycle 2020-2024....79

Figure 13: WCG - 2020 Budget Policy Principles....80

Figure 14: WCG 2024 Budget Policy Principles....81

Figure 15: Allocations of the Fiscal Transition Support Facility of 2022 MTEF....87

Figure 16: Allocations of the Project Preparation Support Facility of 2023 MTEF....88

https://uwcscholar.uwc.ac.za/home

Table of Contents

Plagiarism Declaration 1

Abstract 2

Acknowledgements 3

Abbreviations 4

List of Tables 5

List of Figures 5

Chapter 1: Introduction and background 11

1.1. Introduction 11

1.2. Background & Significance 12

1.3. Research Problem 13

1.4. Scope of Research study 14

1.5. Research Questions 15

1.6. Research Objectives 15

1.7. Overview of Literature 15

1.8. Methodology 16

1.9. Definition of relevant concepts 17

1.10. Division of Chapters 18

1.11. Conclusion 18

Chapter 2: Literature Review 20

2.1. Introduction 20

2.2. Public Budgeting 20

2.2.1. Types of Budgeting in The Public Sector 21

2.3. Performance Budgeting 23

2.3.1. Origin of Performance Budgeting 24

https://uwcscholar.uwc.ac.za/home

2.4. A Basic Model of Performance Budgeting 25

2.4.1. Types of Performance Budgeting Mechanisms 26

2.5. Features of Performance Budgeting 27

2.5.1. Implementation of Medium-Term Expenditure Framework (MTEF) 28

2.5.2. Shift from Inputs to Outcomes 28

2.5.3. Alignment of Budget to Strategy/Policy Priority and Service Delivery 29

2.5.4. Performance Information 29

2.5.5. Systematic Oversight and Accountability 30

2.6. Challenges to Performance Budgeting 30

2.6.1. Quality and Timeliness Performance Information 30

2.6.2. Measuring Performance 31

2.6.3. Resistance to Change of Budgeting System 31

2.7. Agency-Level Performance Budgeting 31

2.7.1. Defining Agency-Level Performance Budgeting 31

2.7.2. Challenges to Agency-Level Performance Budgeting Incentives 34

2.7.3. Agency-Level Performance Budgeting Incentive as an Effective Tool to Improve Policy Outcomes 34

2.7.4. How are Efficiency and Effectiveness Achieved? 35

2.8. Case Studies of Performance Budgeting—Agency-Level Performance Budgeting Incentives 37

2.8.1. United States of America—the Florida Government Performance and Accountability Act of 1994 38

2.8.2. Management Flexibility in OECD member states 38

2.8.3. Australian- Outcomes and Outputs Budgeting and Reporting framework: 39

2.8.4. Scotland's— "Moving to Outcomes Budgeting" 40

2.9. Performance Budgeting in the South African context 43

https://uwcscholar.uwc.ac.za/home

2.9.1. Role players in the Budgeting System Legislative Framework for Budgeting 43
2.9.2. Legislative Framework for Budgeting 45
2.9.3. Budget reforms in South African Post 1994 46
2.9.4. Performance Budgeting Today—Linking Budget to Strategic Policy Outcomes. 50
2.10. Understanding Principal-Agent Theory in Public Budgeting 54
2.11. Conclusion 57
Chapter 3: Research Methodology 58
3.1. Introduction 58
3.2. Research Design 58
3.2.1. Data Collections 59
3.3. Unit of Analysis 60
3.4. Sampling Technique 62
3.5. Data Analysis 64
3.6. Ethical Considerations 68
3.7. Conclusion 69
Chapter 4: Findings and Analysis 70
4.1. Introduction 70
4.2. Overview of Western Cape Government Budget System 73
4.2.1. Budget System 73
4.2.2. The Role Players in the Western Cape Budget System 74
4.3. Performance budgeting in the Western Cape Government 76
4.3.1. Integrated Policy, Planning, Budgeting and Implementation Cycle 77
4.3.2. Reprioritisation of Expenditure 79
4.3.3. Expenditure Reviews 81
4.3.4. Robust Monitoring and Evaluation System 82

https://uwcscholar.uwc.ac.za/home

4.3.5. Use of Information for Decision-Making 83

4.4. Agency-Level Performance Budgeting Incentives used in the Western Cape Government 84

4.4.1. Conditional grants 85

4.4.2. Earmarked Allocation 86

4.4.3. Fiscal Transition Support Facility (FTSF) 86

4.4.4. Project Preparation Support Facility (PPF) 88

4.5. Dynamics of Agency-Level Performance Budgeting within the WCG Budget System 89

4.5.1. Preconditions for Agency-level Performance Budgeting incentives within WCG 89

4.5.2. Enablers within for Agency-level Performance Budgeting Incentives 92

4.5.3. Inhibitors of Agency-Level Performance Budgeting Incentives 94

4.6. WCG approach to Gender Responsive Budgeting 95

4.7. Conclusion 96

Chapter 5: Recommendation and Conclusion 97

5.1. Introduction 97

5.2. Key Findings 97

5.2.1. Performance Budgeting as an enabler 97

5.2.2. Performance Budgeting within the WCG 98

5.2.3. Agency-Level Budgetary Performance Incentives 99

5.2.4. Governance as a Foundation 99

5.3. Recommendations 99

5.3.1. Explore Additional Funding Tools including Non-Financial Incentives 99

5.3.2. Conduct Impact Assessments to Determine Feasibility of Established FTS 100

5.3.3. Publication of Progress Reporting on PSIP to the Public 100

5.3.4. Creating Culture for Incentives by Leveraging Governance Maturity 100

https://uwcscholar.uwc.ac.za/home

5.4. Contribution of research to literature 101

5.5. Areas for further research study on the topic. 101

5.6. Research Limitations 102

5.6.1. Unit of Analysis 102

5.6.2. Research Complexity 102

5.7. Conclusions 102

References 104

Appendices: 110

Appendix A: Abstract & Interview Questions 110

Appendix B: Ethical Clearance - UWC 110

Appendix C: Approval Letter - Research at Provincial Treasury 110

Appendix D: Participation Consent form participants 110

https://uwcscholar.uwc.ac.za/home

Chapter 1: Introduction and background

1.1. Introduction

With the political liberalisation of the South African government following the establishment of the Constitution, there has been a significant shift towards a more fiscally decentralised approach. This transition is a response to the enduring economic and social disparities left by the legacy of apartheid, particularly in rural areas. To effectively address these socio-economic challenges, progressive and transformative policies are essential. The budget serves as a critical policy tool for realising transformation in South Africa.

During the transition to a democratic South Africa, it became imperative to ensure the effective implementation of policies, efficient resource allocation, and sound governance through the budget process. The National Treasury plays a pivotal role in this agenda, tasked with ensuring that sustainable revenue streams meet the expenditure demands of government programmes (Fölscher & Cole, 2004). Since the mid-1990s, South Africa's public expenditure management system has undergone significant transformation, with early reforms focusing on macroeconomic stability and increased public spending, while more recent reforms emphasise service delivery and efficient resource allocation (Van Zyl, 2003).

Key highlights of these reforms include the implementation of a new intergovernmental system that requires all three levels of government to create and approve their own budgets, the introduction of three-year rolling spending plans for national and provincial departments under the Medium-Term Expenditure Framework (MTEF) and the enactment of new financial laws that prioritise service delivery information in budget documentation.

Among the principles underpinning South Africa's budgetary reforms is the notion of "changing behaviour by changing incentives", which aims to devolve responsibilities to spending departments for budgetary decisions within approved ceilings and policy commitments (Fölscher & Cole, 2004). This principle supports the development of performance measures in budgeting processes, specifically performance budgeting incentives. The intent of these reforms is to align

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planning and budgeting with performance monitoring of service delivery, thereby strengthening the connection between the services provided by departments and the associated benefits and costs.

The proposed research study aims to explore the effectiveness of agency-level budgetary performance incentives in improving spending priorities and policy outcomes. This exploratory study focuses on the budgetary process of the Western Cape Government (WCG), particularly through the lens of the Provincial Treasury, to assess the feasibility of implementing performance budgeting incentives within its current budgetary framework. The research specifically examines the budgetary system at the subnational level, emphasising the planning and management processes of the Provincial Treasury and the relevant provincial departments.

1.2. Background & Significance

The WCG is one of the nine subnational governments (referred to as provincial governments) of South Africa. The Constitution of the Republic of South Africa (Act No. 108 of 1996) established South Africa's provincial governance. As provincial government, the WCG derives its mandate from the Constitution and is responsible for making laws on affairs including education, health, economic development, to name a few, in line with Chapter 6, Sections 104 to 150 and powers outlined in Schedule 4 and 5 of Constitution.

Situated in the most south-western part of South Africa, the province is home to 7.4 million residents (Provincial Treasury, 2023). The province is one of three provinces that receive mass local migration from the Eastern Cape which impacts service delivery. The Western Cape governance approach is citizen centric, putting people at the centre of service delivery. The provincial government is well-known for its good governance practices and audit performance.

At the time of this study, the administration was headed by the premier, Alan Winde and the provincial cabinet which drives the political agenda, and its legislature that played a crucial role in the passing of laws and oversight ensuring government remained accountable to citizens. The provincial strategy focused on job creation, safety and wellbeing which was underpinned by infrastructure which led economic growth.

Performance budgeting is seen as an essential tool to improve policy outcomes. Performance budgeting refers to public sector funding mechanisms and processes designed to strengthen the linkage between funding and results in using performance information objectively to improve the allocative and technical efficiency of public expenditure (Robinson, 2007).

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Performance budgeting is not a new phenomenon but an evolving theoretical discipline. Performance budgeting has been largely connotated to new public management ideology focusing on public policy and financial management. Performance budgeting is largely monitored by international governmental organisations such as the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD), which were the main drivers of this budgetary approach.

The study specifically explored the adoption of performance budgeting practices by the Western Cape provincial government. The research explored how performance budgeting was implemented within the intergovernmental context of the budget system within South Africa, whereby the budget setting and expenditure were primarily centralised at national government and cascaded to provinces and municipalities.

The exploratory study focused on the budgetary process of the Western Cape Government, by the Provincial Treasury, to understand whether performance budgeting incentives were implemented into its budgetary process to encourage efficient resource allocation and spending to improve policy outcomes. More importantly, the research set out a foundation for the public sector, hoping that it set the key in how performance budgeting incentives are introduced into budgeting processes. As a new public management practice this would be but one way in which government can improve policy outcomes.

The researcher found that the majority of research on performance budgeting had been conducted via the OECD. The OECD conducted case studies on the implementation of performance budgeting into public financial management frameworks. The *OECD Journal on Budgeting* provided extensive literature on these case studies on implementing performance budgeting. The focus was on promoting performance budgeting as a new public management mechanism to promote sound financial management and improve the socio-economic well-being of its member states.

1.3. Research Problem

Despite the on-going good governance performance, the province is not immune to structural and economic realities and issues that exist in the communities within the province. The Western Cape Strategic Plan (2019–2024) and Recovery Plan highlight unemployment, crime and public health amongst its top challenges to address. What the audit outcomes showed was that the public funds were being efficiently spent according to desired planned programmes and priorities and that

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adequate governance mechanisms had been implemented. The question begs how one can use the budget process to improve the spending priorities and improve policy outcomes. This research therefore explores the plausibility of performance-based budgeting incentives and mechanism as an effective tool to improve spending priorities and improve policy outcomes.

The research provides a comprehensive overview of performance budgeting and its implementation across various governments worldwide. The primary focus is on the existing literature surrounding performance budgeting, which is analysed at three distinct levels: the theoretical framework underpinning performance budgeting, case studies detailing its implementation within state governments, and assessing its efficacy as a strategic mechanism.

Current literature suggests that substantial research was conducted on the theoretical aspect of performance budgeting and complemented by numerous case studies. However, a research gap persists in empirical studies on determining the efficacy of performance budgeting. Robinson & Brumby, (2005) have however provided a foundational perspective that contributes to understanding this issue and a starting point in determining efficacy of performance budgeting (Robinson & Brumby, 2005). This research leverages their insights to guide the assessment of performance budgeting as an effective tool for enhancing policy outcomes. Additional gaps in research and relevant analysis in the post COVID-19 pandemic environment, which have impacted global economic stability and how a performance budgeting system responds to such a crisis, are discussed in the context of countries that have adapted their systems and what lessons or best practices can be recommend.

1.4. Scope of Research study

The scope of the research study is essential to understand the parameters within which a study is conducted. This research study specifically examines the provincial budget process within the Western Cape. It excludes the local government level thereby allowing more nuanced analysis of the provincial budget system.

The research study aims at understanding the extent to which agency-level performance budgeting incentives are implemented within the budget system. Research adopted an institutional perspective that seeks to uncover the role of the Provincial Treasury as a custodian of the budget, taking into account its relation to key stakeholders namely, executive and legislative interaction within its integrated policy, planning, budgeting and implementation cycle. The research aims to

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contribute valuable insights to how the agency-level performance budgeting incentives influence policy outcomes.

1.5. Research Questions

The main question of the research study is: **"Is agency-level performance budgetary incentives an effective tool to improve policy outcomes?"** To assist with answering the research questions, the following sub-questions were formulated.

- What is the current planning, programming and budgetary mechanism of the Western Cape Government?
- Are there any features of agency-level performance budgetary incentives in its budgetary process?
- What are the preconditions for implementing agency-level performance budgeting incentives in the budget process?
- What are the enablers and inhibitors that may prevent or exist in the budget process?
- What measures can be taken to improve the performance budget incentive in the Western Cape Government?

1.6. Research Objectives

- Outline and discuss the current planning, programming and budgeting of the WCG.
- Identify performance incentives (or sanctions) that exist in the WCG PPBS.
- Identify preconditions for performance budgeting incentives within the PPBS.
- Identify enabler and inhabiting factors that may impact on the budget process.
- Outline measures to improve performance budgeting incentives.

1.7. Overview of Literature

The literature review presented offers an in-depth exploration of performance budgeting which serves as the central concept underpinning this research. It begins with outlining the typology of public budgeting, contrasting performance budgeting with the traditional methods. The literature

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review also articulates the significance of performance budgeting by providing clear definition, tracing its origins to key proponents namely the IMF and OECD and its earliest implementation. It identifies its core features and mechanisms.

Key challenges associated with performance budgeting are highlighted that may hinder its effectiveness in achieving key objectives such as resources prioritisation, allocation efficiency and flexible management techniques. In addition, the review explores agency-level performance budgeting incentives and its role within a broader performance budgeting system. It emphasises that these incentives are not merely tools for securing additional funding, rather they are crucial for enhancing allocative efficiencies and programme effectiveness. By presenting relevant case studies the review illustrates the practical application of performance budgeting systems and its associated incentives. It demonstrates how efficacy can be assessed in real-world contexts.

Finally, the literature review contextualises performance budgeting within the South African public financial system which is centralised at the national government level and cascades down to provincial and local government level. It examines the reforms that had been implemented and mechanisms that had been employed including the latest budget planning tool in the Budget Prioritisation Framework for budget planning and execution. Lastly, the review integrates a theoretical perspective through Principal-Agent Theory which sheds light on the dynamics of the relationships between stakeholders involved thereby enriching the overall analysis presented in this study.

1.8. Methodology

An explorative qualitative research approach was applied for the research study aimed at capturing the intended research question to understand and analyse the plausibility of performance-based budgeting in the current budgetary system of the Western Cape government.

Semi-structured interviews and document analysis were identified as the most suitable mechanisms to extract sufficient data. The researcher interviewed Provincial Treasury officials (subject matter experts on the budget process) and the results are used as the main source of primary data collection. Furthermore, the research made use of policy documents, budget circulars, legislation and academic material as secondary data resources. It enabled the researcher to gain the necessary understanding of the context in which the topic under investigation would be implemented.

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The recommended sampling technique in which primary data were collected is purposive sampling. Provincial Treasury Officials were identified as the managers of the budget process. This maximised the extraction of data that were used to conduct the analysis.

Deductive analyses were applied and resulted in an organised, rigorous, and analytically sound qualitative study. The research used deductive strategies to organise and focus data on the research questions and made use of inductive strategies to understand what was occurring considering the data and information that were given.

1.9. Definition of relevant concepts

Public Budgeting System:	*structured framework through which government allocates financial resources (revenue) to various programmes, goods and services*.
Performance Budgeting:	*…mechanism designed to strengthen the linkage between funding and results (outputs and outcomes), through a systematic use of formal performance information with the objective of improving the allocative and technical efficiency of public expenditure* (Robinson, 2007, p. 1)
Performance Budgeting Incentives:	*..mechanisms designed to align funding with measurable outcomes and outputs in public sector budgeting. The aim to motivate agencies to perform better by rewarding agencies financially for good performance (and possibly also by financially sanctioning unsatisfactory performance)* (Robinson, 2007).
Monitoring and Evaluation:	*policy monitoring refers to the systematic collection of data on the indicators that have been developed to determine the level of progress in achieving the goal and objectives of the policy, whereas policy evaluation is the systematic assessment*

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	of the entire policy and its programmes that have been implemented (Cloete, 2009).
Good Governance:	*the processes and practices through which public institutions manage public affairs and resources, ensuring accountability, transparency, and the realisation of human rights*.

1.10. Division of Chapters

Chapter 1 covers the introduction to the research, background to the study, research problem, research questions, research objectives, the methodology used in the research, division of dissertation chapters, key concepts and the conclusion.

Chapter 2 covers the theoretical overview of performance budgeting. It focuses on the concept and interpretation of performance budgeting in general, outlines the epistemology of performance budgeting and highlights cases where performance budgeting incentives may exist in budget processes. Specific references are made to agency-level performance budgeting incentives. The chapter further provides an overview of the implementation of performance budgeting within the South African context.

Chapter 3 explains the research methodology that was applied to the research study, aimed at ensuring that research approach and methods that were utilised, aimed to facilitate credible data collection and analysis for the study.

Chapter 4 presents key discussion and findings focusing on the Western Cape Government budgeting process, uncovering the budgetary processes, establishing how performance budgeting incentives and sanctions can be used and outlining whether the use of performance budgeting improves policy outcomes.

Chapter 5 provides the key observations of the study, outlines lessons that have been learnt around performance and makes recommendations. Lastly it concludes the dissertation.

1.11. Conclusion

The chapter presented a brief outline of the research study's intent, giving the background of the study and the research problem. It then outlined the research questions, followed by the research

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objectives. Finally, it explained the research methodology, the breakdown of chapters, and key concepts mentioned in the research.

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Chapter 2: Literature Review

2.1. Introduction

Chapter 2 offers a comprehensive theoretical overview of performance budgeting, focusing on its definition, interpretation, and implementation within the public sector. It explores the underlying concepts and incentives associated with performance budgeting, emphasising its epistemological foundations.

The chapter also examines specific instances of how performance budgeting incentives may influence budgetary processes, with particular attention given to agency-level performance budgeting incentives. Additionally, this chapter highlights the broader context of public budgeting, discusses relevant theoretical frameworks, and provides an in-depth analysis of performance budgeting practices in the South African budget system.

2.2. Public Budgeting

One of the key roles of the state in a modern society is to ensure sufficient revenue for the delivery of services. Public budgeting therefore plays a crucial role especially in the development of countries and the well-being of its citizens. Historically public budgeting was described as a control mechanism for the spending of government funds and later evolved as a tool to implement public policy and instrument to assure accountability, financial integrity, and legal compliance of public expenditure (Smith & Lynch, 2004).

In the public administration discipline, the role of government budgeting— "public budgeting" for short in what follows—has evolved synonymously with the role of government: from providing the basic protection for its citizens to managing comprehensive public policy programmes across levels of government, including interaction globally. Public budgeting is the allocation and use of revenue, and associated decisions about how the resources will be acquired, by that part of the public sector which is financed primarily by compulsory charges such as taxes (Giakanis, 1999).

Equivalently, public budgeting serves as an instrument that outlines stipulating policies and programmes aimed at realising the development objectives of a government (Ordu & Thomas, 2023). Public budget is, therefore, a financial plan which covers those public sector agencies—such as line ministries and the social security system—which are primarily tax-financed. It does

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not typically cover public corporations, which normally manage their finances on a more autonomous basis. Public budget therefore has three main objectives:

Sound macro-fiscal outcomes: The primary goal of budgeting is to achieve sound macro-fiscal outcomes, which stem from effective aggregate fiscal policy. This policy must ensure "fiscal sustainability", meaning that deficits and debt levels remain manageable. Maintaining sustainable debt levels is crucial for economic confidence and stability (Robinson & Brumby, 2005). If budgeting fails to keep debt within sustainable limits, financial markets may lose trust in the government's ability to repay loans.

Appropriate and prioritised expenditure: This objective focuses on allocating funds to sectors and programmes that most effectively address social needs. For instance, if a country faces a significant health crisis, the budget should allocate additional resources to programmes aimed at addressing that crisis. Conversely, this may require reallocating funds away from lower-priority sectors and programmes (Robinson & Brumby, 2005).

Service effectiveness and efficiency: This objective encompasses two key aspects: first, government services must be delivered efficiently; second, they should be designed and managed to maximise their effectiveness (Guess & Savage, 2021). Performance budgeting, as discussed further, directly targets improvements in achieving these two objectives.

2.2.1. Types of Budgeting in The Public Sector.

The typology of budgeting has evolved in response to the dynamic environment in which states have found themselves. This has required states adopting alternative budget methodologies from the traditional budgeting system. There are four main types of budget methods that have been used by states around the world, each with its unique adoption, namely: line budgeting, programme budgeting, zero-based budgeting and performance budgeting.

