AN EVALUATION OF THE IMPLEMENTATION OF BUDGETARY CONTROL MEASURES BY THE PROVINCIAL TREASURY WITH SPECIFIC REFERENCE TO THE PROVINCE OF THE EASTERN CAPE DEPARTMENT OF EDUCATION

by

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Declaration

I, Mzukisi Harrington Kalashe, declare that this treatise is my original work and that I have not submitted it in part or in its entirety for a degree at another University.

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ABSTRACT

Budget control is a process of financial monitoring to ensure effective allocation, collection and efficient utilizing of public funds. It is a process that is aimed at ensuring the accomplishment of public policy objectives. Budget control is regulated by financial legislation as well as regulations and procedures which guide public financial administrators. Continuous monitoring is needed once appropriation is allowed by parliament or provincial legislatures to ensure effective service rendering as well as tax and user charges collection.

This study investigates the reported ineffective budget control measures implemented by the provincial treasury in the Province of the Eastern Cape particularly in the Eastern Cape Department of Education (George, 2004). Ineffective budget control may be associated with the implementation of unstable fiscal policy by the provincial treasury that led to deficit spending in the Department of Education during the 2004/5 financial year. The purpose of this study is to show that the implementation of stable fiscal policy instruments by the provincial treasury would lead to effective budget control in provincial departments such as the Eastern Cape Department of Education.

Governments in many instances encounter various challenges in controlling their expenditures on an annual basis as well as in the medium term. This is due to the notion that once the government exceeds the current year's budget, it consumes the forthcoming budget. Borrowing is by nature an implicit

consumption of future unplanned revenue. This makes the Medium Term Revenue Framework in the province immaterial as the provincial own revenue is insignificant.

The relative uncontrollability of government expenditure stems from the notion that the provision of, for instance, primary education and social welfare is intertwined with legal entitlement within prescribed parameters. Allocative efficiency embodies recognition of legal entitlement that is reflected in the distribution imperatives if the provincial treasury is to be effective in the budget control function. The National Norms and Standards for School Funding of 2006 state explicitly that public spending in public schools is targeted at increasing the literacy levels of the poor.

Intergovernmental fiscal relations play a pivotal role in modelling the fiscal policy of the province. This stems from the fact that expected national collected revenue is distributed as an equitable share to national, provincial and local spheres of government. The criteria for revenue sharing are based on economic disparities and demographics in each sphere of government. It is imperative to note in intergovernmental relations that there are functional areas of concurrent national and provincial competencies.

The budget control function of the provincial treasury is implemented within the framework of various administrative processes which are aimed at ensuring effective transactional activities. The disbursement of funds and various other financial processes are subject to the delegation of powers as

prescribed in the Public Finance Management Act, 1999 (Act 1 of 1999), as amended by Act 29 of 1999.

The provincial governments' fiscal policies are modelled to be consistent with the macro-economic objectives of the national government. It is for the purpose of macro-economic stability that only national government is eligible to borrow to finance a budget deficit. Provinces are legally prohibited from overspending their budgets. If the fiscal policies of the provinces materially and unreasonably prejudice the national economic policies, the relevant provincial treasury is responsible for taking appropriate steps to place the financial administration on a sound footing.

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CHAPTER 1

CONCEPTUAL FRAMEWORK AND METHODOLOGY

1.1. Introduction

Modern society, since the introduction of westernised economic systems, has seen the emergence of both affluence and economic marginalization. Increased economic activity and political factors in South Africa have influenced the emergence of an affluent class and a marginalised underclass. This economic divide has expanded over time and requires government to increase its social net to ensure the promotion of the general welfare. Government is required to ensure effective and efficient spending of limited financial resources to provide public goods. This state of affairs thus has a direct bearing on budget control at both national and provincial levels of government. However, this study limits itself to the discussion of budget control by the provincial treasury with specific reference to deficit spending in the Eastern Cape Department of Education during the 2004/5 financial year.

Budget control is an increasingly imperative measure to ensure that appropriations are spent efficiently and effectively. Furthermore, effective accounting systems must be in place to ensure that government liabilities are managed properly to ensure effective budget control (Abedian and Biggs, 1998:188).