2.2.1.1. **Line-item or Traditional Budgeting**:

Line-item budgets are the traditional budgeting format, aimed at grouping expenditure of government functions, where each expense is recorded with a specific line in a ledger. It was widely used, particularly in local governments, due to its comprehensive detail on proposed expenditures, which aids in accountability and compliance auditing (Ordu & Thomas, 2023). However, a significant drawback was identified—that it does not effectively measure whether funds are spent on their intended purposes, focusing instead on inputs rather than outcomes.

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Despite its limitations, the line-item budget remains the most prevalent budgeting method. It provides a clear structure for decision-makers to understand the costs associated with various functions, such as health and education (Ordu & Thomas, 2023). The format allows for centralised decision-making based on cost analysis but often lacks a strategic vision regarding outputs and results. Consequently, while it facilitates control and documentation, it may not align expenditures with broader organisational goals or performance metrics, leading to potential inefficiencies in resource allocation.

2.2.1.2. **Programme Budgeting**:

Programme budgeting integrates planning with management and control functions, focusing on service and facility outcomes. This approach involves developing multi-year programme plans that identify anticipated outputs according to specific programme objectives. These objectives guide allocating resources to address problems, improve conditions, or support other programs. The legislature sets performance targets for both outcomes and outputs, and public organisations are required to report their actual performance against these targets in subsequent budget requests (Ordu & Thomas, 2023).

The programme budgeting method emphasises accountability and effectiveness by linking funding to measurable results. Incentives are provided for exceeding performance standards, while disincentives are applied when standards are not met (Ordu & Thomas, 2023). This system encourages a proactive approach to resource management, where organisations must continuously evaluate their performance and adjust their strategies accordingly. By focusing on programme objectives and measurable outcomes, programme budgeting aims to enhance the efficiency and effectiveness of public spending.

2.2.1.3. **Zero-based Budgeting:**

This method of budgeting was introduced by Verne Lewis in 1952 as a concept of marginal analysis for resource allocation decisions (Giakanis, 1999, p. 27) . Zero-based budgeting is a budgeting approach that requires all expenditures to be justified from scratch each year, rather than merely adjusting previous budgets. This method challenges the traditional incremental budgeting process, where only increases over the previous year's budget need justification (Steiss & Nwagwu, 1998). Under zero-based budgeting, every department must comprehensively review its functions and expenditures, ensuring that all budget requests are justified in detail (Ordu & Thomas, 2023). This

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approach promotes a culture of accountability and encourages departments to critically assess their needs and priorities.

Zero-based budgeting is particularly beneficial in resource-constrained environments, as it allows for a more flexible allocation of funds based on current needs rather than historical spending patterns. By starting from a "zero base", organisations can prioritise essential services and eliminate unnecessary expenditures. Although zero-based budgeting can be complex and time-consuming to implement, its focus on resource reallocation and managerial involvement in the budgeting process can lead to more efficient and effective use of public funds.

2.2.1.4. **Performance Budgeting:**

Performance budgeting links the allocation of funds to measurable results, emphasising the relationship between budgeted amounts and expected outcomes. This method requires that each line item in the budget is accompanied by performance measures, allowing for the calculation of unit costs and efficiency (Ordu & Thomas, 2023). By categorizing expenditures based on functional items, organisations can assess the effectiveness of their services and make informed decisions about resource allocation. This approach is recommended by institutions like the World Bank and the International Monetary Fund for countries seeking to reform their budgeting systems (Ordu & Thomas, 2023).

In performance budgeting, managers are granted the flexibility to utilise resources as needed, provided they commit to achieving specific performance results. This system fosters a results-oriented culture, where public organisations are encouraged to maximise their production of goods and services within allocated resources. By focusing on outputs rather than inputs, performance budgeting aims to improve the efficiency of public spending and ensure that funds are directed toward activities that yield tangible benefits for the community.

2.3. Performance Budgeting

In recent decades, performance budgeting has been adopted as a broad set of management and budgeting reforms, designed to improve the effectiveness and efficiency in the public finance sector and aimed at achieving fiscal sustainability. Introduced in the era of new public management practices, performance budgeting has gradually been adopted by governments across the world.

> *Performance budgeting refers to public sector funding mechanisms and processes designed to strengthen the linkage between funding and results (outputs and outcomes), through a*

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> *systematic use of formal performance information with the objective of improving the allocative and technical efficiency of public expenditure* (Robinson, 2007, p. 1).

At the US National Conference of States Legislature in 1994, performance budgeting was defined as:

> *Performance budgets use statements of missions, goals and objectives to explain why the money is being spent…[It is a way to allocate] resources to achieve specific objectives based on programme goals and measured results…Performance budgeting differs from traditional approaches because it focuses on spending results rather than the money spent – on what the money buys rather than the amount that is made available* (Carter, 1994, pp. 2–3).

The theoretical framework and practices have primarily been promoted by OECD and IMF. Performance budgeting was defined as referring to the instrument employed by government for decision-making processes aimed at the effective and efficient use of resources achieving political, economic, policy and/or organisational goals (World Bank, 2005).

In a performance budgeting system, budget managers are required to produce outputs which contribute to achieving set outcomes. Performance budgeting can therefore be viewed as part of a broader system of performance management or as mentioned by Robinson (2007), "managing for results" in which the objectives (outcomes) that government aims to achieve, are clearly specified. Highlighted in their 2013 report, the Collaborative African Budget Reform Initiative (CABRI) state that, "…the key characteristics of performance budgeting models is that they attempt to link budget funding and results" (CABRI, 2013).

2.3.1. Origin of Performance Budgeting

The fundamental starting point for the inception of performance budgeting is the intention of shifting the paradigm of public finance. The traditional view of budget management focused on resource allocation and input control which was highly centralised (Diamond, 2003). There was less focus on the performance and spending of departments. The introduction of the new budget management model—performance budgeting—ushered in the focused direct link between allocation of resources through the budget and the performance in reaching the intended objective. By linking budget allocations directly to performance metrics (outputs and outcomes), these reforms seek to optimise resource allocation, foster transparency, and empower decision-makers to make informed choices that drive positive socio-economic outcomes.

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As governments worldwide increasingly recognise the importance of delivering value for money, performance budgeting emerges as a dynamic tool poised to reshape budgetary practices and promote a results-oriented culture within the public sector. The OECD has been a key role player in rolling out performance budgeting for over two decades, aiding the development of frameworks to assist its member states. The United States was the first to introduce performance budgeting in its earliest form in the 1960s (Beazley, 2017). Key reforms on performance budgeting have been implemented in the United Kingdom, New Zealand, Australia, France, and many other European states dating back to the 1980s. Championed by the OECD, its member states have embarked on performance budgeting for different reasons, but the main ones were to address financial crises, growing pressure to reduce public expenditure, or a change in political administration (World Bank, 2010). Since the 1990s, many countries had introduced performance budgeting to reduce this asymmetry in information and improve public sector efficiency (Robinson, 2007).

Following empirical analysis presented by the World Bank, the introduction of performance budgeting of OECD countries such as Canda, Sweden, UK and the USA are broadly grouped by categories (World Bank, 2010): (a) budget priorities such as controlling expenditure and improving allocation and efficient use of funds, (b) improving public sector performance and, (c) improving accountability to politicians and the public.

The implementation of performance budgeting is not a one-size fits all; different reforms of performances budgeting have been implemented by different states. Cautioned by the OECD, "*While many countries aspire to performance budgeting; implementation is a journey rather than a destination* (OECD, 2008). This is dependent on various factors such as political environment, structure of government and state capacity. Many African countries have followed the global trend of introducing performance orientation into its budget system (CABRI, 2013). In a 2012 survey conducted by CABRI, it found that 15 African states have introduced performance budgeting reforms into their budget systems (CABRI, 2013). Performance budgeting frameworks are now the norm across the globe as reform into the broader new public management discipline that have been adopted.

2.4. A Basic Model of Performance Budgeting

Robinson and Last (2009), provide an overview of the basic model of performance budgeting which aims at addressing fundamental objectives, formulating the government budget, key

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decision makers systematically take into account the results to be achieved by expenditure (Robinson & Last, 2009).

The essential requirements include *information about objectives and results of government expenditure* which come in the form of *key performance indicators* and a *simple form of evaluation*. Second is a budget preparation process designed to facilitate the use of information in further budget decisions (Robinson & Last, 2009). The model further highlights that a programme classification of expenditure in the budget is also highly recommended. The aim is to ensure the improvement of expenditure prioritisation and encourage line ministries to spend more efficiently and effectively (Robinson & Last, 2009).

The authors also highlight the use of performance budgeting as a tool to improve aggregated fiscal discipline. It is assumed that government undertakes fiscal consolidation as it tries to make fiscal space for new spending without increasing aggregated expenditure. This fosters a culture of managing for results which encourages improving allocation efficiency and government services and also creates an environment for government to do "more with less" (Robinson & Last, 2009).

Last, performance budgeting fits naturally within a medium-term budget framework and it is cautioned that the latter should not be thought of being prerequisites for the former (Robinson & Last, 2009). The most effective method to enhance the creation of spending policy is to maximise the utilisation of performance information and to take the medium-term cost into account as a consequence of spending decisions.

2.4.1. Types of Performance Budgeting Mechanisms

Programme budgeting is considered to be the most basic form of performance budgeting. Programme budgeting uses performance information systematically in the preparation of the government-wide budget. The purpose of programme budgeting is expenditure prioritisation in which expenditure is classified in the budget by objectives (outcomes and outputs) rather than the solely economic categories. The primary goal for programme budgeting is to enhance the prioritisation of expenditures. Emphasis is placed on spending during the budget process aimed at boosting efficiency and effectiveness (Robinson, 2007).

Robinson (2007) identifies four mechanisms that are used in performance budgeting systems:

- **Programme budgeting**, which uses information about the costs and benefits of the objective-based ("programme") expenditure categories for expenditure prioritisation.

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- **Funding-linked performance targets**, which seek to link the level of funding to results targets, that is, to quantitative statements of the output and/or outcome the agency is expected to deliver.
- **Agency-level budgetary performance incentives**, which aim to motivate agencies to perform better by rewarding agencies financially for good performance (and possibly also by financially sanctioning unsatisfactory performance).
- **Formula funding**, in which funding provided is made an explicit function of measures of expected and/or actual results (usually outputs, but sometimes outcomes).

The OECD categorised performance budgeting into three types: presentational, performance-informed, and direct (OECD, 2007). The use of performance information has a direct relation to the category and development of the budget. Figure 1 outlines the relationship of budget to use of performance information.

***Figure 1**: Relationship between Budget and Presentation of Performance Information (PI)*

Type	Linkage between PI and funding	Planned or actual performance	Main purpose in the budget process
Presentational	No link	Performance targets and/or performance results	Accountability
Performance-informed budgeting	Loose/indirect link	Performance targets and/or performance results	Planning and/or accountability
Direct/formula PB	Tight/direct link	Performance results	Resource allocation and accountability

Note PI = Performance information

Source: Curristine, et al. (2007)

2.5. Features of Performance Budgeting

Performance budgeting emerges as a vital component of comprehensive public sector reforms. By aligning expenditures with strategic goals, fostering flexibility, and incorporating accountability mechanisms, performance budgeting contributes to an efficient and effective government. McGill (2001) outlines a "four basic principles" assessment that is required to be satisfied to ensure a

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successful transition to the adoption of performance budgeting. These principles were developed following his analysis of the practices in developed countries (McGill, 2001). These include:

- output-based budgeting;
- strategic context to condition the resource allocation process;
- public annual reporting in terms of outcomes and outputs; and
- resource allocation testing against future plans, tempered by recent performance.

It is therefore crucial that a performance budgeting system encapsulates a robust performance management system to ensure that these principles can be achieved. Pollitt (2001), in his analysis, argues that if the ideal of performance budgeting is to improve the quality and effectiveness of programmes, there should be integration of financial management and performance management (Pollitt, 2001). Pollitt highlights key interfaces between financial management and performance management: (a) Link between budget-making and performance target setting; (b) Linking budget allocation and performance targets; (c) Budget implementation with performance measures to ensure efficiency; and (d) An accounting system that is agile for measuring performance.

As countries continue to embrace performance-oriented governance, careful consideration of these features and components is essential for successful implementation and sustained improvements in public administration. Features of performance budgeting are discussed in the next paragraphs.

2.5.1. Implementation of Medium-Term Expenditure Framework (MTEF)

Performance budgeting generally works well within an MTEF setting which maximises alignment between policy priorities and budget. This approach is described as the cornerstone of performance budgeting by the World Bank and IMF (Robinson, 2007). Due to its multi-year nature, the approach consists of a top-down resource envelope and a bottom-up estimation of the current and medium-term costs of existing policies and involves rolling over this exercise each year to reflect shifts in policy (OECD, 2007). An MTEF is a natural complement to a performance budgeting framework because it provides a limited, but realistic, timeframe within which most programs can be properly implemented and have some of their impacts measured.

2.5.2. Shift from Inputs to Outcomes

The core element of performance budgeting is that it is outcomes driven. Highlighted by the OECD, public sector budgeting and management have undergone a significant transformation, shifting from a focus on inputs to a more outcome-centric approach (Kristensen et al., 2002). This

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paradigm shift signifies a departure from merely evaluating administrative controls and procedures towards assessing programme performance based on achieved outcomes.

In an outcome-focused approach, governments define the desired results of specific programmes or functions in terms of public good, welfare, or security. Once outcomes are defined, an outcome system typically incorporates indicators to assess the extent to which these outcomes are achieved. Many OECD countries have adopted outcomes-based management. Emphasis is shifted from merely tracking outputs to evaluating the broader impacts of government initiatives on society. This approach encourages a deeper understanding of how the services provided translate into meaningful results for citizens, such as improved health outcomes or enhanced educational attainment (OECD, 2018). By prioritising outcomes, governments can better align their resources and efforts with the actual needs and expectations of the public, ultimately fostering greater accountability and effectiveness in service delivery.

2.5.3. Alignment of Budget to Strategy/Policy Priority and Service Delivery

A central tenet of performance budgeting is the alignment of expenditures with the strategic goals and priorities of the government (Robinson, 2007). Strategic alignment serves as a crucial link between budgetary decisions and overarching policy objectives. Outlined by OECD, budget proposals are systematically aligned to government developmental plans and programmes within a multiyear which provide realistic and reliable fiscal parameters for both fundings and outcomes (OCED, 2018).

2.5.4. Performance Information

The most basic performance budgeting model relies on systematic performance information to effectively guide key prioritisation of expenditures and decision-making. This model emphasises the importance of utilising performance data to inform budgetary choices and promote allocative efficiency within the system. The use of performance information is used part of expenditure prioritisation exercises which seek to reallocate resources towards high policy priorities and away from low policy priorities (Curristine et al., 2007). These include technical apparatus such as:

- **Information on Objectives and Results**: This involves having key performance indicators and a straightforward programme evaluation to assess government expenditure outcomes.

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- **Budget Preparation Process**: A budget preparation process that facilitates the use of this information in funding decisions, must be in place. This includes simple expenditure review processes and decisions made by spending ministries (Robinson & Last, 2009).

Performance budgeting is closely linked to the use of performance measures that are tied to expenditure allocations. These performance measures can be viewed as a subset of performance information (CABRI, 2013).

A performance management system is crucial to the efficacy of the implementation of performance budgeting. Key components of such a system include establishing clear performance measures aligned with intended objectives to assess effectiveness, efficiency, and service quality; collecting and regularly reporting a core set of performance data, which requires defining responsibilities, integrating performance management into business planning, and having a robust IT system; and ensuring high-quality and consistent performance data across entities through guidance and quality checks by the ministry of finance.

2.5.5. Systematic Oversight and Accountability

Performance budgeting facilitates systematic oversight by the legislature and civil society, reinforcing the government's commitment to performance orientation and accountability. This aspect enhances transparency and trust in public spending (Robinson & Last, 2009). Best practices suggest that spending agencies are required to report on their performance to the legislature (OECD, 2018). Additional key actors like the legislature, enforce performance auditing on spending agencies holding them accountable to the public.

2.6. Challenges to Performance Budgeting

While the intention of implementing performance budgeting is reasoned to improve budgeting and offers numerous benefits, the implementation of performance budgeting has seen several challenges that states are required to navigate to achieve ideal success. Challenges that have been highlighted as impacting the implementation of performance budgeting, are discussed in the following paragraphs.

2.6.1. Quality and Timeliness Performance Information

Quality of performance information has an impact on effective decision-making and thus accurate information is seen as pivotal for the performance budgeting system (Curristine et al., 2007). The

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lack of effective performance information results in an inability to make informed budgeting decisions, which ultimately undermines the core purpose of performance budgeting. Performance audits are increasingly being used to gain insights into intricate, multifaceted challenges that cut across government programmes, levels of government, and sectors (OECD, 2018).

2.6.2. Measuring Performance

Reported by the OECD, countries are challenged with measuring performance which impacts the measuring of outcomes (OECD, 2007). This complexity arises from the interactions among various government agencies, the roles of key actors, and sector-specific factors.

In performance budget setting, greater accountability is placed in on agency and therefore they become responsible for performance management (risk). Measuring performance can become challenging as it requires a shift from traditional and established methods to more sophisticated information systems in order to effectively measure performance at output and outcome level.

2.6.3. Resistance to Change of Budgeting System

Mark Robinson highlight this as a key determining factor in the successful implementation of performance budgeting (Robinson, 2007). This is emphasised by the difficulties experienced by key actors resisting reforms to move away from traditional budgeting factors and/or adopting familiar budget practices (World Bank, 2010).

2.7. Agency-Level Performance Budgeting

Agency-level performance budgeting incentives is recognised as crucial mechanism for enhancing effectiveness of public sector resource allocations. Such incentives must be aligned to policy outcomes. This approach not only promotes allocative efficiency but also encourages managers to make informed decisions that drive improved service delivery. It is crucial to understand the dynamics of agency-level performance budgeting incentives as a critical tool in public financial management systems.

2.7.1. Defining Agency-Level Performance Budgeting

Agency-level performance budgetary incentives systems were set on the principal notion that performance budgeting emphasises rewards (or sanctions) for performance. This is drawn from a new public management principle such as explicit standards and measures of performance. The defining characteristics of this agency-level performance budgetary incentives are that

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result/funding linkage is retrospective—past-performance defines future funding (Robinson, 2007). The second characteristic of this system is the assumption that if there is strong motivation for better performance, it will strengthen the link between agency funding and performance (Robinson, 2007). Robinson highlights that a contemporary performance budgeting model contains one or more of the following elements inclusive of agency-level performance incentives:

- agency-level performance targets which are intended to be linked to the level of resourcing provided;
- funding formulas which implicitly set, through the funding formula, targets for the results expected to be achieved; and
- agency-level financial incentives, under which good performance by the agency result in higher levels of funding and poor performance may lead to financial sanctions (Robinson, 2007).

The contrast between agency-level performance budgetary incentives and other mechanisms is because other system such as programme budgeting aim at linking past performance to future funding and the use of information to inform future funding (World Bank, 2010). This, however, does not necessarily create incentive, rather aims at allocative efficiency through better expenditure prioritisation. The view of Hearn et al. (2006) is that incentive-based budgeting can support central administration and shape institutional strategies to promote performance within units (Hearn et al., 2006).

Contrarily, performance-based financial incentives for agencies seek to tighten the ex-post link between funding and outcomes. In other words, the linkage between funding levels and actual (as opposed to predicted) performance, flows from there (Robinson, 2007). It is anticipated that financial incentives or sanctions based on performance will encourage agencies to perform better. This contemporary approach is to build tighter linkage between results and funding as a means to encourage and pressure agencies to improve their performance. Performance budgeting incentives are used as a mechanism to foster efficiencies and accountability in public sector budgeting.

As a new public management reform, decentralised decision-making on resource flexibility assists in promoting result-orientating and, in exchange, assists with accountability within the budget system (Rose, 2003). The extension of accountability to managers requires the implementation of management techniques such as corporate planning, performance monitoring and evaluation. On this basis budget flexibility can render as a performance budgeting incentive as it fosters flexible

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budget management. Management flexibility (i.e. managing risk to output performance) is also seen to support a shifting in culture of risk averse to strategic risk management (Chan, et al. 2002).

In their 2007 review, the OECD published a range of incentive mechanisms that have been adopted into the public budgeting systems across their member states, indicating financial incentive, managerial flexibility and public recognition. Figure 2 outlines the types of reward within funding mechanisms.

***Figure 2**: Types of Incentives and Sanctions of Funding Mechanisms*

Mechanism	Rewards	Sanctions
Funding	Increase funding to the agency.	Reduce or restrict agency funding.
	Maintain status quo on agency funding.	Eliminate agency funding.
	Provide management and/or employee bonuses.	Cut the salary of management and/or employees.
	Increase the staff budget.	Cut the staff budget.
Flexibility	Allow the agency to retain and carry over efficiency gains.	Return all funding to the centre.
	Allow flexibility to transfer funds between different programmes and/or operating expenditures.	Restrict the ability to transfer funds.
	Exempt the agency from certain reporting requirements.	Increase the reporting requirements.
		Order a management audit of the agency.
Public recognition	Publicly recognise the agency's achievements.	Publicly criticise the agency's performance.

Source: OECD, 2007

Further motivation for the use of agency-level performance budgeting incentives, is highlighted by Robinson and Brumby (2005). Agency-level financial incentives have arguably proven success in some sectoral performance budgeting (Robinson & Brumby, 2005). Although, as pointed out above, some (certainly not all) contemporary versions of performance budgeting emphasise the notion of funding "rewards" for good agency performance. Even then it is not made clear how or whether these agency-level funding rewards are supposed to motivate individuals to perform better.

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2.7.2. Challenges to Agency-Level Performance Budgeting Incentives

Like any system, implementation comes with its difficulties, of which the complexity of budget decision issues and context make it difficult to link funding to results. These issues could result from the absence of performance information or the biased use thereof (OECD, 2007).

Further challenges are explained such as the conflict between sanctions (funding cuts) for poor performance and policy priorities and budget constraints. The automatic cuts to funding because of poor performance does not take into account underlying issues within a particular sector influenced by internal and external factors that agencies may not be able to control (OECD, 2007).

The use of a purely mechanical approach in performance-based budgeting can lead to unintended consequences and encourage agencies to manipulate data. The incentives for providing accurate information are influenced by the expectations of how this information will be used in the decision-making process. If funding is tightly and automatically linked to results, agencies may have an incentive to engage in gaming behaviours and manipulate data to secure more funding or avoid losing funding (OECD, 2007). This highlights the importance of striking a balance between using performance information to inform budgetary decisions and avoiding overly rigid, automatic linkages between results and funding. A more nuanced approach that considers contextual factors and allows for professional judgment can help mitigate the risks of gaming and data manipulation.

Another related challenge is that to link funding and, more specifically, financial incentives—at either the agency or individual level—directly to imperfect performance measures, can be expected to "crowd out" the ethical/altruistic motivations which are felt by some to be crucial to good public sector performance. (Robinson & Brumby, 2005).

2.7.3. Agency-Level Performance Budgeting Incentive as an Effective Tool to Improve Policy Outcomes

A central tenant to understanding how performance budget incentivising serves as an effective tool to improve policy outcomes, is based on its purpose: incentivise performance by linking funding to results and allocation efficiencies. From this perspective performance budgeting incentives are designed to ensure agencies are motivated to achieve their designed outcomes. However, to determine whether this is an effective tool, one must understand the impact made in fulfilling its purpose. To do so, measuring efficacy of agency-level performance budgeting incentives is important.

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In the broader performance budgeting framework, the alignment of strategy and resource allocation must be performance driven. The focus therefore shifts to output and outcomes level. These levels are integrated as the outputs feed into determining success at outcomes level. Kristensen et al. (2002) highlighted in their review of OECD countries, that the shift from inputs focus to outputs focus is viewed as enhancing the quality of management and increasing programme effectiveness and efficiency (Kristensen et al., 2002).

2.7.4. How are Efficiency and Effectiveness Achieved?

The work of Robinson (2007) outlines three fundamental principles which can ensure the impact of performance budgeting is realised. The principles of effectiveness, efficiency and economy are key concepts that must be integrated into the performance budgeting system. Robinson (2007) distinguishes between efficiency and effectiveness arguing that: "*effectiveness pertains to outcomes whereas efficiency relates to outputs"* (Robinson, 2007, p. 29). Robinson further explains that effectiveness refers to how well programmes achieve their intended outcomes, thereby placing focus on outcomes. Efficiency refers to optimal use of resources to achieve these outcomes, placing the focus on outputs.

In an outputs management and budgeting approach, it is important to describe: "*public functions in terms of goods or services and calculate how many services are being delivered, or products produced. An output focus is primarily oriented to indicators such as volume and timeliness, and to a varying degree, quality*" (Kristensen et al., 2002, pp. 8-9). This approach assists in determining efficiency within the budget process. Efficiencies can be determined on two principal dimensions namely, technical efficiencies and allocative efficiencies. Technical efficiency refers to the reduction of costs of goods and services purchased by the government (Rose, 2003). Technical efficiencies are also referred to as operational efficiency and/or productive efficiency.

Critiques of output-focused management and budget have highlighted concerns and limitations that the approach may produce, including that agencies may become misled by the quantitative outcomes, which may not contribute to the overall outcomes or may even overlook overall goals and objectives of programmes (Rose, 2003). This has resulted in countries taking a more outcomes focused approach which emphasises results.

In an outcomes management and budgeting approach: "*government defines what a particular programme or function is to achieve in terms of the public good, welfare or security; Having defined the outcomes, an outcome system typically defines indicators, which help assess how well*

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it does in achieving these outcomes" (Kristensen, et al. 2002, p. 9). This approach provides a pathway for assessing whether outcomes of programmes have been achieved.

Pollitt identified technical difficulties moving beyond outputs measure to outcome measure. In the case of linking budgetary allocation to effective measures, outcomes are likely to be achieved over a longer period than the budgetary year. He adds that there tends to be disconnect between efficiency measure to outcomes and potential unsubstantiated withdrawal of resources (Pollitt, 2001).

Robinson (2007) makes the argument that the link between outputs and outcomes lies within allocative efficiency mechanisms used by states. Allocative efficiency refers to "*the production of the best or optimal combination of outputs given society valuation for those outputs*" (Robinson, 2007, p. 29). Allocative efficiency is therefore the practice of effective utilisation of resources to produce maximum outcomes. (Schick, 2001) defines allocative efficiency as the "*capacity to establish priorities within the budget, including the capacity to shift resources from old priorities to new ones or from less to more productive uses in correspondence with government objectives*" (Schick, 2001, p. 13),

The premise is based on allocative efficiency of government expenditure therefore depends not only on the effectiveness of government expenditure in achieving intended outcomes but also the extent to which the outcomes meet the needs of society and the possibility of delivering great benefit to society by changing the output mix (Robinson, 2007). Robinson outlines three levels of allocative efficiency objectives within budgeting in the following way: (a) role of aggregated expenditure control; (b) government programmes are aligned to the needs of society; and (c) role of government in supplying services and delivering them in an efficient way.

Webber's proposed Expenditure Management Framework further supports this by outlining the linkage between essential components in the way that it meets efficiency, effectiveness and sustainability objectives. Figure 3 outlines the logic model which was developed following his analysis of the New Zealand performance budgeting experience.

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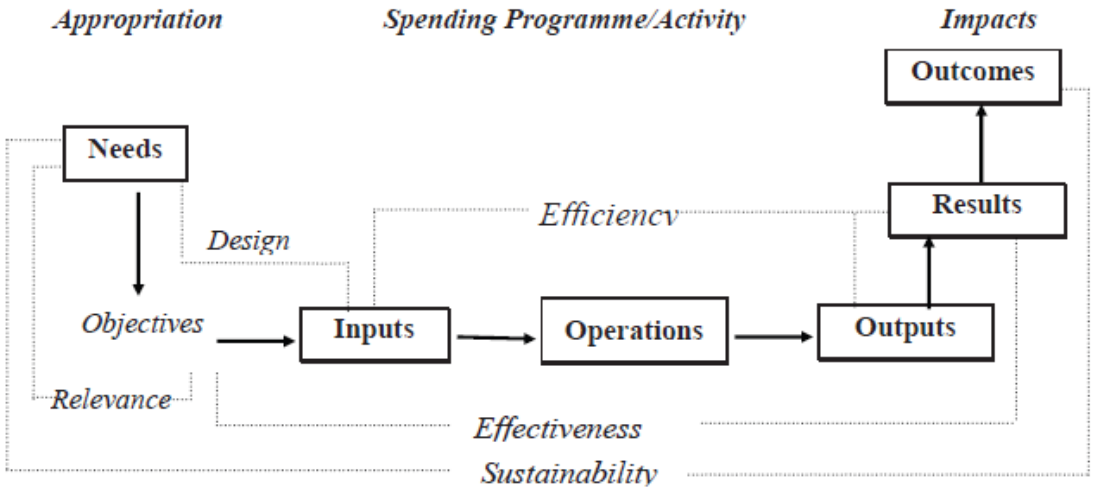
***Figure 3**: Webber - Expenditure Management Framework*



Source: Webber (2004)

The proposed framework supports Webber's calls for sound public financial management to be proposed beyond outputs and outcomes to clearly articulate and effectively integrate an expenditure management framework. The proposed framework outlines the fundamental elements such as *appropriation, spending programmes and impact*. Efficacy in the system is determined by the quality of management decisions and linkage between these components.

Webber (2004) argues that broad policy objectives should be converted into practical operations and services that are informed by appropriation decision-making. There should be explicit links between policy objectives and spending decisions that will produce quantifiable outputs. Integration of policy objectives and design of programmes should be consistent with organisation structure and managerial and budget responsibilities.

2.8. Case Studies of Performance Budgeting—Agency-Level Performance Budgeting Incentives

As suggested by many scholars on this topic, the implementation of performance budgeting is not "one size fits all". Championed by the OECD, the empirical studies of performance budgeting are largely case study-based, focusing on the implementation of performance budgeting systems, its mechanism and understanding of environmental conditions within states, respectively. However,

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there is a significant gap in literature regarding empirical studies on efficacy of a government-wide performance budgeting system at an institutional level which remains a complex endeavour.

Robinson and Brumby (2005) highlight the starting point for the assessment of the impact of performance budgeting upon productive efficiency and programme effectiveness, as measuring improvements in output cost and outcomes, achieved by jurisdiction, within a performance budgeting system. In the absence of an assessment tool, they argue that efficacy of performance budgeting can be assessed under the themes of budgeting allocations; aggregated expenditure; productive efficiencies; and programme effectiveness (Robinson and Brumby, 2005).

The following case studies illustrate how performance budgeting incentives are integrated into budget systems.

2.8.1. United States of America—the Florida Government Performance and Accountability Act of 1994.

The State of Florida passed a budgeting tool in the form of the Performance and Accountability Act, 1994, to adopt the legislation to follow the guide on rewards and sanctions for measured performance (Robinson, 2007). These mechanisms are designed to create a performance-oriented culture within Florida's public sector, where agencies are incentivised to achieve measurable results while being held accountable for their performance. According to the Act the following are incentives: flexibility in budget management, salaries rates and position management, retention of expected and unencumbered balances on appropriations (Florida Government Performance and Accountability Act, 1994). Disincentives include regular reporting to the Legislature, Executive Office of the Governor, elimination or restructuring of programmes, reduction on spending (Florida Government Performance and Accountability Act, 1994).

2.8.2. Management Flexibility in OECD member states

In a working paper, authored by Aidan Rose, an analysis was done on how management flexibility was used by OECD states as performance budgeting mechanisms that supported the shift towards results orientation. The OECD argues, management flexibility requires “comprehensive approach to performance management” as it saw the impact of rigidity of ministries inhibit management flexibility (OECD, 1997) . The following management flexibilities include:

- Australia – ability of departments to carry-forward unspent running cost and deduction of overspends in following year;

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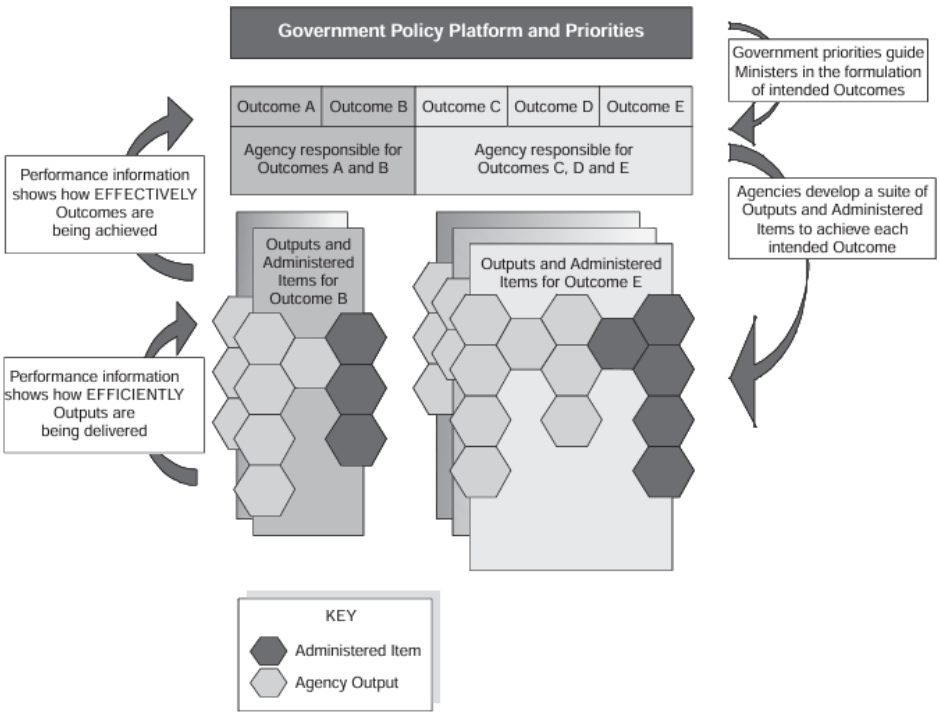
- Australia – incentives for departments generating income and retaining surpluses by making resource agreement with Ministry of Finance; and
- Denmark – utilisation of blocked appropriations covering for sallies and running costs enabling resource flexibility.

2.8.3. Australian- Outcomes and Outputs Budgeting and Reporting framework:

In an analysis conducted on the Australian performance budgeting system by Chan et al. (2002), an outcomes and outputs budgeting and reporting framework was designed to assist government agencies to place greater emphasis on the results it seeks to achieve. The implementation of this framework aimed at, amongst others, improving the measurement of effectiveness and efficiency of agency outputs (Chan, et al., 2002). An important reform was to align organisation structure with outcomes and output structure. The framework below outlines key features and mechanisms of performance budgeting. These include alignment of government priorities, budgeting and resource allocation, use of performance information in performance evaluation and reporting, risk management and enabling legislation.

Figure 4*: Australia's Outcomes Budgeting and Reporting Framework*



Source: Chan et al. (2002)

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This case study presents key insights in measuring agency efficacy and efficiencies. The following insights include:

- development of effectives and efficiency indicators within framework at output and outcomes level; and
- incorporation of effectiveness and efficiency indictors into performance information, performance reporting and accounting systems (Chan et al., 2002).

2.8.4. Scotland's— "Moving to Outcomes Budgeting"

Norman Flynn produced a report to the Finance Committee of Scottish Parliament Research and Information Group in 2001 on a comprehensive analysis of performance budgeting in Scotland. The paper focused on assisting Parliament to effectively assess performance and to link performance to resource allocation (Flynn, 2001).

The report concluded by outlining the principles to improve on its budgeting system which include:

- Outcomes should be defined, measured and assessed and must be supported by a good data and information system, small in numbers and maintenance overtime.
- Budget processes should complement the nature and structure of Scotland (devolving in nature) understanding the political processes involved.
- Spending proposals should include evaluations of proposals compared to alternative options and understand the link between activities and resource allocation and desired outcomes.

The report provided the Scottish Parliament with an assessment tool that would enable Parliament to fulfil its oversight function (i.e. to scrutinise and allocate resources) promoting outcome budgeting objectives and effective decision-making and resource allocation.

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***Table 1**:Influencing the Resource Allocation Process: Schedule of Questions.*

Determinant factor	Questions	Oversight Body	When/How (Mechanisms)
Priorities	Does the allocation of resources within this area reflect the political priorities? *Work Together for Scotland* Is there a clear definition of priorities? What are the external constraints on how the money is spent? Over what period can changes be made? Have we solved any of the problems the original allocation was designed to address?	Subject committees	Annual budget between AER and Draft Budget, with a view to having more refined input to the succeeding annual budget
	Does the allocation of resources across areas reflect the political priorities? Is there a clear definition of priorities? What are the external constraints over how we spend the money? Over what period can changes be made?	Whole Parliament	Major debate each term. Reflected in 3-year budget drafting
Efficiency	Are we getting the most possible outputs for the money we spend on this area? Trends in unit costs. Comparisons within Scotland and benchmarks with elsewhere. Options for service delivery. Are we using the best available technology (buildings, plant, ICT etc.)?	Audit committee	Expenditure Review Audit and efficiency reports
Effectiveness	Within this portfolio, are resources allocated in such a way as to produce the most results (outcomes)? Trends in effectiveness (outcomes and costs). Comparisons. Options for policy.	Subject committees	Expenditure Review Independent evaluations Inspection reports
	Are resources allocated across portfolios to produce the most results (outcomes)?	Finance committee	Ongoing evaluations to inform the 3-year budget

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	For any high-level outcomes, could we get better results by shifting resources from one portfolio to another?		
Social Justice	Is the service getting to the right people, reflecting our equalities policy? Age, gender, ethnicity, social class, geography	Subject committees	Scrutiny at annual budget, input to three-year budget
	Does the overall allocation of resources reflect our equalities policy? Age, Gender, Ethnicity, Social class, Geography	Equal Opportunities committee Social Justice committee	Investigations to inform the 3-year budget

Source: Flynn (2001)

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2.9. Performance Budgeting in the South African context

Public budgeting in South Africa has been a crucial part of the country's post-apartheid governance, aiming to address historical disparities and usher in a more transparent and accountable financial management system. The inherited system was one that was fragmented, not only in terms of a de-linking of policy, budgeting and implementation at an institutional level. Increasing budgeting uncertainty, lack of clarity and the scope for budget games were evident.

The introduction of performance budgeting aligns with the democratic reforms and the ratification of the new Constitution of the Republic of South Africa. The South African government has adopted a multiple budget method approach, mainly programme budgeting. The budget process itself was largely incremental, offering insufficient opportunity for the new government to identify ongoing non-priority activities and create fiscal room for higher priorities (Sambo, 2022). It was not transparent, with poor underlying information systems, hidden spending, and inadequate mechanisms to extract good information for use in the budget process and for accountability purposes.

The nature of the budgeting systems complements the structure of government where public funds are distributed from national government to provincial government and local government. The Constitution serves as a foundation for the introduction of national framework legislation to translate requirements into financial management practices. The implementation of performance budgeting is anchored in the Public Finance Management Act (PFMA), Act 1 of 1999, which mandates a performance-oriented approach by requiring national and provincial legislatures to appropriate funds at the programme level (PFMA, 1999). The PFMA sets a clear framework for budgeting, focusing on measurable objectives per programme and emphasising effective, efficient, economical, and transparent use of resources.

2.9.1. Role players in the Budgeting System Legislative Framework for Budgeting

The role players in managing the budget process through their emphasis of transparency and accountability are discussed below.

2.9.1.1. The Fiscal and Financial Commission (FFC) —established in 1994, is an independent body to serve as an expert/advisory body as resource for constructing the budget. Its purpose is to make recommendations on the budget and intergovernmental financial issues to Parliament, provincial legislatures, and the Budget Council.

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2.9.1.2. Parliament and Provincial Legislature—legislative authorities responsible for the approval of public expenditure and delivery of services. These institutions preside over the appropriation (of public funds) and hold ministries accountable for expenditure through its standing committees, including the Standing Committee on Public Accounts (SCOPA), which is known for its involvement in the public finance system (Sambo, 2022).

2.9.1.3. National Treasury—the key driver of public financial management in South Africa, Sections 213–218 of the Constitution outlines the framework for public financial management across different spheres of government. The mandate of the National Treasury is derived from section 5 of the PFMA (PFMA, 1999). Figure 5 outlines role players within government in driving public finance. The National Treasury plays a crucial role in the management of financial and fiscal affairs of the national government. The National Treasury is mandated to:

- promote government's fiscal policy framework;
- coordinate macroeconomic policy and intergovernmental financial relations;
- manage the budget preparation process;
- facilitate the Division of Revenue Act, Act 24 of 2024, which provides for an equitable distribution of nationally raised revenue between national, provincial and local government; and
- monitor the implementation of provincial budgets (National Treasury, 2020).

2.9.1.4. Provincial Treasury

The Provincial Treasury receives its mandate through sections 17 and 18 of the PFMA, establishing the role and powers of the Provincial Treasury (PFMA, 1999). The Provincial Treasury is responsible for the development of the annual budget of the province and assisting municipalities in drafting and implementing their respective budgets. This involves ensuring that budget allocations align with policy priorities and strategic goals.

2.9.1.5. Auditor General

The Auditor General, a Chapter 9 institution established by the Constitution, is accountable to the National Parliament promotes accountability and transparency of public expenditure. The Auditor General performs audits on the nation, provincial departments, public entities and municipalities.

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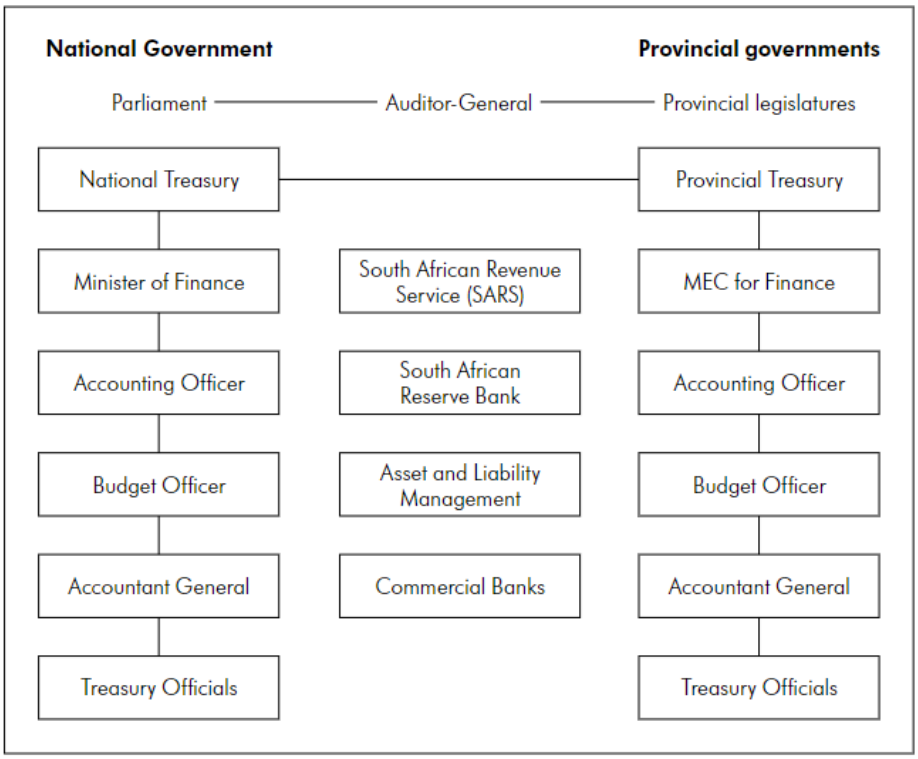
Figure 5: *Accountability chain of command*



Source: Pauw et al. (2002)

2.9.2. Legislative Framework for Budgeting

The following legislation was adopted into law to bring about improvements in practice to enforce constitutional roles and responsibilities in carrying out public finance.