The Eastern Cape Provincial Treasury and the Department of Education are tasked with the disbursement and monitoring of funds to ensure inter alia the provision of educational services to reduce levels of illiteracy and ultimately impact on economic

mobility. This could be achieved through allocative efficiency of scarce financial resources. The Eastern Cape Department of Education experienced a marked increase in its budget allocation from the 2001 to 2004 financial years. The appropriations to the Department of Education during the 2001 to 2004 financial years showed percentage increases in disbursement from 9 to 19 percent (Eastern Cape Budget Statement for 2003/04). There was growth in expenditure due to the introduction of learner support material which accounted for 16.1 percent in the 2003/04 financial year (Intergovernmental Fiscal Review, 2003:17). The increased disbursements demand an improved budget control of public financial resources.

The Eastern Cape government has been plagued since its inception by over-expenditure particularly in the Eastern Cape Department of Education and Department of Social Development. The Pillay Commission of Inquiry was appointed in 2005 by the Premier of the Eastern Cape to investigate among other things the causes of over-expenditure in the provincial administration from 1994 to 2005 (Naki, 2005). According to the report tabled to the Pillay Commission, the Eastern Cape Department of Education overspent its budget on personnel by R256 million in the 1999/2000 financial year. The Auditor General's report on the annual financial statement for the financial year which ended on 31 March 2005, showed an overdraft of R655 million (Eastern Cape Department of Education Annual Report 2004/5, 123). This is an accrual of unauthorised expenditures on personnel from 1999 to 2005 without the necessary adjustment budget. This means a failure

by the provincial treasury to adapt the budget to ensure effective allocation of scarce financial resources.

The Republic of South Africa is constituted as a unitary state with three spheres of government, namely national, provincial and local. The country has nine provinces, each with a diverse socio-economic culture (Venter and Landsberg, 2001:182). The focus of the study is on reviewing the effectiveness of financial controls implemented by the provincial treasury in the Eastern Cape Department of Education that lead to efficient core services delivery. The South African government is committed to budget control in the provinces, to attain sound micro and macro-economic growth. Furthermore it is a stipulation in terms of the Public Finance Management Act, 1999 (Act 1 of 1999), as amended by Act 29 of 1999, and hereafter referred to as the PFMA,1999 that efficient financial management is attained to facilitate effective service delivery.

A major challenge for the public sector is to become more effective and efficient in the use of financial resources if the intended outcomes and outputs are to be achieved for the communities. The performance of provinces is measured nationally as well as by the citizens in terms of service delivery. Performance budgeting should be maintained for enhancement of allocative efficiency (Ramos, 2000:7). The measure of effective allocation of the scarce financial resources is based on the service delivery targets to be achieved by each department with the available budget in each financial year (Ramos, 2000:7). The service delivery targets and the budget estimate of that financial year are approved by the legislature for implementation. The significant over-

expenditure casts doubts on effective and efficient allocation of scarce financial resources resulting in effective budget control. The Pillay Commission of Inquiry heard that massive overspending of R602 million on personnel in the Eastern Cape Department of Education was concealed by under-spending on other items as at 31 March 2004 (Elias, 2006).

1.2. Motivation for the study

Governments strive towards the realization of predetermined goals that are embodied in specific objectives and concrete targets to meet socio-economic and political demands. These objectives and targets are reflected in the governments' annual operational and capital budgets (Gildenhuys, 1997:3). Budget control is not only a public administration principle, but is also linked to economic principles of public finance and public management accounting.

This investigation focuses on the principles relevant to budget control as espoused in the discipline public financial administration. This study specifically narrows its focus to ineffective budget control measures implemented by the Eastern Cape Provincial Treasury and the Eastern Cape Department of Education. It was reported that the Department of Education in the Eastern Cape, during the 2004/05 financial year, experienced extensive financial mismanagement (George, 2004). At the time of writing, the expenditure forecast for the province, as reflected in the Early Warning System such as In-Year-Monitoring indicated that the Eastern Cape Department of Education could incur a deficit of R1 billion by the end of the 2004/05 financial year (George, 2004). It is imperative that

these signals be heeded to maintain sound budgetary parameters.

The prevalence of ineffective budget control in the Department of Education has been echoed by various community leaders who hold the perception that the Eastern Cape Department of Education is experiencing a public financial crisis due to poor financial management (George, 2004). Other provincial departments were also facing the challenge of over-spending particularly the Department of Social Development in the Eastern Cape, but the Department of Education financial crisis was repeatedly reported with ineffective budgetary control measures noted as the cause (George, 2004). The provincial Department of Education, during the financial year 2004/5, required the National Department of Education to assist it financially in addition to the initial appropriation made at the start of the financial year (George, 2004). The request for financial assistance was supported by the unions, such as the South African Democratic Teachers' Union (SADTU), in the best interest of education in the Eastern Cape. The principal focus of the financial assistance plan included making financial resources available, a requirement for financial accountability and effective financial management. However, additional funding was not made available by the Eastern Cape Provincial Treasury and National Department of Education to the Eastern Cape Department of Education and the deficit accumulated to R1,2 billion at the end of March 2004 (Alias, 2006).