The Constitution of the Republic of South Africa sets out the constitutional requirement for governing revenue funds, the division of revenue, budgets, treasury control, procurement, government guarantees, provincial and municipal taxing and borrowing. The Constitution serves as a foundation to the introduction of national framework legislations to translate requirements into financial management practices outlined in sections 213 and 215–218, respectively.

The Public Financial Management Act (PFMA) of 1999, was established as a legislative framework for contemporary public financial management. Introduced in 2000, the PFMA shifted authority and responsibilities to departments and agencies as opposed to central government. Creating an environment for the reforms to be envisioned, the PFMA sets out budget preparation

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procedures from central decision-making, allowing expenditure divisions to use their discretion for choosing programmes within spending limits.

The Intergovernmental Fiscal Relations Act (lGFRA), Act 97 of 1997 empowered three intergovernmental bodies to strengthen cooperation on budgeting between all spheres of government. The Act clarified the roles of the Financial Fiscal Commission (FFC), the Budget Council, and the Budget Forum in the budget cycle.

The Division of Revenue Act (Act 24 of 2024), which is an annual allocation of national revenue to all three spheres of government provides for the equitable division of revenue raised nationally among the national, provincial, and local spheres of government for each financial year. The framework aims to ensure that government responsibilities are met and for adequate funding to be allocated to ensure public services are delivered to enhance the socio-economic well-being of citizens.

2.9.3. Budget reforms in South African Post 1994

The national budget process is a multi-year budget system namely the MTEF. The MTEF is the driving process for setting of public budgets in South Africa. Figure 6 below illustrates how performance budgeting is embedded in the budget cycle in South Africa.

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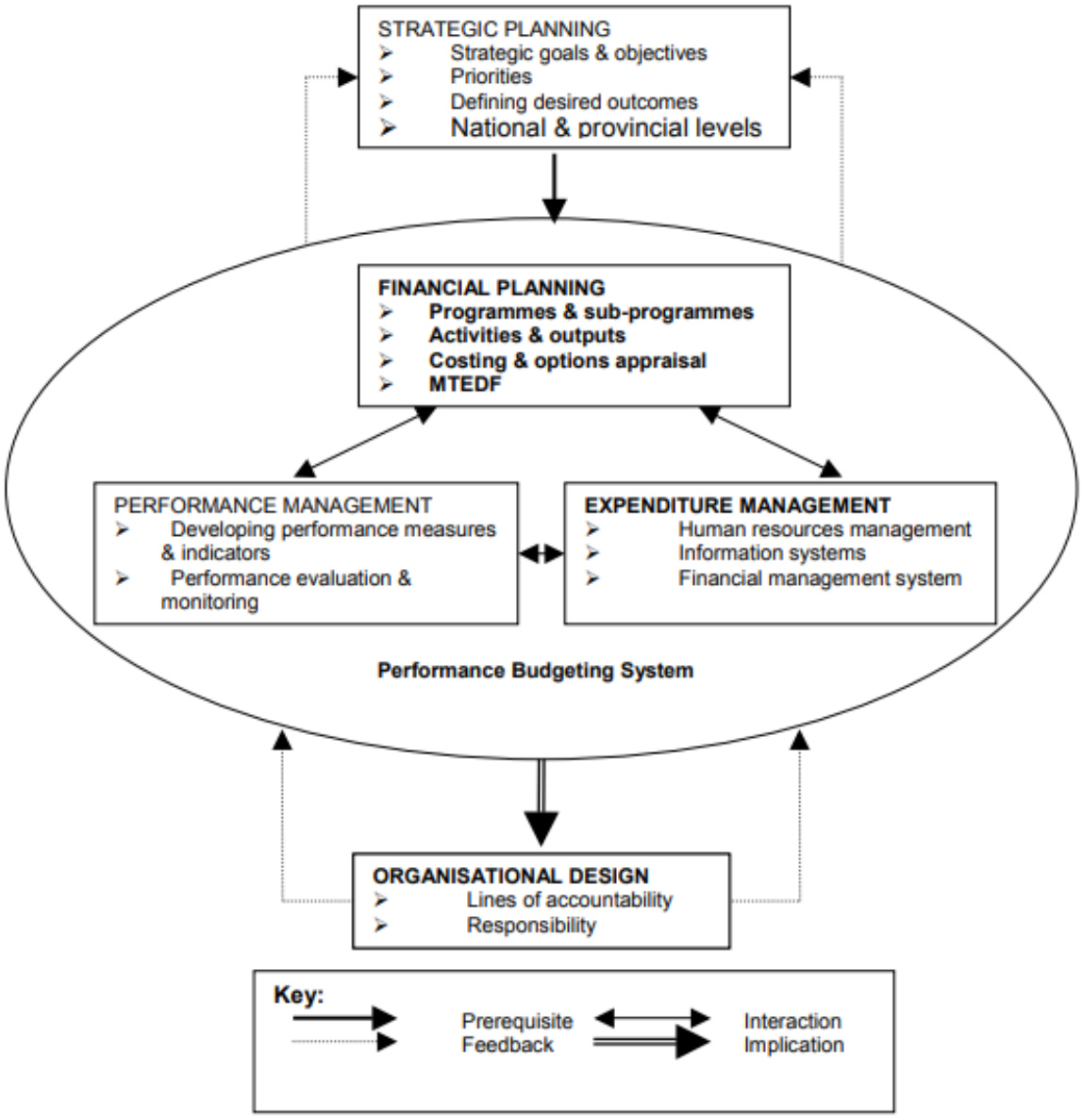
***Figure 6**: South Africa: Initial Budget Medium-Term Expenditure Framework*



Source: Shall (1999)

Introduced in 1998, the multi-year budget process enables the planning expenditure over a three-year horizon in line with its medium-term and long-term policy priorities (Van Zyl, 2003). The introduction of the MTEF in South Africa was as a result of a continuous realisation of the shortcomings of the short-term budgeting method prior to 1997. In addressing these shortcomings, the MTEF aims to ensure expenditure is linked to strategic outcomes and service delivery by ensuring that resources are allocated to what will be delivered and identifying the actual costs of

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providing services (Walker & Mengistu, 1999). The MTEF was seen as a mechanism for ensuring that government departments explicitly consider how to match planned spending with their policy priorities, and for promoting integration of the planning and budgetary processes. Fölscher & Cole, (2006) present an overview of reforms implemented in South Africa's performance budgeting system including the following:

- **Public Finance Management Act (PFMA) 1 of 1999:** This legislation mandates a performance-oriented approach by requiring national and provincial legislatures to appropriate funds at the programme level. The PFMA sets a clear framework for budgeting, focusing on measurable objectives per program.
- **Medium-Term Expenditure Framework (MTEF):** The introduction of a top-down MTEF in 1997 laid the foundation for performance budgeting by establishing budget credibility. This framework, coupled with the PFMA, ensured that appropriations were not mere ceilings but guarantees of funding for programme implementation.
- **Chart of Accounts Reform:** South Africa underwent a chart of accounts reform, including the introduction of a programme segment. The National Treasury played a vital role in building capacity across the government to ensure accurate classification of expenditures by programme and economic item.
- **Change-Management Approach:** The National Treasury embraced a change-management approach during the reform process. Efforts were made to present and explain the new budgeting format to Parliament.
- **Complementary Reforms:** The success of performance budgeting in South Africa is attributed to several key preconditions, including a credible and functioning MTEF, an integrated chart of accounts, and a demand for effective budget performance to address service delivery priorities.
- **Phased Implementation and Monitoring:** The PFMA provided for phased implementation over five years, allowing for the gradual establishment of a holistic system. The implementation path focused on creating a scaffolding for a modern public finance management system and facilitating quality improvements over time.
- **Budget Cycle Shortening and Flexibility:** The PFMA played a role in shortening the budget cycle, bringing audited spending information to Parliament seven months after the end of the fiscal year. The act also provided for in-year flexibility, allowing virements and roll-overs within specified limits (Fölscher & Cole, 2006).

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The success of performance budgeting mechanisms in South Africa is attributed to several key factors, including a credible and functioning MTEF, an integrated chart of accounts, and a demand for effective budget performance to address service delivery priorities. The reforms have contributed to a more transparent and accountable financial management system in South Africa, addressing historical disparities and improving service delivery (Sambo, 2022). Coherent and meaningful strategic and performance plans, along with government coherence in managing programme performance, were identified as essential elements. The reforms were guided by principles such as comprehensiveness and integration, political oversight and focus on policy priorities, strategic use of information, changing behaviour through incentives, and ensuring budget stability and predictability while facilitating change at the margin (Fölscher & Cole, 2004).

The introduction of a top-down MTEF in 1997 laid the foundation for performance budgeting by establishing budget credibility. This framework, coupled with the PFMA, ensured that appropriations were not mere ceilings but guarantees of funding for programme implementation (Fölscher & Cole, 2004). South Africa underwent a chart of accounts reform, including the introduction of a programme segment. The National Treasury played a vital role in building capacity across the government to ensure accurate classification of expenditures by programme and economic item. As prescribed by treasury regulations, estimated expenditure and revenue presented to Parliament or a provincial legislature, conform to the format determined by the National Treasury (2001). This reform contributed to a more reliable information base for budget analysis and preparation. The PFMA provided for phased implementation over five years, allowing for the gradual establishment of a holistic system. The implementation path focused on creating scaffolding for a modern public finance management system and facilitating quality improvements over time. In-year monitoring, reporting, and management mechanisms were introduced to ensure accountability and incentivise performance.

However, challenges were identified during the implementation of performance budgeting in South Africa. The quality and coverage of performance information became a critical focus in subsequent years, and capacity-building for the development and use of performance information within ministries was identified as an area needing more attention (Fölscher & Cole, 2004). The success of performance budgeting in South Africa is also attributed to the phased implementation over five years, allowing for the gradual establishment of a holistic system and ongoing monitoring mechanisms to ensure accountability and incentivise performance. While challenges and areas for improvement have been identified the gradual implementation of performance budget shows

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improvements in the public budgeting system. Led by the National Treasury, further instruments and tools have been introduced of late, such as budgetary classifications, which aimed to further address currently challenges.

2.9.4. Performance Budgeting Today—Linking Budget to Strategic Policy Outcomes.

In 2018 the National Treasury, together with the Department of Planning, Monitoring and Evaluation (DPME), introduced its first Mandate Paper which was seen as the next step to strengthening the alignment of the South African Budget, the MTSF, and the National Development Plan (NDP) (DPME, 2018). The National Treasury aims to support efficient and sustainable public financial management in enabling the promotion of economic development, social development and raising the standard of living of citizens. In efforts to do so, the National Treasury mandates government departments at all levels to align policy, planning and budgeting.

The objective of the Mandate Paper was to create coherence and alignment between strategic planning, budgeting and policy implementation across all three spheres of government including state owned enterprises and public entities (DPME, 2018). The Mandate Paper establishes the strategic framework for decision-making on budget priorities that are required to advance the goals of the NDP. It seeks to establish a systematic basis for making strategic choices among competing priorities and limited resources, in order to better optimise the budget as a key lever for driving the NDP.

The Mandate Paper further sets out a broad set of prioritisation criteria which should guide the consideration of budget proposals and recommendations on the priorities which will focus the budget to achievement of goals of the NDP. The Mandate Paper has a three-fold purpose:

- improve the alignment between the budget and the NDP;
- serve as a framework for resource-allocation decisions in the context of rising budgetary demands, weak economic and revenue growth, as well as a commitment to fiscal consolidation; and
- guide all spheres of Government and all Government entities to refine plans and develop budget proposals (DPME, 2018).

Prepared annually, the Mandate Paper was later renamed the Budget Prioritisation Framework (BPF) (See Figure 8) with a refined focus on priority setting given contextual factors as well as the performance of government to optimise the impact of development outcomes through the

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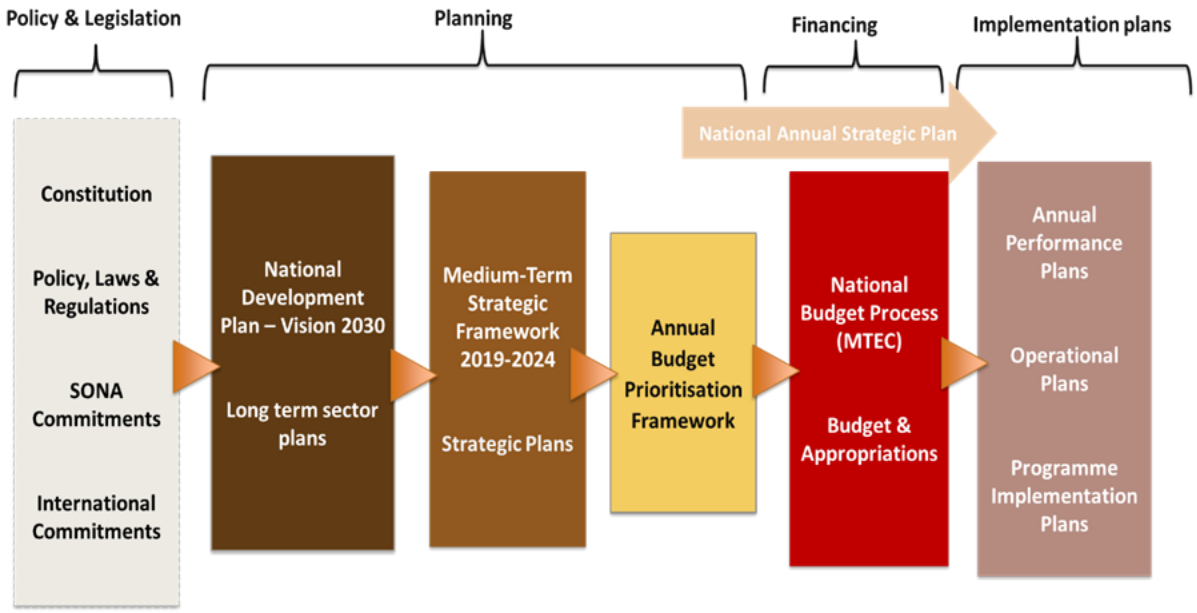
improved alignment of resources and plans. Figure 6 below outlines the planning and budgeting process noting the policy and legislation, planning, financing and implementation phases.

***Figure 7**: National Integrated Budget and Policy Cycle*



Source: DPME (2024).

The prioritisation process which forms part of the planning phase takes place prior to the budget of the National Treasury budget or Medium-Term Expenditure Committee (MTEC) process and is led by the DPME Planning Coordination Branch in consultation with various stakeholders, both internal and external to the department. The BPF, which is a shorter-term instrument for planning, is approved by Cabinet and sets specific priorities aligned with the NDP, taking account the existing socio-economic context in order to guide the detailed allocation of funding by the National Treasury. This ensures that the budget better advances national developmental goals. The annual BPF therefore includes an assessment of contextual factors (economic, social and fiscal) and how these impact on prioritisation before outlining an appropriate strategy which underpins the priorities for a particular budget year.

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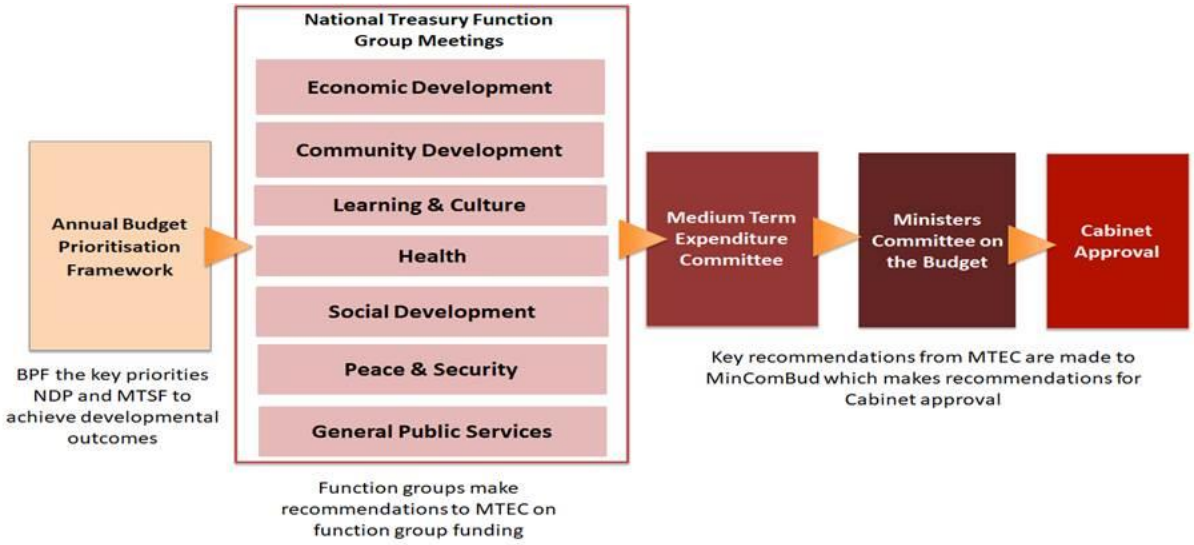
***Figure 8**: Budget Prioritisation Framework (BPF)*



Note: BPF = Budget Prioritisation Framework

Source: DPME (2024)

The annual BPF feeds into the national budget process and kicks off the planning phase of the budget process. The BPF therefore does not replace the national budget process which continues to be managed by the National Treasury as is required by the PFMA. The discussions and decisions made at the function group engagements feed into the discussions and decision-making of the MTEC, as the key technical committee of the budget process. The MTEC then makes recommendations to the Minister's Committee on the Budget who in turn make recommendations which are ultimately approved by Cabinet. Thereafter, Cabinet through the Minister of Finance submits the budget for approval to Parliament.

In 2022, the Gender Responsive Planning, Budgeting, Monitoring, Evaluation and Auditing (GRPBMEA) Framework was adopted as a structured policy position for introduction of gender mainstreaming as part of its key policy priorities aimed at realising the constitutional vision of a non-sexist society. Championed by the Department of Women, Youth and People with Disability (DWYPD), the framework was introduced to ensure a sustainable, comprehensive and multi-sectoral approach to gender mainstreaming within planning, monitoring and evaluation as well as the public financing system. This framework was built on the failed attempt of the previous

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framework namely, Gender Responsive Budgeting (GRB). This framework experienced failure as a result of its fragmented implementation, lack of sustainability, weak legal requirements and lack of multi stakeholder engagement (DWYPD, 2022). Gender responsive budgeting initiatives have been championed throughout the world, and there are existing frameworks across global and regional commitment namely, United Nations Commission on the Status of Women, Sustainable Development Goals, African Union Declaration on Gender Equity in Africa, and the African Union Agenda 2063 (DWYPD, 2022).

Gender responsive budgeting serves as a critical component of the new GRPBMEA framework, a mechanism to foster greater consistency between economic goals and social commitments. The idea is to ensure gender mainstreaming to public finance (DWYPD, 2022). Gender responsive budgeting is not a separate budget for women but rather aims to ensure that resources are raised and spent to eliminate gender disparities. The aim is therefore to envision a gender lens within the policy, planning and implementation cycle which includes monitoring, evaluation and auditing. A key approach of the framework includes gender studies and gender mainstreaming; evidence-based policy making and implementation; public management and results-based performance management; and public finance and performance-based budgeting (DWYPD, 2022).

The role of National Treasury is to lead gender responsive budgeting. Key interventions to ensure realisation to fulfilment of the GRPBMEA framework include:

- international Women Empowerment and Gender Equality (WEGE) standards incorporated into MTEF processes and the MTBPS;
- disaggregation of WEGE estimates reflected in annual national expenditure and within budget processes along with guidelines for votes;
- votes (departments) to include gender indicators for both mainstreamed and targeted programmes to ensure tracking of gender focused initiatives; and
- provision of guidelines to Provincial Treasuries on mandate, requirements and incentives on gender responsive allocations and programme bids.

The implementation of GRB was initiated in the 2022 MTEF as a budget reform for the period, outlined by the National Treasury receiving assistance from IMF to develop a road map for efficient implementation (National Treasury, 2022). In the 2024 MTEF process, a pilot was conducted for GRB to establish a multisectoral approach, including sector departments. A key intervention, introduced in the 2024 MTEF process was the adoption of tagging into its expenditure

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framework. Tagging is a tool to monitor relevant expenditure within the budget system aimed at determining efficient allocation to budget reforms such as GRB (National Treasury, 2022). This framework highlights the key objectives of performance budgeting and its ability to not only improve policy outcomes but serves to make impact. The DWYPW envisions full implementation of GRB in all national and provincial departments by 2026.

2.10. Understanding Principal-Agent Theory in Public Budgeting

The basic idea of the principal-agent theory explains the social relationship and shared dynamics, in which two actors (principal and agent) are involved in an exchange of resources (Smith & Bertozzi, 1998).

The principal-agent model was developed within the framework of the "new institutional economics" on the shared assumption of rational actors striving to maximise their preferences that are ordered according to their respective priorities (Smith & Bertozzi, 1998). The theory has its roots in the economic theory of the firm, decision theory, sociology, organisational theory, and more recently political science and has limited application to public budgeting. In a typical principal-agent dynamic, the agent provides the service, and the principal compensates the agent.

Kilfoyle and Richardson (2011) provide an analytical perspective of principal-agency theory, drawing on economic theory and contracting models. The person delegating and authorising the use of resources can be considered as a "principal" while the person to whom authority is delegated and resources entrusted is the "agent" (Kilfoyle & Richardson, 2011). On this basis, the budgeting process allows for the principals and agents to negotiate contracts and establish mechanisms for monitoring/reporting results and compensating the agents for their efforts. This perspective provides a more realistic view of current practices whereby the budget is thus conceptualised as a contract that specifies the rights and responsibilities of the parties involved.

Principal-agency theory assumes that individuals are motivated by self-interest and that the agent has information that the principal can only access at a cost (Kilfoyle & Richardson, 2011). The challenge is to ensure that the self-interested individuals do not act against the principal's well-being in an organisational setting. A well-designed contract, i.e. budget and budget-based compensation scheme, serves the purpose of aligning the interest of the agent with that of the principal.

In the context of the principal-agency theory applied to public budgeting, incentives play a crucial role in aligning the interests of principals (those authorising resource use) and agents (individuals

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entrusted with authority and resources). The principal's task is to develop an optimal compensation package that will attract the most capable agent and then motivate that agent to perform services for the principal in the most efficient and productive manner. Incentives are offered to agents by principals to act in the principal's best interest, addressing non-alignment of interests and promoting goal congruence.

Kilfoyle & Richardson (2011) suggest that incentive systems should be flexible to adapt to changing circumstances. In a dynamic environment like public budgeting, where priorities and goals may shift, flexible incentives allow for adjustments while maintaining alignment between principals and agents. By incorporating flexibility into incentive structures, agencies can respond effectively to evolving challenges and opportunities. Flexible incentives can accommodate changes in performance expectations, resource availability, or strategic priorities, allowing principals to incentivise desired behaviours effectively. By incorporating flexibility into incentive systems, organisations can foster a culture of agility and responsiveness among agents, enhancing overall agency performance in public budgeting (Kilfoyle & Richardson, 2011).

Braun & Guston (2003) argue that to avoid self-interest of agents, emphasise the importance of designing well-structured contracts, such as budgets and compensation schemes, to mitigate conflicts arising from self-interest and information asymmetry. These authors stress the necessity of aligning the goals and motivations of agents with those of principals to ensure effective agency performance and goal congruence (Braun & Guston, 2003).

In the case of the public sector, agents serving in a line or services agency typically desire increased funding to expand operations in new or existing service areas. The principal, in a fiscal or budgetary control agency, usually wants to decrease funding or curtail service options. To solve or mitigate the problem of non-alignment to strategy, inducements are offered to the agent by the principal to act in the principal's best interest. A principal may offer increased management flexibility in exchange for an agreement by the agent not to seek funding increases. This scenario is representative of the relationship between a government’s central budget office (the principal) and the spending agencies (the agents) (Braun & Guston, 2003).

Schick (2002) suggests agencies as instruments of government are conditioned by political factors as in most cases decisions about agencies are made by political leaders (Schick, 2002). He further outlines that agencies fulfil the role of government in provision of services within functional settings. The influence of power and politics within institutional frameworks enables agencies;

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however, it often downplays the interests of agents by obscuring how power is created and exercised, as well as the connections between broader institutional logics and the formation of interest groups within organisations. (Levy & Scully, 2007).

It becomes evident that performance budgeting succeeds in "calibrating" agency performance targets to the level of funding available; it should increase the credibility of the targets and thus their motivational force (Robinson, 2007). Agency theory assisted the research study to understand the role of the Provincial Treasury as the budget manager (principal) and provincial departments (agents) in the development of its budgets within the current institutional framework.

In the context of performance budgeting, the application of principal-agency theory introduced several challenges that need to be addressed to ensure effective budgetary processes. The challenges impact the alignment of interests between principal and agent, the design of incentive systems and overall efficiency of resources allocation.

Information asymmetry poses a primary challenge that the principal-agent theory seeks to address. Akerlof (1970) highlighted how information gaps between buyers and sellers in markets can result in adverse selection, where the party with more information can exploit the knowledge disparity to their advantage (Akerlof, 1970). This insight can be applied to public budgeting scenarios, where agents (e.g., operating agencies) may possess detailed operational information that principals (e.g., central budget offices) are not privy to. As a result, agents could manipulate this information gap to secure more resources than necessary or divert funds towards objectives not aligned with the principal's goals (Akerlof, 1970). In the argument by Stiglitz (2000), it is discussed how asymmetric information can distort resource allocation decisions in public budgeting. When principals lack complete information about an agent's performance or operational details, it can lead to inefficiencies and misaligned incentives. For example, if an agent overstates costs or understates benefits due to asymmetric information, principals may allocate resources sub-optimally, impacting overall budget effectiveness (Stiglitz, 2000).

In short, principal-agent theory can make a substantive contribution to more inclusive and useful explanatory models of public budgeting. The budgeting process within this perspective allows “principals” (authorising the use of resources) and “agents” (person to whom authority is delegated and resources entrusted) to negotiate contracts and establish mechanisms for monitoring and reporting results and compensating the agents for their efforts (Kilfoyle & Richardson, 2011).

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2.11. Conclusion

The literature review provides a comprehensive analysis of performance budgeting, outlining the distinction between it and other budgeting methods. Performance budgeting was discussed at large outlining its basic form, mechanism and the challenges associated with this method that may potentially hinder successful implementation. The review further elaborates on the agency-level performance budgeting incentives, outlining its intended purpose and contextualises its implementation within case studies presented. The literature concludes by providing an overview on the implementation of performance budgeting in South Africa, elaborating on reforms made for the transition and how they are implemented currently. The chapter concluded with a theoretical overview of the Principal-Agent Theory and its application to performance budgeting systems that gives perspective of dynamics

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Chapter 3: Research Methodology

3.1. Introduction

The research study employs an explorative qualitative approach to investigate performance budgeting in South Africa, specifically focusing on the potential implementation of performance budgeting incentives within the Western Cape's budgeting system. This approach aimed to provide valuable insights into the current budgeting mechanisms and assess their effectiveness in improving policy outcomes. Through in-depth document analysis and semi-structured interviews with key stakeholders, the research seeks to uncover the complexities of the budgeting process and the role of performance incentives in enhancing government accountability and efficiency.

3.2. Research Design

The research study made use of an explorative qualitative research approach. The approach was selected to gain valuable insight into performance budgeting in South Africa but more importantly, explore the plausibility of using performance budgeting incentives within the Western Cape budgeting system aimed at improving policy outcomes. This foundational work not only aids in identifying the nature of the problem but also sets the stage for more structured research in the future, ultimately guiding decision-making and strategy development. According to Burn & Grove (2001), exploratory research is conducted to learn more about a specific issue, discover new ideas, and get new insights into the topic under study (Burn & Grove, 2001, p. 374).

The research design, through its data collection techniques, enabled the research to establish whether any performance budgeting mechanism existed in the current system and to explore the effectiveness thereof. Furthermore, it enabled the assessment of whether performance budgeting incentives can be effectively implemented and outlined the methods for their implementation. The design enabled the researcher to conduct an in-depth examination of the budgeting system and performance budgeting incentives within the Western Cape Government. The proposed research methods utilised in this study consisted of in-depth document analysis and semi-structured interviews.

An in-depth document analysis enabled the researcher to examine the current budgeting system and performance incentives within the Western Cape Government. This involved analysing relevant budgeting documents such as the Overview of Provincial Revenue and Expenditure

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(OPRE), Overview of Estimates on the Provincial Revenue and Expenditure (OEPRE) and provincial publications such as the Western Cape Strategic Plan, Western Cape Recovery Plan, Annual Performance Plans as well as related documentation on policy, planning and budgeting within the provincial government.

Semi-structured interviews with key stakeholders, such as budget officials, as subject matter experts, were conducted to gain a deeper understanding of how budgetary performance incentives are designed and implemented and their perceived effectiveness in improving spending priorities and policy outcomes.

The recommended research design was found favourable to achieving the research intentions, as it intends to investigate the subject matter in an in-depth and real-life context (Yin, 2009). Moreover, the research method allowed for the research process to enable both learning from the case as well as be a product of the learning (Stakes, 1995). Through semi structured interviews, the researcher was able to actively engage with and learn from the Provincial Treasury officials (referred to as subject matter experts) who are responsible for managing the province's budgeting process. This approach allows researchers to gain a deeper understanding of the experts' knowledge and experience, leading to the collection of comprehensive data and information on the subject matter.

3.2.1. Data Collections

Kabir (2016) notes that data collection relates to activities undertaken to gather and facilitate the measurement of such data using the appropriate measurement tools. In addition, data collection is structured, systematic and is designed to answer research questions; it also provides a means to test a hypothesis and guides the systematic approach of evaluating outcomes (Kabir, 2016). The research undertook both primary and secondary data collection methods. Semi-structured interviews (primary data) being a suitable mechanism, were used in the research study. It allows one to gather the desired information and in-depth data needed to fulfil the expectations of the explorative research study.

Conducting in-depth interviews with Provincial Treasury officials provided valuable qualitative insights into the design, implementation, and effectiveness of the Western Cape budgeting system and budgetary performance incentives. These semi-structured interviews identified nuanced perspectives and experiences related to spending priorities and policy outcomes. Additionally, interviews gave the researcher and participants opportunity to engage on the subject matter and

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allow for follow up questions if the discussion triggered for them. Open-ended questions were designed, and the structure was based on the research questions outlined in section 1.4 of this report. Interview questions are listed in Appendix A (see attached).

Field notes and audio recordings, with permission granted by participants, were taken throughout the interview process, assisting the researcher with reflection and coding of data and information in the analysis stage of the research study. Research bias is always a concern when conducting qualitative research and therefore interview question were drafted to elicit answers in an objective manner, focusing on subject matter which included, frameworks, processes, and systems.

Interviews were conducted during the MTEC process for the 2024/25 budget cycle. The researcher was invited to attend engagements with the provincial departments as an onboarding opportunity to gain insight and understanding of the budget process, to learn and understand the integration between policy and budgeting and to prepare for the interviews with subject matter experts. Furthermore, interviews were conducted by budget officials from the Provincial Treasury.

Document analysis of relevant economic and budget documents, expenditure reports, performance reports, and government records offered essential contextual information and data to supplement the qualitative insights from interviews. Extensive analysis of these documents provided historical perspective and understanding of the formal structures and processes related to budgeting and performance management within the WCG.

3.3. Unit of Analysis

The following table outlines how data collection methods contributed to address the research questions.

Table 2: *Research Study - Data Collection Methodology*

Research Question	Interview-related Questions	Research Methods	Data Collection Method	Target Group
What is the current Planning, Programming and Budgetary mechanism of the Western Cape Government?	1. What are the main components of the provincial Budget Process that you implement?	Qualitative Interviews (Review of interview answers and documents to gain establish the current	Semi-structured interview notes	SME

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		budget system of the WCG)		
	2. What is the role of provincial Treasury is setting policy priorities and what policy tool are used to align the budget to policy priorities	Qualitative (Identify role players and establish roles and authority and power structures)	Semi-structured interviews notes Document Analysis	SME
	3. In your opinion, what are the current socio-economic trends that impact the budget process.		Document Analysis • PERO • MTBPS • PFMA • OPRE	N/A
Are there any features of agency-level performance budgetary incentives in its budgetary process?	4. What is your understanding of performance budgeting in the public sector? 5. Does Provincial Treasury make use performance budgeting mechanisms?	Qualitative (Seeks to gain insight whether the WCG budget system makes use of any performance budgeting practices in its current system)	Semi-structured interview notes	SME
	7. What is your understanding of performance budgeting incentives? 8. Is it possible that incentives (financial, non-financial, even sanctions) can be implemented into the provinces budget process?		Document Analysis	N/A
What are the preconditions for	9. In your view, what are the preconditions	Qualitative	Semi-structured interviews notes	SME

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implementing agency-level performance budgeting incentives in the budget process	that should exist to implement and if already implemented, can be strengthened?	(Seeks to gain in-depth insights into what pre-conditions within the budget system should exist for agency-level budgeting incentives to be successful implemented or used.		
			Literature Review	N/A
What are the enablers and inhibitors that may prevent/ currently exist in the budget process?	6. Are there any enabling or inhibiting factors that affect performance budgeting in the MTEC process? Think of any legislative, policy, procedural, process that may impact this?	Qualitative (Seeks to gain in-depth insights to what factors may or may not allow for agency-level performance budgeting incentives within the WCG budget system	Semi-structured interviews notes	SME N/A
			Literature Review	

Note: PERO - Provincial Economic Review & Outlook; MTBPS – Medium-Term Budget Policy Statement; PFMA - Public Finance Management Act; OPRE – Overview of Provincial Revenue and Expenditure

3.4. Sampling Technique

Sampling is defined as the process of selecting a representative group from the overall population relevant to the researched phenomenon. This targeting technique enables the collection of primary data. Given the nature of the research, the recommended sampling method for data collection was purposive sampling. The use of purposive sampling in this research study stemmed from its ability to strategically select information-rich cases aligned with the research objectives. Purposive sampling allows researchers to deliberately choose participants possessing specific characteristics, experiences, or knowledge relevant to the research topic. Using purposive sampling for this research ensured that the sample represented diverse perspectives and insights crucial for effectively addressing the research questions

This method proved particularly valuable when the aim was to gain a nuanced understanding of complex issues, such as the effectiveness of agency-level budgetary performance incentives but more importantly understanding the Western Cape Government. Selecting participants based on

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their expertise and involvement in budgeting processes offered valuable insights into spending priorities and policy outcomes. Overall, purposive sampling was instrumental in ensuring that the research study captured a comprehensive range of perspectives and experiences essential for achieving the research objectives and generating meaningful findings.

The small sample size of four Provincial Treasury officials was justified by the qualitative nature of the research, which focuses on depth rather than breadth. In qualitative studies, achieving data saturation is key, where no new themes emerge from additional participants. Given the specialised and homogeneous nature of the target population, a small sample size was sufficient to provide rich insights. The sample is further justified with the access to top management officials and their availability for participation also necessitated a focused sample size. It is also important to note that there are vacancies within current organisational structure of the Provincial Treasury, namely, the post of Deputy Director-General: Fiscal and Economic Services, who was identified as a critical participant. Additionally, the Chief Director: Strategic Management within the Department of the Premier (DotP) declined to participate in the research study. Alternative arrangements such as reviewing of business process and policies was utilised in the secondary data collection methods to address the potential gap that it may have created.

The research objectives were designed to explore nuanced issues within a specific context, which can be effectively addressed with a strategically selected small sample. These officials were strategically selected for their subject matter expertise. They held key positions within the Provincial Treasury that have first-hand experience of managing the development of the provincial budget and held extensive knowledge of the systems. Metaphorically, the Treasury is known as the custodian of the budget, and these officials are the keyholders to that budget. The branch Fiscal and Economic Services leads the budget process for the department, and the research had identified these high-ranking officials as participants for the study. The selection criteria included their direct involvement in budgetary processes, their roles in policy outcomes, and their ability to provide insights into spending priorities. Table 3 below outlines the composition of the research participants of the study.

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Table 3: *Research Participants - Provincial Treasury Officials*

	Provincial Treasury Official	Reference in Research
	Chief Director: Public Policy Services	**Respondent 1**
	Chief Director: Provincial Government Public Finance	**Respondent 2**
	Director: Provincial Government Budget Office	**Respondent 3**
	Budget Process Manager –Economist	**Respondent 4**

3.5. Data Analysis

The research study followed exploratory qualitative methods utilising a set of techniques of analysing the data collected. A point of departure for the research study was to unpack its objectives. In achieving the research objective, the following were undertaken:

- Extensive research was conducted to understand the theoretical perspective of performance budgeting, its use within public budgeting, and understanding its context within the South Africa budgetary system. This was discussed extensively in Chapter 2 of the research report.
- Historical and current documentation related to performance budgeting in South Africa were ascertained to understand how performance budgeting was implemented in the South African public budgeting and government systems.
- Semi-structured interviews were conducted with subject matter experts on the budget system of the Western Cape Government. It was determined that interviews would provide rich perspectives of performance budgeting and agency-level performance budgeting incentives. This was not only to establish whether it was a practice within the budget system but to ascertain expert perspectives and views on these practices.

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The qualitative data analysis for the semi-structured interviews was conducted and this was coupled using deductive and inductive analysis supports aimed at achieving a more organised, rigorous, and analytically sound qualitative study. Fugard and Pots (2015) define thematic analysis as a method that seeks to uncover "collection themes" contained within a particular data set. It seeks to discover and provide descriptions emerging from the data (Braun & Clarke, 2012). The semi-structured questionnaires provided a guide for soliciting responses from the subject matter experts.

All interviews with subject matter experts were conducted via the virtual platform MS Teams, and transcripts and recordings are readily available for verification. Prior to performing the analysis, transcripts of the interviews were only minimally cleaned up, with the choice to retain as much verbatim narrative content as possible. The data were first coded and categorised. In view of this the analysis focused on both individual interviews and on the analysis of common themes across all three interviews sessions.

Thereafter, emerging themes from the data were identified and a thematic framework was created. Coding and identifying themes directly from the data is indicative of the inductive approach taken in this analysis, which was a rigorous and reiterative process. (Braun & Clarke, 2006) set out the process steps for using thematic analysis of narrative data. The analysis of the semi-structure interviews is presented below in accordance with the following steps:

1. Familiarisation—Preparing and reading the transcripts to note initial ideas.
2. Generation of initial Codes—Identifying codes within the data through repeated readings of the transcripts.
3. Searching for themes—Categorising identified codes into potential themes.
4. Theme review—Reviewing and refining themes based on the coded extracts.
5. Defining and naming themes—Finalising the themes and articulating their significance.

As part of applying the deductive analysis, the research identified key themes that were utilised as the basis for thematic analysis to drafting the findings. These themes included:

- WCG budget system
- performance budgeting mechanisms
- performance budgeting incentives

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Interesting sub-themes were further identified through data analysis of transcripts and recordings. These sub-themes were prevalent in the data analysis of interviews held. Following the coding process, Table 4 below outlines how the semi-structured questions that were used in the interviews align to the main themes and categories.

Table 4: Coding Technique of Research Data

Research Question	**Interview question**	**Main theme**	**Code Categories** **Responses to questions were organised according to the following categories**
What is the current Planning, Programming and Budgetary mechanism of the Western Cape Government?	1. What are the main components of the provincial Budget Process that you implement? 2. What is the role of provincial Treasury is setting policy priorities and what policy tool are used to align the budget to policy priorities 3. In your opinion, what are the current socio – economic trends that impact the budget process.	WCG budget system	Performance Budgeting Programme budgeting Expenditure Performance Information Planning tools Alignment of budget and strategy Provincial Treasury, Budget Office DotP – Strategic Management Risk Management

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Are there any features of agency-level performance budgetary incentives in its budgetary process?	7. What is your understanding of performance budgeting incentives? 8. Is it possible that incentives (financial, non-financial, even sanctions) can be implemented into the provinces budget process?	Performance Budgeting Agency-level performance budgeting incentives	• Conditional grants, • Earmarked allocations • FTSF • PPF
What are the preconditions for implementing agency-level performance budgeting incentives in the budget process	9. In your view, what are the preconditions that should exist to implement and if already implemented, can be strengthened?	Performance Budgeting Agency-level performance budgeting incentives	Good governance Monitoring and Evaluation Performance information
What are the enablers and inhibitors that may prevent/ currently exist in the budget process?	6. Are there any enabling or inhibiting factors that affect performance budgeting in the MTEC process? Think of any legislative, policy, procedural, process that may impact this?	WCG budget system	Good governance M&E system Stakeholder engagement Legislation Political and Executive Support Constrained fiscal environment

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3.6. Ethical Considerations

Research bias is considered a high risk especially when conducting qualitative research, where subjectivity can influence various stages of the research process. To ensure credibility and objectivity of the research study the following conditions were employed to mitigate bias during the research process:

- Triangulation of data collection sources: The study adopted a mix data collection approach (i.e. primary and secondary data). This approach enabled the researcher thematically analyse data and information through mainly three sources namely, interviews, literature and economic and budget publications. This method enhances the credibility of the study through cross-checking insights from different participants.
- Purposive Sampling – Purposive sampling was used to select participants based on their expertise and relevance to the research objectives. The inclusion criteria were clearly defined to ensure consistency in participant selection and avoid selection bias.
- Data analysis followed a systematic approach (thematic) to minimise bias. Coding procedures were standardised, ensuring that themes emerged organically from the data rather than being influenced by preconceived expectations. Regular checks for consistency during analysis further reduced interpretation bias.

The following ethical considerations were taken into account up front and incorporated into the data collection strategy of the research study.

3.6.1. Ethical Approval and Access to Participants:

Upon submission of ethical clearance application to the university, ethical clearance was granted for the period 10 August 2023—09 August 2024 referred to as HS22/10/55 (see attached Appendix B). The researcher also received approval to conduct research (interviews) at the Provincial Treasury with nominated officials outlined in section 3.5. (see Appendix C for the approval letter from Provincial Treasury).

3.6.2. Informed Consent & Voluntary Participation:

The researcher approached each participant to participate in the research study. Upon initial approval each participant received an information sheet informing them about the research purpose, benefits, risks, and funding behind the study.

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Interviews were held via the MS Teams platform whereby participants agreed to the recording of the interview session for record purposes. Recording and transcripts are available in Appendix E, for quality assurance. All participants accepted to participate freely and were able to freely opt in or out of the research process. (See Appendix D for the consent forms received from the participants).