The projected provincial deficit to the magnitude of R1,2 billion in the Eastern Cape Department of Education for the 2004/5 financial year definitely gives impetus to the fear of serious

financial instability in the province's already volatile public financial administration. The expenditure trends at the national treasury, in respect of the National Department of Education, also showed extensive overspending, which is indicative of the challenges in budget control at the national level. The national sum total of expenditure on education grew by 4,6 percent in real terms from R53,1 billion to R58,9 billion in 2003/04 (Intergovernmental Fiscal Review, 2003:17). The biggest growth was in non-personnel, non-capital expenditure that showed growth of 16,1 percent in 2003/4 and is projected to grow at an average annual rate of 9,4 percent over the Medium Term Expenditure Framework (MTEF) (Intergovernmental Fiscal Review, 2003:17).

The projected significant amount of R1.2 billion for the budget deficit in the Eastern Cape Department of Education is a cause for concern to taxpayers, because in accordance with the PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999, budgets and the budgetary process must promote transparency, accountability and effective financial management. In terms of this Act, effective financial management and the maintenance of an effective balance between government spending and the ability of the taxpayers to sustain this through payment of taxes are to be enforced by the provincial treasury. The National Union of Educators and the National Professional Teachers Organization of South Africa are of the opinion that effective budget control mechanisms are needed if additional funding is going to be available (George, 2004). These budget control measures must ensure stringent accountability mechanisms that will bring about effective expenditure and

improved educational service delivery in the province (George, 2004).

Budget control has been extensively debated and researched within the discipline of Public Administration as will be illustrated by the literature review. Investigations into budget reform practices have also been extensively researched. This study, nonetheless, will limit the investigation to the budget control function of the Eastern Cape provincial treasury, with specific reference to deficit spending in the Eastern Cape Department of Education during the 2004/5 financial year.

1.3. Objectives of research

The objectives of this study are to:

- Establish whether the provincial treasury is effective and efficient in the allocation and management of scarce financial resources with respect to applicable legal frameworks such as the PFMA,1999 (Act 1 of 1999), as amended by Act 29 of 1999;

- uncover whether the provincial treasury is effective in ensuring that provincial departments, such as the Eastern Cape Department of Education, implement the national fiscal policy objective of balancing income and expenditure at provincial level;

- establish whether the Eastern Cape provincial treasury is able to ensure that provincial departments, particularly the Eastern Cape Department of Education, have institutional capacity for implementation of budget control measures;

- establish whether the provincial treasury is effective in taking appropriate measures to prevent the deficit spending as it is responsible for management of cash flow and In Year Monitoring; and

- to recommend that stable fiscal policy measures be implemented by the provincial treasury to ensure the enhancement of effective and efficient budget control measures.

1.4. Problem statement

The implementation of ineffective budget control measures by the Eastern Cape provincial treasury and Eastern Cape Department of Education has led to deficit spending.

1.5. Research hypothesis

The application of stable fiscal policy measures by the Eastern Cape provincial treasury, in relation to the national fiscal objectives, would lead to effective budget control in provincial departments, particularly in the Eastern Cape Department of Education.

1.6. Research methodology

Various research methods were utilized to derive valid arguments and conclusions. The literature review focused on the budget control measures as espoused in the fiscal policy theories.

The quantitative data were obtained from the use of questionnaires. A questionnaire was used to conduct structured interviews where necessary for the speedy collection of data, particularly from senior officials, such as the accounting officers. The respondents were requested to fill in the questionnaires and to put the completed questionnaires in a box specifically arranged for that purpose.

The respondents included officials of the budget management branch and finance branch of the provincial treasury and the Eastern Cape Department of Education respectively. The officials included the State Accountants, Financial Administration Officers, Assistant Directors, Deputy Directors and Directors and above. The ranks from Deputy Director and below form the core of the functional hub where budget control takes place. The levels of Directors and above are at the core of decision-making on budget control. The response rate of 77.5 percent is regarded as high, as the Province of the Eastern Cape provincial treasury and provincial Department of Education are currently faced with the challenge of deficit spending from the 2004/05 financial year.