3.6.3. Privacy and Confidentiality:

Participants were assured that the interviews were conducted confidentially, ensuring that all data and information gathered through the interview process would be kept and stored safely on the UWC Google drive, only accessible to the researcher and the respective supervisor.

3.7. Conclusion

The research methodology used was exploratory and aimed at meeting the research objectives. By engaging with subject matter experts and analysing relevant documentation, the researcher was able to provide comprehensive understanding of the current budgeting landscape and the potential for performance budgeting incentives to enhance policy outcomes. The insights gained from this study not only contribute to the existing body of knowledge but also serve as a foundation for future research and practical applications in the realm of public budgeting.

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Chapter 4: Findings and Analysis

4.1. Introduction

This chapter provides a comprehensive analysis of the research findings in aid of establishing whether agency-level budgetary performance incentives is an effective tool to improve policy outcomes within the WCG Budget System. As found in the extensive literature review, case studies outline that the implementation of performance budgeting varies and there is no ideal framework for implementation. After consulting the work of Robinson and other scholars, academic literature was found lacking in providing an assessment tool to determine the efficacy of performance budgeting incentives for the purpose of answering the main research question.

The case studies do however show common components and mechanisms that should be in place within a performance budgeting system to contribute to effectively improve policy outcomes. Webber (2004) argues that efficacy can be determined though linkages between components. Table 5 below illustrates how the efficacy of performance budgeting incentives can be assessed as a tool to enhance policy outcomes. It highlights the essential components and mechanisms within the performance budgeting system that contribute to improved results. By systematically linking funding decisions to measurable outputs and outcomes, this framework aims to ensure that public resources are allocated effectively and efficiently and foster good governance.

Table 5: *Proposed Assessment for Efficacy of Performance Budgeting Incentives*

Assessing	**Component**	**Mechanism**
Effectiveness	Alignment of strategic budget processes - Budget responsive to policy priorities - Outcomes are designed to meeting policy priorities - Budget decisions (rewards and sanctions) are informed by strategic	Integrated strategic and budget planning
Technical Efficiency	Resource allocation - Prioritisation of funding	Aggregated Budget documents Allocative Efficiency

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	- Allocative efficiencies to respond to outcomes - Incentive tools - Management and budget flexibility	Funding tool for programmes Adjustments Budget Process.
Effectiveness (programme level)	Performance Management system - Output indicators (Monitoring the delivery of outputs) - Outcomes indicators (Determine whether outcomes are achieved) - Performance information informs future decision making and planning.	Performance Information system Performance Audits & Evaluations Spending Reviews

Using Table 5 to evaluate the efficacy of agency-level performance budgeting incentives for this research study, the research concludes that agency-level performance budgeting incentives and mechanisms act as enablers, serving as effective planning tools that significantly contribute to achieving policy outcomes. In the context of agency-level performance budgeting, incentives are intrinsically linked to the broader performance budgeting system. Its primary functions, such as linking funding to results and enhancing allocative efficiency, are initiated in the planning phases. The findings indicate that all mechanisms associated with performance budgeting and incentives originate from the planning phase thereby establishing a foundational framework for effective implementation.

A key observation shows that all components and mechanisms either occur within the planning phase or provide substantial support to future policy planning phases. Figure 9 below was developed during the research to illustrate the performance budgeting mechanisms and their contribution to effective planning within the WCG budget system. The strategic positioning allows for performance budgeting to act as an enabler (catalyst) for resource allocation during the policy implementation phase, increasing the likelihood of successful policy outcomes. This research highlights the necessity of the alignment of performance budgeting incentives to strategic objectives from the outset. The alignment fosters informed decision-making in allocating resources and fosters accountability and transparency, enhancing overall effectiveness in achieving desired results. Chapter 4 provides an overview of performance budgeting mechanisms and incentives that exist within the WCG budgeting system and discusses how they contribute to improve policy outcome.

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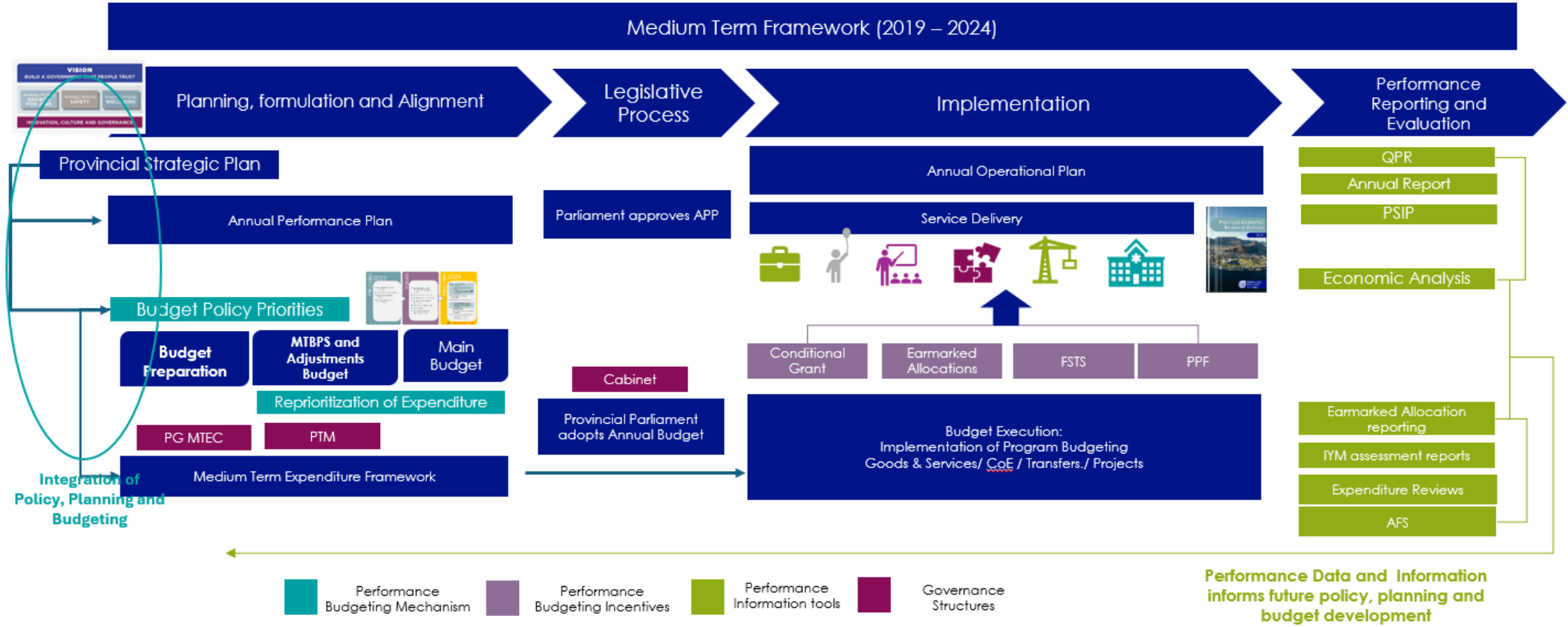
***Figure 9**: Overview of Performance Budget Mechanisms within Aligned Budget and Policy Cycles*



Source: Researcher's own

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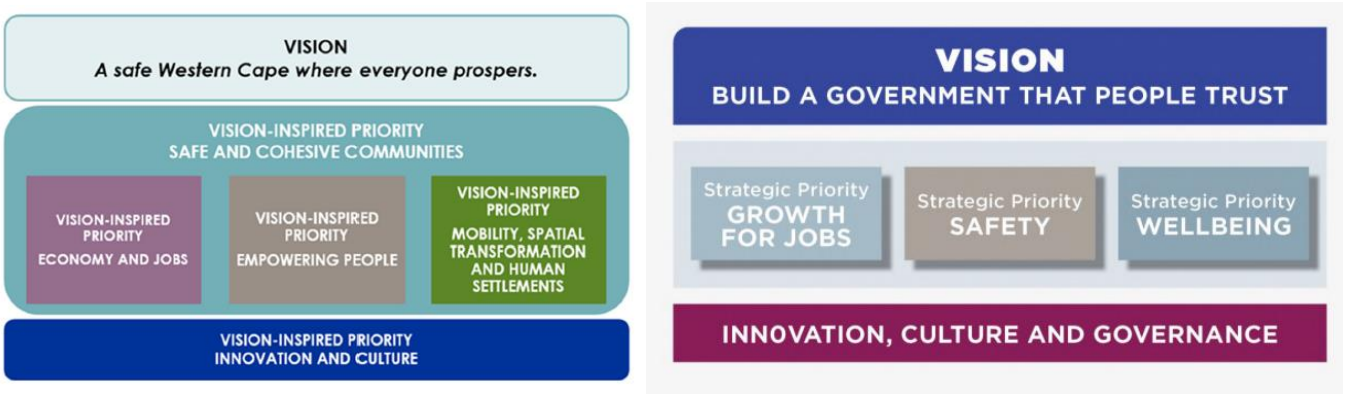
4.2. Overview of Western Cape Government Budget System

4.2.1. Budget System

The Provincial Strategic Plan (PSP) 2019—2024 that was launched by the Premier in March 2020 is the guiding document for the growth and development of the Western Cape. The Covid-19 pandemic ushered in a new view of the provincial strategy and budgeting within the WCG, one of agility and responsiveness aimed at responding to the pandemic and its socio-economic consequences (Provincial Treasury, 2021). The 2021 MTEF saw the repositioning of the provincial strategy and budget approach from "Provincial Vision Inspired Priorities" to the Western Cape Recovery Plan with priorities focusing on jobs, safety and wellbeing.

Figure 10: *Western Cape Government Strategic Framework 2019-2024*



Source: (Western Cape Government, 2021), (Department of the Premier, 2023)

The Recovery Plan then set the provincial strategic path for the delivery of services for the remainder of the Medium-Term (2019–2024) recognising the dual provincial response to the pandemic and socio-economic wellbeing of citizens.

As the province was recovering from the pandemic, the Provincial Strategy focused on key policy priorities: *Growth for Jobs, Safety, and Wellbeing*. These priorities were supported by essential enablers such as *Innovation, Culture, and Governance*. Together, they formed the foundation for the 2019—2024 Medium-Term Framework. This framework was designed to ensure that resources

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were allocated strategically, placing the province on a clear path from recovery to sustainable growth.

The Recovery Plan formed the basis of strategic planning for the rest of the provincial government requiring all departments to align organisational planning to the said provincial plan. The publication of the departmental Strategic Plan and Annual Performance Plan had to showcase its contribution.

The Western Cape Treasury faced several challenges, including a constrained fiscal environment, pressing global concerns, subdued national economic prospects, and increasing service delivery demands. The energy crisis, state fragility, and water-supply shortages also impacted provincial budgeting (Provincial Treasury, 2023). The budget aimed to maintain stability and create certainty for the 7.4 million residents of the province, particularly for vulnerable communities and future generations.

4.2.2. The Role Players in the Western Cape Budget System

The provincial budget process in the Western Cape is a collaborative effort involving the Provincial Treasury, Executive Council, provincial departments, the Provincial Legislature, parliamentary committees, the Auditor-General, civil society, and municipalities. Each role player contributes to ensuring that the budget is developed transparently, aligns with provincial priorities, and effectively addresses the needs of the community. The following role players have critical roles within the development of the provincial budget:

4.2.2.1. The Provincial Treasury.

The role of the Provincial Treasury is highly mandate driven deriving its distinct role from the constitution and landmark legislation in the Public Finance Management Act and the Municipal Financial Management Act, respectively. In terms of section 18 of the PFMA the role of the Provincial Treasury includes the development of a credible budget and the implementation thereof.

In the context of the WCG, Provincial Treasury, mainly through its Budget Office, manages the development of the annual budget. This is a central point of communication with and for stakeholders, clients and citizens.

> *The provincial government Budget Office draws a congruence between the policy environment, the budgeting process, and also the economic space* (Respondent 3).

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The Provincial Treasury monitors budget performance, provides guidelines for departmental budgets, and ensures fiscal sustainability while protecting frontline services including health, education and social services as the main components of the provincial budget.

4.2.2.2. The Department of the Premier.

The Department of the Premier (DotP) is responsible for strategic and policy management, overseeing provincial strategic planning, data governance, and performance monitoring. Crucial to its role, the DotP provides strategic leadership by guiding the alignment of provincial policies with national priorities, particularly the NDP. The PSP serves as the central policy document for the WCG, influencing all aspects of governance, from policy formulation to budget allocation and service delivery.

In addition to its strategic leadership role, the DotP is involved in policy development and implementation, monitoring the effectiveness of the PSP, and building capacity within government entities. The department ensures that budget allocations align with the PSP, facilitating the integration of strategic objectives into the budget process. Providing policy and strategy support to departments in developing their APP and performance indicators to ensure they align with the PSP. By establishing feedback mechanisms, the DotP can evaluate the effectiveness of funded programmes and make recommendations for adjustments in future budget cycles, ensuring continuous improvement in resource allocation.

4.2.2.3. Provincial Top Management.

Provincial Top Management (PTM) encompasses several critical functions that ensure effective governance, strategic alignment, and efficient service delivery. The forum consists of officials of the Political and Executive structures of the administration. Some of the key members consist of the Director General, Executive official of DotP and provincial Heads of Departments.

The PTM plays a crucial role in ensuring that all departments work cohesively towards common goals outlined in the PSP. These include ensuring departmental budgets align to PSP, setting of budget priorities, informed recommendations for adjustments in future budget cycles and stakeholder engagement.

4.2.2.4. Provincial departments and Public Entities.

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Provincial departments led by Heads of Department (also known as Accounting Officers) serve as key figures responsible for the financial management and accountability. According to the PFMA, Section 36, the Accounting Officer must ensure effective, efficient and transparent systems of financial budget management, expenditure control and risk management (PFMA , 1999). Upon an approved budget, provincial departments are tasked with implementing the plans and using the allocated resources effectively and efficiently. Furthermore, departments monitor budget implementation and report on expenditure and performance to the Provincial Treasury and the Provincial Legislature. For the purposes of the research study, provincial departments are referred herein as agents as custodians of departmental budgets.

4.2.2.5. The MEC Finance and Provincial Cabinet.

The Member of the Executive Council (MEC) for Finance in the Western Cape Government plays a pivotal role in the provincial budget process, overseeing financial management and ensuring that the budget aligns with the province's strategic objectives. The MEC for Finance works closely with the Cabinet of the Western Cape Government, particularly in the following ways:

- Strategic Alignment: The MEC ensures that the budget aligns with the political priorities set by the Cabinet, facilitating the integration of financial resources with the province's goals.
- Collaboration on Budget Priorities: The MEC collaborates with other Cabinet members to identify key budget priorities and ensure that funding is directed toward initiatives that will have the most significant impact on service delivery.
- Performance Monitoring: The MEC participates in Cabinet discussions regarding the performance of funded programmes and initiatives, using data and evaluations to inform future budget decisions.

4.3. Performance budgeting in the Western Cape Government

While the Western Cape Government may not explicitly categorise its budgeting approach as performance budgeting, it does, in fact, incorporate key elements of this methodology within its budgetary process. As observed by Respondent 1:

> *Yes, we use performance budgeting, but in the trenches, I think we're on programme budgeting with a sliver of the words of performance (Respondent 1).*

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As articulated by Respondent 1 and in similar statements by Respondent 2, the nuanced implementation of performance budgeting within the WCG is underscored. While it might not formally be labelled as performance budgeting, various mechanisms integral to the approach are utilised. These mechanisms ensure that budget allocations are closely aligned with the programme outcomes and performance indicators thereby enabling a more results-oriented approach to the public financial management system of the WCG and are highlighted in the themes below. The Provincial Treasury adopted performance budgeting mechanisms mainly in the planning and the monitoring and evaluation phases of both budgeting and policy framework, discussed below.

4.3.1. Integrated Policy, Planning, Budgeting and Implementation Cycle

The Provincial Treasury follows a multi-year (three years) integrated budget process that culminates in the Medium-Term Expenditure Framework (MTEF) cycle which is aligned to the national budget process. The integration of the budget process starts with the publication of the technical guidelines received by the National Treasury. Section 27(3) of the PFMA, states that an annual budget must be in accordance with a format prescribed by the National Treasury. The MTEF Technical Guidelines for Provinces are issued to make such prescriptions and provide government departments, as well as provincial public entities, with guidance on how to prepare their medium-term estimates for the annual budget (PFMA, 1999).

A parallel budget process was undertaken by the Western Cape government in the development of the provincial budget. Figure 11 illustrates the overview of the Provincial government budget process.

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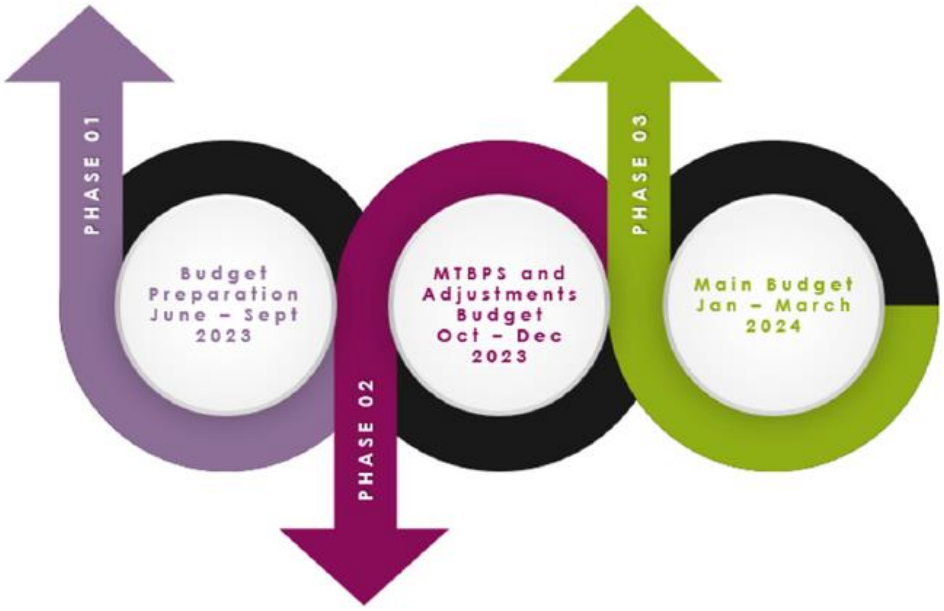
Figure 11: *WCG 2024 MTEF Budget Process*



Source: Provincial Treasury (2023)

The key objectives of the budget process are achieved by first ensuring that the Treasury supports departments to absorb the impact of baseline deductions within their respective budgets and implementation of programmes within key provincial priorities (Provincial Treasury, 2023).

Phase 1 focused on navigating the fiscal uncertainty by applying a scenario-based and risk-led approach. Phase 2 introduced the road toward certainty through the 2023 Adjustments Budget that aimed to achieve in-year fiscal sustainability, while the 2023 MTBPS further supported this objective through providing the budget policy framework within which the 2024 Budget would be formulated. Phase 3 was set to create a level of fiscal certainty through the finalisation of the 2024 Budget, which would continue to drive WCG's core values of optimism and worth. The budget process consists of a number of initiatives facilitated by the Provincial Treasury aimed at equipping departments for their respective budgets.

A key feature of the Western Cape Government's budgeting process is the sophisticated planning methodology that underpins it. This approach is characterised by a series of initiatives that are meticulously streamlined to align with the overall planning process. The objective is to develop a credible and responsive budget that effectively addresses the needs of the citizens.

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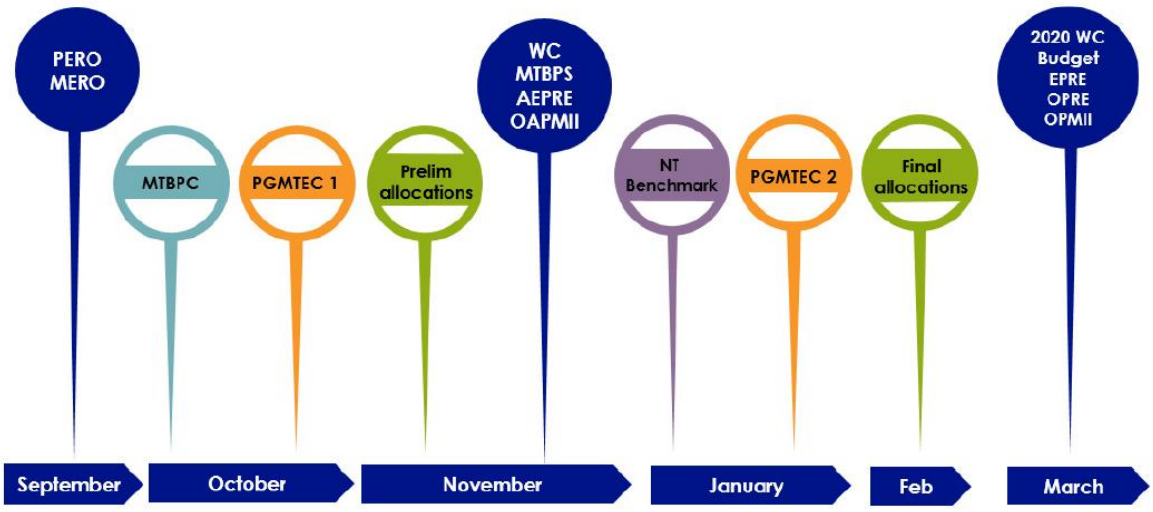
These initiatives are evident in the careful development and implementation of the budget process. They ensure that each step—from planning to execution—reflects a strong commitment to transparency, efficiency, and alignment with strategic goals. The illustration in Figure 12 depicts the initiative incorporated into the budget planning cycle below.

***Figure 12**: WCG Budget Cycle 2020-2024*



Note. PERO = Provincial Economic Review and Outlook; MERO = Municipal Economic Review and Outlook; MTBPS = Medium-term Budget Policy Statement; OPRE = Overview of Provincial Revenue and Expenditure; EPRE = Estimates of Provincial Revenue and Expenditure; AEPRE = Annual Estimates of Provincial Revenue and Expenditure.

Source: Provincial Treasury, 2020.

4.3.2. Reprioritisation of Expenditure

Further aligning to the national budget process, the provincial fiscal response also focused on the deteriorating fiscal environment, highlighting the crucial focus on identifying measures of financial consolidation and exploring areas of opportunity to grow the economy (Provincial Treasury, 2023). As a means to respond to economic, fiscal and policy context, budget principles are assessed to ensure that the budget remains responsive to current fiscal strategy and aligns with

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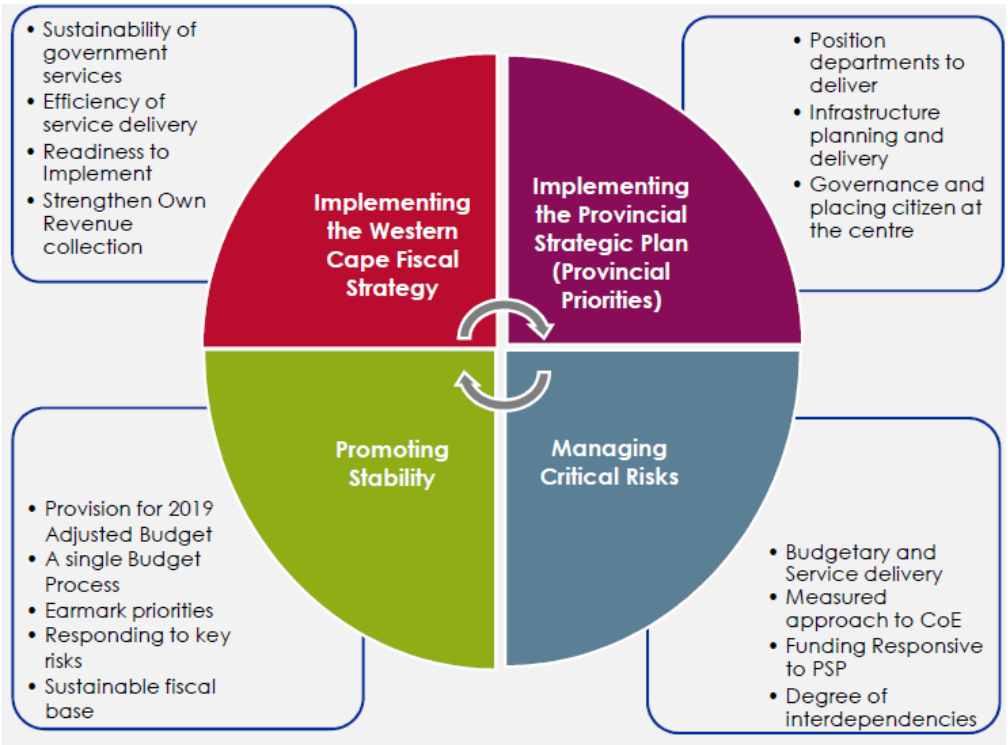
policy and planning. This is done in the development of the MTBPS, and adjustments processes whereby departments have the opportunity to effectively amend their budgeting response to a particular MTEF period.

Budget repositioning and trade-offs between programmes are required to maximise the outcomes and impacts of spending, particularly relative to the WCG's priorities of *Growth for Jobs, Safety, Wellbeing* and *Innovation, Culture and Governance*. The WCG also facilitates increased infrastructure investment to expand access to economic opportunities and improve access to quality healthcare, particularly through the development of more clinics. Figure 13 below shows the evolving nature of budget principles between years 2020, 2023 and 2024 and adopted as the guideline to the development of budget.

Figure 13: *WCG - 2020 Budget Policy Principles*



Source: Provincial Treasury (2020)

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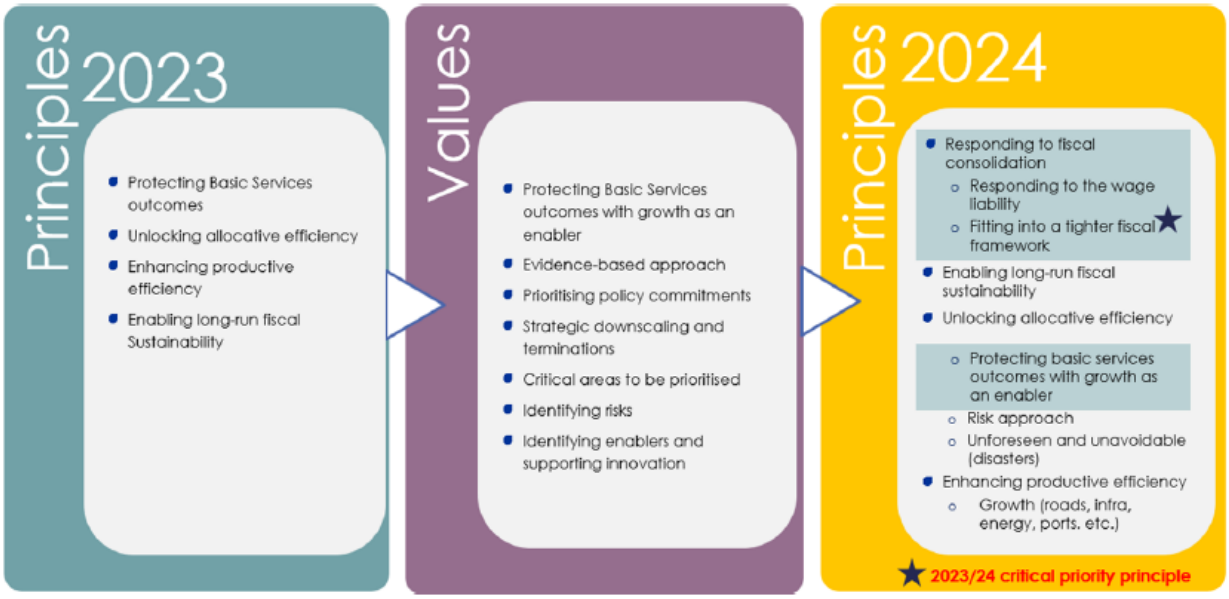
***Figure 14**: WCG 2024 Budget Policy Principles*



Source: Provincial Treasury (2024).

The expansion to these principles demonstrates the focus of the Provincial Treasury to ensure reprioritisation of the budget to provincial priorities within a constrained fiscal environment. This initiative is also considered as a mechanism of performance budgeting. The principles showcase the outcomes-driven approach to ensure allocative efficiency within a fiscally constrained environment. Efforts are made within the budget to address main service delivery within a reduced budget. This a prime example of the notion of Robinson and Last (2009) to "do more with less".

4.3.3. Expenditure Reviews

Expenditure reviews (also referred to as spending reviews) are also a key mechanism within the WCG budget cycle, serving as a cornerstone of the budget system. Expenditure reviews are defined as the process of reviewing government spending on a particular service, and how effective this spending is (Provincial Treasury, 2023). This mechanism underpins the WCG effort to drive continuous improvement in allocation and reprioritisation of the budget and its effort to meet the demand for service delivery. The Provincial Treasury undertakes extensive reviews including predominantly through the In-Year Monitoring (IYM) exercises of provincial department budget, monthly and quarterly assessment of earmarked allocations (Respondent 3).

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The Provincial Budget office also conducts:

> *PG MTEC assessment report and through that assessment make recommendations in terms of where we feel the department is performing, while where there might be gaps* (Respondent 3).

These assessments are crucial to facilitate technical engagements with provincial departments, which include review and analysis of both economic and analytical data of the departments' performance on spending on programmes aligned to department mandate and policy priorities.

Additional to this, the Budget Office, in a collaborative effort with finance teams and the Government Technical Advisory Centre (GTAC) at the National Treasury, conduct expenditure reviews of programmes within key strategic priorities. This initiative was aimed in 2021 at strengthening oversight and budget execution for Provincial Treasury. Results from these reviews were shared with respective departments for comment and/or implementation, offering valuable insights into data availability, necessary data generation for policy choices in the provincial budget, and proposals for potential savings (Provincial Treasury, 2023).

4.3.4. Robust Monitoring and Evaluation System

The M&E performance budgeting mechanism is the only one featured outside of the Provincial Treasury. With the aim of driving strategy, the Provincial Strategic Management enhances decision-making practices by utilising reliable data and evidence while fostering increased collaboration with external stakeholders (Department of the Premier, 2023). Respondent 3 discussed their relationship with the department in monitoring non-financial information of the PSP Implementation Plan. This was achieved through various initiatives related to monitoring and evaluation, promoting integrated planning, budgeting, and implementation. Additionally, the programme encourages cooperative relationships among all levels of government and provides support and engagement in various intergovernmental structures. These include:

- embedding the role of DotP as a central coordinator of data producers, users and suppliers in driving a common purpose towards building a WCG data ecosystem that is supported with data policy and legislation;
- continuing the reporting reform journey, in collaboration with Provincial Treasury, that delivers integrated quarterly performance data (financial/non-financial) towards an annual

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WCG performance report card and incrementally build a master performance dataset of WCG performance data; and

- adopting Responsive Evidence Services (RES) beyond only evaluations in collaboration with research partners that are externally funded.

4.3.5. Use of Information for Decision-Making

The use of information in the policy, planning, budgeting and implementation processes is a key instrument to pave the way forward for future planning and budgeting. The WCG highlights its use of information as an approach for "evidence-based decision-making". Information is incorporated into its planning cycle as a key tool to drive its evidence-based decision-making agenda. These include: IYM reports, annual reports, expenditure reports and reviews.

The Provincial Treasury prides itself on the publication of instrumental publication documents namely the Provincial Economic Review and Outlook (PERO), the Municipal Economic Review and Outlook (MERO) and socio-economic data for municipalities.

> *...three of our key publications tries to triangulate those three areas. So, for instance, the Provincial Economic Review and Outlook is able to sketch out what their economic and socio-economic environment is that we are operating in* (Respondent 3).

In the context of development of the provincial budget, the PERO plays an instrumental role in the publication of key information that helps to shape policy and budgeting in the province. The PERO provides an evidence-based and robust source of economic intelligence which can support the development of policies and plans as well as inform the budget processes of departments and municipalities (Provincial Treasury, 2019). The focus of the PERO since inception shifted from just presenting high level macroeconomic data to illustrating the impact of economic data to the citizen and how the department will be required to respond through service delivery. The below comment from Respondent 3 suggests the shift of the use of such economic data in the PERO:

> *So as we tabled the MTBPS yesterday…it included a graph on inflation and the repo rate and the interest rate, but the interest rate increasing impacts on a household in terms of how much they need to pay back on their mortgage., Inflationary increases, impacts on the purchasing power of an individual in terms of how much they actually have to pay for goods and services each and every day. It's been able to articulate it in a document like the*

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*PERO where it can actually be meaningful to the citizen and to anyone outside of the Western Cape Government (*Respondent 3).

Respondent 4 further elaborates the pivotal role of performance information in its integrated policy, planning and budget process, the *PERO*

We have pieces, on education, health, crime, in terms of what's happening in the province and that we use and send to departments, and they need to indicate to us, how are they responding to the key trends coming out of PERO (Respondent 4).

To further improve on its evidence-based decision-making approach the Provincial Treasury through the Budget Office ensures:

throughout the year to keep on monitoring the performance of non-financial information, but also financial information… so if you have like the department coming in for additional spending requirements or when there is an upscale on one of the interventions (Respondent 3).

Other information such as spending trends and expenditure, assessments and evaluations is used as key information tools to assess the provincial budget.

The PERO highlights the collaborative efforts with stakeholders to ensure credible information is used. Ongoing collaboration with academic and research institutions is prioritised, ensuring that policies are grounded in evidence, and enhancing the likelihood that desired outcomes are achieved within budget constraints (Provincial Treasury, 2023).

4.4. Agency-Level Performance Budgeting Incentives used in the Western Cape Government

The use of agency-level performance budgeting incentives is utilised differently across the world but shares a common purpose. The primary focus of agency-level performance budgeting incentives is to motivate agencies to perform better. This approach takes a step further in the direction of "managing for results" as opposed to the classic form of performance budgeting (i.e. reprioritisation of public expenditure). For the purposes of this study, the focus on agency-level performance budgeting incentives was on how incentives are granted and utilised at departmental level within the provincial government. The research study looked at agency-level performance budgeting at the organisational level.

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In the context of the South African budget system and specifically in the Western Cape Government, agency-level performance budgeting incentives are complemented with the current budget tools that are used in the budget system. These are inclusive of the grants funding system as well as earmarked allocation and discretionary facilities. These are further discussed below.

4.4.1. Conditional grants

The use of conditional grants is attached to the Provincial Equitable Share that is received by National Treasury. As defined above, conditional grants are designed for specific use. Respondent 4 explained that:

> "*From my perspective performance-based budgeting speak about grants, and this is mainly implemented from a national level* (Respondent 4).

These grants were specifically allocated to certain programmes within the provincial department, outlining the shared responsibility and policy priorities between the two spheres of government (i.e. national and provincial). Respondent 3 provided an overview of the impact of the structure of government: the role of the Provincial Treasury is one of enabling, ensuring that provincial government utilises the conditional grant within their budgets:

> *Conditional grants come from National Treasury. You know we have a unitary government, a form of government where you know revenue flows from the national government to the provinces. To municipalities you would say it's because of this type of setup of our government. We play more of an enabling role to actually assist and promote departments into actually using the funding that comes from conditional grants* (Respondent 3).

As part of the annual technical guidelines from the National Treasury, provinces are instructed to ensure that all programmes, funded under the conditional grants budget, submit business plans. Business plans seek to promote sufficient planning at provincial level before the eventual execution that requires funding (National Treasury, 2024). To answer the question as to whether they can be considered performance budgeting incentives, conditional grants in its nature are funded for specific policy priorities and cannot be utilised outside of requirement set by National Treasury. This speaks to the defining use of incentives linked to specific performance targets, in this case targets set out by either the National Treasury or sectoral national departments.

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4.4.2. Earmarked Allocation

Earmarked allocation is a similar budget tool used in the budget to fund government programmes. Earmarked allocations are made available through the redistribution of virements outlined in Section 44 of the Treasury Regulations. The contrast between earmarked allocation to conditional grants is that funds are utilised from the Provincial Revenue Fund. Outlined in the Westen Cape Appropriations Act, (Act 1 of 2014) earmarked allocation may be issued from time to time to provincial departments.

Generally, earmarked allocations are funds set aside in the budget for specific purposes, ensuring that the money is used only for designated projects or programmes. Once made available, earmark allocations can only be used for the purpose for which these allocations were made (Respondent 4). The role of the Provincial Treasury is therefore to manage not only the allocation process during the budget process but also reporting processes.

The prospect of receiving additional funding or maintaining funding levels can motivate agencies to meet or exceed performance targets, leading to better service delivery and outcomes. The nature of this budget tool lies in its ability to align funding with specific outcomes, incentivise performance improvement, enhance accountability, facilitate monitoring and evaluation, encourage innovation, and foster a results-oriented culture. This makes earmarked allocation an effective performance incentives tool.

4.4.3. Fiscal Transition Support Facility (FTSF)

The Fiscal Transition Support Facility (FTSF) was introduced in the 2021 Medium-term Expenditure Framework (MTEF) as a strategic initiative to help government departments manage spending pressures through proactive restructuring measures (Provincial Treasury, 2023). According to Respondent 4,

> *The fiscal transition support facility provided departments with once-off and upfront cost for departments to put in place, new service delivery approaches or technologies and they would have to achieve long term savings* (Respondent 4).

The facility was set up during the COVID-19 pandemic in which departments were forced to deliver services alternatively due to lockdown restrictions; however, they lacked the financial

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means to transition its services. Figure 15 below provides an overview of the structure of the facility and which services were funded.

***Figure 15**: Allocations of the Fiscal Transition Support Facility of 2022 MTEF*

	Description (R'000)	2022/23	2023/24	2024/25	Total
Vote 1:	Strategic communication review	3 000			3 000
Vote 1:	Elsenburg migration to the WCG's Corporate ICT network (existing)	7 400	7 800		15 200
Vote 3:	SCM reform - to drive value for money	1 500			1 500
Vote 3:	eProcurement Solution (existing)	200	418		618
Vote 8:	Removing 2021 Fiscal Transition Funding	(40 000)	(30 000)		(70 000)
Vote 6:	Tele-Health (FTSF) (existing)	5 000	5 000		10 000
Vote 6:	Department of Health: Home-delivery of chronic medication (FTSF) (existing)	33 000	33 000		66 000
Vote 7:	Digitising the Non-profit organisation management systems (NPOMS)	1 000	1 000	1 000	3 000
Vote 7:	Development of a Mobile Client Service System to support Social Workers to deliver more efficient services.	1 000	1 000	1 000	3 000
Vote 7:	Enable Mobile connectivity	2 000	2 000		4 000
Vote 13:	Virtual & Digital Services in Western Cape Provincial Archives	16 476			16 476
Total		**30 576**	**20 218**	**2 000**	**52 794**

Source: Provincial Treasury (2023)

The FTSF serves as a performance budgeting incentive by enabling departments to implement new, innovative approaches to service delivery that may not be feasible without initial financial support. The facility addresses the challenge of transitional costs, which often hinder the adoption of cost-saving and efficiency-enhancing measures. The ultimate goal of the FTSF was to generate long-term savings and improve service delivery outcomes.

Allocations from the FTSF enabled departments like the Department of Health and Wellness to not only respond effectively to immediate challenges (like the pandemic) but also to invest in sustainable service delivery models. These investments, supported by the FTSF are, according to Respondent 4, expected to:

- Achieve Long-Term Savings: By digitising services and optimising resource allocation, departments can realise cost efficiencies over time.

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- Improve Service Delivery Outcomes: The new service delivery approaches foster better health outcomes, particularly for marginalised communities.
- Deepen Partnerships: The FTSF encourages collaboration with community health workers and other stakeholders, thereby strengthening the service delivery network.

4.4.4. Project Preparation Support Facility (PPF)

In the 2021 MTEF, the WCG established a Project Preparation Facility (PPF) to assist departments and entities with project preparation costs and to create a well-prepared pipeline of infrastructure projects in the province. The is part of the WCG Infrastructure Strategy aimed at supporting spatially targeted investments that will assist the province with achieving desired social, economic and spatial outcomes (Provincial Treasury, 2021). In the 2021 MTEF, R23.839 million was allocated to the first tranche of projects for preparation support. The Provincial Treasury (PT) issued guidelines for further applications to this facility during the early part of the 2021/22 financial year. These guidelines would outline the criteria, funding modalities, stages and governance arrangements for the facility (Provincial Treasury, 2021).

With infrastructure considered a crucial policy priority of the Western Cape, the facility had since been increased. Over the 2023 MTEF a total of R180 million was allocated to provincial departments from the PPF (Provincial Treasury, 2023). Figure 16 below provides an overview for which projects will be funded by the PPF within respective provincial departments.

Figure 16: *Allocations of the Project Preparation Support Facility of 2023 MTEF*

Department and Project Description	2023/24	2024/25	2025/26	Total
Department of Infrastructure: Various Projects in Planning and Preparation	28 279	22 380	-	50 659
Department of Infrastructure: Energy	40 000	40 000	40 000	120 000
Department of Economic Development and Tourism: New Integrated Port Infrastructure in Saldanha Bay	9 400	-	-	9 400
Department of Education: Various Projects in Planning and Preparation	5 000	-	-	5 000
Total	**82 679**	**62 380**	**40 000**	**18 5059**

Source: Provincial Treasury (2023)

The Project Preparation Facility (PPF) is a vital performance budgeting incentive that drives strategic infrastructure development in the Western Cape. By funding the preparation of well-

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planned, high-impact projects, the PPF ensures that departments and entities can contribute effectively to the province's infrastructure goals. The facility's emphasis on accountability, strategic planning, and financial efficiency makes it a powerful tool for achieving long-term social, economic, and spatial outcomes in the Western Cape.

4.5. Dynamics of Agency-Level Performance Budgeting within the WCG Budget System

This research study focuses on the dynamics that impact the implementation of performance budgeting within the Western Cape Government (WCG) budget system. To provide an objective overview, it is essential to analyse key enablers, inhibitors, preconditions, and challenges that shape this process. Drawing on systems theory, it is recognised that the budget system functions as a complex, interconnected network, where changes in one area significantly affect others. By examining these dynamics, one can better understand the interplay between policy frameworks, institutional capacities, and budgetary practices, ultimately identifying the conditions necessary for the success of performance budgeting initiatives in the public sector.

4.5.1. Preconditions for Agency-level Performance Budgeting incentives within WCG

> *...that is all built in from our good governance practices that we have over time achieved. So, a lot of why we perform well from a budget perspective is supported by our good governance.* (Respondent 3).

The WCG integrated good governance into its strategic framework, emphasising the importance of ethical leadership and accountability. Financial good governance is therefore underpinned by governance within budget performance. The following good governance strategies were employed leading to a budget environment that not only meets immediate fiscal responsibilities but also support long-term socio-economic development goals.

4.5.1.1. Structure of the Provincial Treasury.

An anomaly was identified by Respondent 2 suggesting that the structure of the Provincial Treasury and by extension the WCG, is used to its advantage; they are presented in the following way:

The structure of the WCG enables a coordinated approach for the implementation of integrated policy, planning and budgeting:

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> *...the entire structure of the government and then in terms of the key, the departments in terms of policy and budgets within the actual structure of those departments that are mainly responsible for budgets and policy* (Respondent 2).

The structure also complements legislation's (PFMA) separating role between Heads of Department (agents) and Provincial Treasury (principal) which created accountability towards departments for the implementation of policy and budgets.

4.5.1.2. Strong Governance and Accountability Frameworks.

Effective governance structures and accountability mechanisms must be established to ensure that departments adhere to the criteria and guidelines associated with budgeting incentives. The role of the Provincial Treasury is central to maintaining a strong governance framework. These include oversight, formal communication structures and engagements to ensure that funds made available are utilised efficiently.

4.5.1.3. Formal Communication.

The establishment of Treasury and Budget circulars allowed sending out formal communication to departments of the requirement for the access of these budget incentives. Moreover, detailed reporting requirements were implemented through legislation. Section 4(3) of the Western Cape Appropriation Bill (No. 1 of 2024) empowers the Provincial Treasury to issue directives outlining reporting requirements for provincial departments (Western Cape Provincial Parliament, 2024).

Respondent 3 outlined that the Provincial Treasury, with its mandate of producing a sustainable budget, relies on consulting governance structures including Provincial Top Management (PTM), the Budget and Planning Committee (BPC) and provincial Cabinet, who are decision-makers on policy priorities and budget (Respondent 3).

4.5.1.4. Strategic Engagements.

During the budget process strategic engagements play a crucial role in ensuring the credibility of the budget and strengthening collaboration and partnership with provincial departments. These engagements are the Provincial Budget and Governance Committee (PBGC) and Provincial Government Medium-term Expenditure Committee (PG MTEC). These engagements focus on a *competitive bidding process for funding and efficient cuts*, taking into account socio- and economic

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information presented to them by National Treasury as well as publications such as the PERO (Respondent 1).

Strategic engagements enhance transparency and accountability, build collaborative partnerships, facilitate open communication, promote inclusivity, strengthen compliance with governance structures, and support continuous improvement. Regular engagement allows for the exchange of ideas, feedback, and concerns, leading to more informed and equitable resource allocation.

4.5.1.5. Risk management.

Risk Management has increasingly become a vital component of the budget process. Recently, the Provincial Treasury partnered with Enterprise Risk Management within the Department of the Premier to identify key risks faced by provincial departments that could impact budget execution (Respondent 3). This collaborative effort was designed to align with performance management processes and facilitate the sharing of key mitigating strategies.

By proactively addressing these risks, the initiative aims to pave the way for enhanced performance, particularly in budget execution. Such integration of risk management not only strengthens the overall governance framework but also ensures that budgetary decisions are informed by a comprehensive understanding of potential challenges, ultimately leading to more effective and sustainable financial management.

4.5.1.6. Robust Performance Measurement Systems.

Performance information plays a pivotal role in the implementation of budgeting incentives. Performance information enables linking resource allocation explicitly to outputs or outcomes, providing the data and incentives for budget managers to make efficient trade-offs in meeting programme targets. It promotes accountability by specifying expected performance, assessing actual results against targets, and devolving decision-making authority.

Provincial Treasury imposed stringent reporting requirements which were additional to the IYM expenditure, Quarterly Performance Reports (QPR), and the Infrastructure Reporting Model (IRM) processes. Respondent 4 elaborated on the how:

> *Comprehensive reporting is already required in terms of other legislation and may further set out measures and inspect allocation to ensure transparency, accountability and expenditure control* (Respondent 4).

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Outlined in Treasury circulars, especially Treasury Regulation No. 18 of 2023, all earmarked allocations and funding facilities required for reporting are identifiable on the Basic Accounting System (BAS) for verification and transparency purposes. This should be done by utilising the Fund and/or Project segment available on BAS (Provincial Treasury, 2023).

4.5.2. Enablers within for Agency-level Performance Budgeting Incentives

The implementation of performance budgeting incentives in the Western Cape Government (WCG) was driven by several key enablers that enhance governance and improve policy outcomes. Key findings of the research study show that strong governance and accountability frameworks, along with robust performance measurement systems, serve as critical enablers for implementing performance budgeting incentives. These enablers, additional to preconditions, include favourable legislation, political and executive support and active stakeholder engagement.

4.5.2.1. Enabling legislation.

Legislation is a key enabler for performance budgeting incentives as it has established the legal and institutional framework necessary for effective governance and accountability of performance budgeting incentives. The PFMA and Treasury regulations are favourable for the implementation of performance budgeting and such incentives. Further legislation prescribes robust monitoring and review of such incentives. Respective prescripts are as follows:

- Section 40 of the PFMA: This section mandates that accounting officers of departments must prepare annual reports that include a review of performance against the objectives set in the Annual Performance Plan. This requirement ensures that performance outcomes are directly linked to budget allocations, promoting accountability.
- Section 43 of the PFMA: This section permits the accounting officer to shift funds between programmes, known as virement, but specifically states that allocations earmarked for a specific purpose may not be used for other purposes without prior written approval from the relevant treasury. This ensures that earmarked funds are utilised as intended, reinforcing accountability for performance outcomes linked to those allocations.
- Section 53 of the PFMA: This section outlines the legal requirements for annual budgets and Medium-Term Expenditure Framework (MTEF) budgets. It emphasises the need for

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budgets to be informed by strategic plans and performance objectives, thereby integrating performance budgeting into the overall financial management system.

- Treasury Regulations Chapter 5 & Chapter 6: These regulations provide guidelines on the preparation of performance information and its incorporation into the budgeting process. They emphasise the importance of aligning budget proposals with performance targets, which is essential for effective performance budgeting.

These further led to the development of guidelines from National Treasury which includes the Framework for Strategic Plans, Annual Performance Plans and the Performance Information Guideline.

4.5.2.2. Political and Executive Support:

Political and executive support serves as a foundational enabler for implementing performance budgeting incentives by championing the initiative, aligning it with strategic goals, facilitating collaboration, allocating resources, supporting legislative changes, encouraging accountability, and sustaining momentum. This support is essential for creating an environment where performance budgeting can thrive and deliver meaningful results.

The establishment of the FTSF and PPF received its endorsement by both Cabinet and PTM as initiatives supporting allocative efficiency on policy priorities (Respondent 3). These included alignment with the overarching goals of enhancing service delivery and ensuring that public funds are used effectively to achieve desired outcomes. Procedurally, all earmarked allocations are approved annually by governance structures which include key stakeholders from the political and executive structures of the WCG (Provincial Treasury, 2024).

4.5.2.3. Capacity Building.

The Provincial Treasury initiated various capacity building projects aimed at supporting provincial departments in enhancing their financial management capabilities. These initiatives are designed to improve governance, accountability, and oversight, ultimately enabling the delivery of quality services through effective partnerships and capacity development in public sector finance. The Provincial Treasury has a dual responsibility, first to ensure that its officials have the capability to perform its oversight role through its reporting review and assessments. These were conducted for policy and budgetary assessment and recommendations to Cabinet and PTM. The secondary role

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of the Provincial Treasury is to build capacity, ushering in the introduction of expenditure review initiatives and training with the Government Technical Advisory Centre.

4.5.3. Inhibitors of Agency-Level Performance Budgeting Incentives

Inhibiting factors were identified that could impede the successful implementation of performance budgeting incentives in the WCG budget process. These may arise as challenges within the budget system as well as external factors that may hinder the implementation thereof. These include:

4.5.3.1. Complacency for Change and Misunderstanding of Performance Budgeting.

A sense of complacency emerged as alluded by the comments made by respondents on their perception (in the views of Respondents 1 and 2). While current budget tools were available and these tools were supported by Political and Executive, they may not have been perceived as essential for driving performance-based outcomes. This could be as result that there might not have been substantial evidence that the tool was being used. It may further suggest that there might be a lack of understanding of what a performance budgeting system is. Respondent 2 articulated that:

> *the incentive is achieving the objectives.... achieving the objectives and then also in terms of their mandate because that's why they exist* (Respondent 2).

These sentiments suggest a resistance to viewing performance budgeting as a necessary catalyst for improvement, as some may believe that their existing mandate is sufficient to motivate performance without the need for additional incentives. Consequently, this complacency may hinder the effective adoption of performance budgeting practices, as it reflects a reluctance to embrace new methodologies that could enhance accountability and service delivery.

4.5.3.2. Constrained Fiscal Environment.

The constrained fiscal environment was identified as the most significant inhibitor of performance budgeting incentives, primarily because the provision of incentives inherently requires adequate funding. As stated by Respondent 3:

> *we are currently in the constrained fiscal environment, we have reduced fiscal envelope, which just means that as the Provincial Treasury will now be required to make decisions given this economic context* (Respondent 3).

Respondent 3 also suggested that while a constrained fiscal environment acted as a main inhibitor it can also provide the reciprocal; it can paradoxically serve as a catalyst for re-evaluation and

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improvement. In such an environment, there is an inherent need to critically assess existing programmes and their performance. This pressure to optimise resource utilisation can prompt departments to reexamine their objectives and outcomes, leading to more strategic and effective budgeting practices. Thus, while the fiscal constraints present significant challenges, they can also drive a necessary focus on performance evaluation and accountability, ultimately fostering a more results-oriented approach to public financial management.

4.5.3.3. Risk-adverse.

There seemed to be a hesitancy within departments to make bold decisions on policy priorities, which might be attributed to a tendency to over-plan but underperform on key policy priorities. In line with strategic planning, departments often adopted a cautious approach when developing performance targets, driven by the fear of not meeting expectations and the potential consequences that may arise from such shortcomings.

It is important to recognise that operating within an auditable environment can create a perception of challenge when it comes to meeting the requirements set forth by the Auditor-General. Departments may find themselves in a situation where they prefer to play it safe in terms of the indicators they identify for inclusion in their APP and annual reports. By addressing the perceived challenges and fostering a culture of calculated risk-taking, departments can enhance their ability to tackle complex policy priorities and deliver tangible results. Collaborative effort includes implementation of mitigation mechanisms and creating safe spaces within the Provincial Strategic Implementation Plan for departments to implement policies that are not within the audit environment.

4.6. WCG approach to Gender Responsive Budgeting

The WCG approach to the implementation of GRB is to ensure that revenue streams and resource allocation make the necessary impact to be gender equal. The aim is to ensure that the provincial fiscal framework is more equitable to promote social justice and inclusivity. Some of the key interventions in the WCG led by the Provincial Treasury is to establish comprehensive budget guidelines to ensure that budget proposals demonstrate how they address gender disparities and foster accountability and transparency within resource allocation. The Provincial Treasury outlined its approach in its 2022 Medium-term Budget Policy statement; key interventions include:

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- Capacity building initiatives in place for public officials to support implementation of GRB at department level.
- The WCG GRB strategy focus on research and stakeholder engagement focusing on best practices and methodologies for implementation of GRB.
- Develop a coherent approach to drive intervention on issues such as gender-based violence and women empowerment.
- Entrench equal opportunity within personnel and procurement systems.
- Monitoring and evaluation as a key component allowing for the assessment of budget allocation impact on gender mainstreaming. Utilisation of tagging as a tool for assessment of resource allocations (Provincial Treasury, 2021).

There is much room for improvement on GRB on the part of the Provincial Treasury; however, this was expected. The Provincial Treasury is yet to provide its comprehensive budget guidelines on how to the realise its approach especially around the implementation of tagging. There are areas for questions such as how and when the tagging will be done. Additionally, the GBR considers key policy issues for gender-based violence and women empowerment. It is crucial that GRB and the GRPBMEA framework are institutionalised to include all sectoral policy priorities including outcomes in the education and health sector.

4.7. Conclusion

The findings presented in this chapter showcase that agency-level performance budgeting incentives is an effective planning tool aimed at improving policy outcomes. Implemented through its mechanisms, performance budgeting is used in public financial management systems and in budgeting processes. Performance budgeting incentives are intrinsically linked with performance budgeting and therefore act as an enabler that strategically link funding to results and enhancing allocative efficiency. The research suggests that mechanisms are either initiated in the planning phases or provide substantial support to future policy planning phase.

In the context of the Western Cape budgeting system, good governance identified a fundamental precondition for the implementation of performance budgeting mechanisms within the budget systems. The research outlines enablers and inhibitors that exist within the system that impact the implementation of performance budgeting mechanism.

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Chapter 5: Recommendation and Conclusion

5.1. Introduction

This chapter provides an overview and highlights the key findings of the research study as outlined in Chapter 4. Focus is placed on the recommendations the research presented which were aimed at providing an objective measure of policy proposal and interventions for improving the implementation of these mechanisms within the WCG Budget system. The chapter further outlines further contributions the research study makes. These contributions are presented to both academia and industry (i.e. mainly Provincial Treasury). Lastly, this chapter concludes with outlining research limitations that the research study experienced.

5.2. Key Findings

The main aim of the study was to explore whether agency-level performance budgeting incentives are an effective tool to improve policy outcomes. In doing so, the research study outlined the measure for assessing the efficacy of performance budgeting incentives and mechanisms as a tool. Chapter 4 presented findings on the performance budgeting incentives and mechanisms and elaborated on how they contribute to improving policy outcomes. The below summarises key research findings.

5.2.1. Performance Budgeting as an enabler

Performance budgeting incentive and performance budgeting mechanisms serve as an effective planning tool for enhancing policy outcomes by strategically aligning budget expenditure (allocation) with policy priorities through specific performance metrics. This alignment primarily occurs during the planning phase of the budgeting process, ensuring that financial resources are allocated toward achieving defined policy outcomes.

While the research aimed to determine whether agency-level performance budgeting incentives could be implemented, the findings revealed that existing mechanisms within the system already leverage incentives for provincial departments. Furthermore, the study assessed the effectiveness of performance budgeting incentives as a means to improve policy outcomes. Given the nature of budgeting as a facilitator of policy and programmes, performance budgeting incentives are

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identified as tools that can enhance efficiencies within policies, ultimately leading to improved policy effectiveness and outcomes.

Performance budgeting mechanisms play a pivotal role in aligning financial resources with policy objectives, thereby enhancing the effectiveness of government operations. The research not only explored the feasibility of implementing agency-level performance budgeting incentives but also highlighted the existing mechanisms that already support this implementation. By focusing on the effectiveness of these incentives, the study underscores their potential to improve policy outcomes, demonstrating the integral relationship between budgeting practices and successful governance.

5.2.2. Performance Budgeting within the WCG

The Provincial Treasury is instrumental in advancing performance budgeting initiatives. Although the province had not fully embraced performance budgeting as a comprehensive method, it implemented several related mechanisms, including:

- **Integrated Policy, Planning, and Budgeting:** Ensuring coherence between policy objectives and budgetary decisions.
- **Expenditure Reviews and Reprioritisation:** Regular assessments of spending to align with strategic priorities.
- **Robust Monitoring and Evaluation Systems:** Establishing frameworks to track performance and outcomes effectively.
- **Utilisation of Performance Information and Data Structures:** Leveraging data to inform budgeting decisions and enhance transparency.

The successful implementation of performance budgeting is heavily contingent upon the effective use of performance information during the monitoring and evaluation (M&E) phase. This information is crucial for informing future budgetary decisions and ensuring that resources are allocated efficiently.

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5.2.3. Agency-Level Budgetary Performance Incentives

Agency-level performance incentives are not isolated tools; rather, they are integrated within existing budgetary systems. In the context of the Western Cape Government (WCG), these incentives are facilitated through:

- **Conditional Grants (Indirectly):** Providing funding contingent on achieving specific performance outcomes.
- **Earmarked Allocations:** Designating funds for particular programmes or initiatives to ensure targeted spending.
- **Support Facilities:** Offering resources and assistance to help agencies meet their performance targets.

5.2.4. Governance as a Foundation

Good governance is a critical precondition for the successful implementation of performance budgeting and its associated incentives. While performance budgeting aims to optimise the allocation of public expenditure, its effectiveness is fundamentally dependent on the presence of robust governance practices that promote transparency, accountability, and stakeholder engagement.

The diagram in Figure 9 above illustrates the current budget system of the WCG containing features of performance budgeting, including mechanisms and incentives.

5.3. Recommendations

The following recommendations highlight areas for further transformation of the budget system:

5.3.1. Explore Additional Funding Tools including Non-Financial Incentives

It is evident that performance budgeting incentives exist within the WCG budget system however additional tools can be explored. As part of my recommendation, Provincial Treasury Budget Office must explore other fiscal tools that can be used as an incentive that promote policy priorities that requires support. These tools can be part of the blended financing approach that the Provincial Treasury has already undertaken.

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Additionally, alternative incentives namely non-financial incentives can be explored, while the PFMA is poised as a cornerstone for public finance, legislation in other sectors can be used favourably to drive synergy between policy and budget. While not considered as an incentive, the developing model of special economic zones can be replicated into other sectors creating a favourable environment for policy outcomes to be achieved.

5.3.2. Conduct Impact Assessments to Determine Feasibility of Established FTS

The establishment of the FTSF and PPF was initiated in 2021, which explains the absence of an impact assessment, as it is reasonable to expect that such assessments would occur after sufficient time has passed for these initiatives to take effect. It is hereby recommended that the Provincial Treasury Budget Office together with the Provincial Public Finance team must drive impact assessment through its funding expenditure review processes before the establishment of future support facilities. The focus of the impact assessment must determine the efficacy and whether its intended outcomes were achieved. With the FTSF being a once off, it is plausible that impact assessment can be conducted.

5.3.3. Publication of Progress Reporting on PSIP to the Public

While it is evident that information had been incorporated into the WCG budget system, the research study was unable to access the Provincial Strategic Implementation Plan that would have assisted to determine progress made on provincial priorities. It is hereby recommended that Parliament make and enforce a decision using Public Access to Information Act (No 2 of 2002) to publish regular reports on the Provincial Strategic Implementation Plan in real time and make it available for public consumption. This will promote transparency and accountability and trust of citizens.

5.3.4. Creating Culture for Incentives by Leveraging Governance Maturity

Research and development (R&D) should remain a key driver for improving public policy within the Western Cape Government (WCG). To maximise the effectiveness of R&D initiatives, the WCG should leverage its governance maturity to explore non-financial incentives that can enhance organisational performance. It is hereby recommended Provincial Treasury Budget Office explore and expand non-financial incentives into the budget approach. By prioritising these non-financial

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approaches, the WCG can stimulate innovative ideas and solutions in programme implementation, ultimately leading to more effective public policy outcomes.

5.4. Contribution of research to literature

This research sets a unique tone for future studies within performance budgeting. Arguably rare to study this within the South African context, the research has established how performance budgeting was institutionalised within a reforms budget system, understanding that the budget system is centralised at national government. It also showcases the ability of good governance and how the provincial government is able to implement performance budgeting and an overall outcome-focused agenda (i.e. service delivery for the citizen) within the centralised budget system.

Infrastructure has become a transversal policy priority which requires good governance mechanisms like performance budgeting to effectively assist with meeting policy outcomes. This research may assist the WCG in understanding how performance budgeting can be institutionalised within the infrastructure sector and how these mechanisms together with budgeting models can assist with effective implementation.

The research paper demonstrated and paved a way forward to future research studies within the field with emphasis placed at sectoral level (i.e. infrastructure, education and health).

5.5. Areas for further research study on the topic.

For academia to prevail, continuous research studies are required to sustain the body of knowledge. The research study has paved the way to further studies in performance budgeting. Further studies on performance budgeting can focus on the following:

- Empirical research analysis and development of an assessment tool to assess whether performance budgeting incentives are an effective tool.
- The role of public participation in performance budgeting systems, how government can use public participation methodologies to foster performance budgeting mechanisms such as alignment of policy and budgeting.
- The impact of agency (individual and team) incentives in a performance budgeting model.
- Doing research with a focus on the infrastructure sector as a transversal policy priority across all spheres of government.

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5.6. Research Limitations

The following research limitations are a culmination of gaps within literature and research apparatus:

5.6.1. Unit of Analysis

While the uniqueness of the South African government system presented difficulty to do a case study for the implementation of agency-level incentives in a subnational government context (i.e. provincial government), the introduction of the scope in Chapter 1 was important to highlight and outline the unit of analysis of the study. The study relied on context given at mainly national level and provincial government. This opens opportunity for further study of performance budgeting incentives in the subnational government sector.

5.6.2. Research Complexity

The nature of the research study was to assess whether agency-level performance budget incentives are an effective tool; the unit of analysis is at institutional level. There is a gap in literature on empirical studies to assess efficacy of performance budgeting. Outlined by Webber (2004), efficacy and efficiency are determined at programme level. This raises questions about whether the research question can be adequately answered.

5.7. Conclusions

Performance budgeting and its agency-level performance budgeting incentives exist within the Western Cape budgeting system. The research findings underpin the research presented with credible findings of how performance budgeting incentives are an effective tool to improve policy outcomes. The research concluded performance budgeting, performance budgeting incentives and its mechanisms are effective tools to improve policy outcomes.

The Provincial Treasury play a central coordinating role to ensure effective budget management and together with the DotP, drive an integrated policy, planning, budgeting and implementation system. Outlined in Figure 9, the research depicts how and when these incentives and mechanisms are incorporated into the system. The research outlines incentives used in the form of earmarked

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allocations and facilities (i.e. FTSF and PPF) to assist departments with additional resources to achieve success towards its policy outcomes.

Enabled though good governance framework and enabling legislation, the Provincial Treasury applies these mechanisms aimed at striving to achieve its desired policy outcomes. The system is not perfect; the research outlines the dynamics (enablers and inhibitors) within the budgeting system that impact the budgeting system. Reasonable recommendations have been presented mainly to the Provincial Treasury on potential improvements to its integrated system that will assist in ensuring intended objectives are met.

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Appendices:

Appendix A: Abstract & Interview Questions

Appendix B: Ethical Clearance - UWC

Appendix C: Approval Letter - Research at Provincial Treasury

Appendix D: Participation Consent form participants

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