The findings deduced from the questionnaires will be presented in pie charts and bar graphs.

1.7. Definition of concepts and terms

For the purpose of this study, the following meanings are associated with the concepts in the title and problem statement.

1.7.1.Allocative efficiency

Allocative efficiency refers to the extent to which the scarce public financial resources are allocated to ensure that demands and preferences of the citizens of the province are met in a fair manner (Premchand, 1983:66).

1.7.2. Budget

A budget is a document that reflects the estimates of income and expenditure of a government for a particular period of time, that is, from 1 April to 31 March (Erasmus and Visser, 2000:167). Some objectives are realized in the short-term and some are realized in the long term in relation to multi-year programmes that have been adopted (Erasmus and Visser, 2000:176). The Medium Term Expenditure Framework (MTEF) typifies the financial planning of envisaged multi-year programmes (Intergovernmental Fiscal Review, 2003:i). It is the long-term budgetary guide which reflects a direct relationship with the short-term annual budget. The short-term annual budgetary objectives are influenced by the long-term projections captured in the MTEF. The annual budget thus serves as an implementation tool for long-term objectives (Erasmus and Visser, 2000:167).

1.7.3. Borrowing

Erasmus and Visser (2000:33) refer to borrowing as a cash flow problem where consumers or producers want a product or service immediately, but can only pay for it at a later stage when funds will be available. In government, borrowing means that the institution concerned has budgeted for certain items, but the actual revenue accrued is less than the projected

expenditure. This shortfall has to be met by borrowing funds from national government or banks (Black, Calitz, and Steenkamp, 2003:247).

1.7.4. Control

Control basically refers to verification of transactions and determining the authority that enables an action to be undertaken (Premchand, 1993:28). It is similarly viewed as a method in administration by which progress towards the accomplishment of the objectives of the organization is measured against the utilization of resources (Hanekom and Thornhill, 1983:9). It then follows that if there is little progress to achieving the objectives there is a need for implementation of corrective action (Hanekom and Thornhill; 1983:9).

1.7. 5. Debt

Debt is defined in this study as the sum of all the outstanding financial liabilities of the department where there is a primary and legal responsibility to repay the original amount borrowed and to pay interest (Black et al. 2003:247).

1.7.6. Distribution

Distribution is to give a fair share of resources of the country to all members of that society (Eastern Cape Provincial Growth and Development Plan, 2004-14:8). The members of the communities communicate their needs to the community leaders and needs are analysed to establish the real needs that could be funded through public funds. Public funds are obtained through taxation for distribution to the neediest members of the communities. This could be referred to as the

re-allocation of income into a certain income group in the society; according to Black et al (2003:301).

1.7.7. Economic growth

Economic growth in this study is the ability of the province to provide a greater volume of commodities per capita (Greenwald, 1982:276). The definition includes social development as this study observes the notion of budget control from a public financial administration point of view. In this scenario, economic or socio-economic development typically relates to a positive change, a real increase in total output, or in the well-being or material welfare of the citizens of a country (Lane and Ersson, 1990:72). Socio-economic development embodies social mobility as the government is concerned with the improvement of the quality of life of the citizens.

1.7.8. Effectiveness

Effectiveness is the extent to which the organization attains its objectives (Gildenhuys, 1997: 501). Effectiveness, according to Gildenhuys (1997:501), is geared towards ensuring that the results of the programmes are achieving the predetermined goals and objectives within the framework of certain standards of time, cost, quality and acceptability.

1.7. 9. Efficiency

Efficiency refers to the extent to which the organization is able to achieve its objectives with the least costs from the resources it has at its own disposal. Efficiency shows the maximum results for any given combination of resources or

uses the minimum resources for any given quantity and quality of goods or services rendered (Gildenhuys, 1997:501).

1.7.10. Equity

Equity refers to fairness in the distribution of resources; according to Black et al (2003:184).

1.7.11. Expenditure

Expenditure refers to an amount of money spent on the purchase of goods and services (Erasmus & Visser, 2000:108).

1.7.12. Fiscal policy

Fiscal policy refers to the government's decisions on the nature, level and composition of government expenditure, taxation and borrowing geared to attaining particular socio-economic goals (Black et al, 2003:266).

1.7.13. Per capita income

For the purposes of this study, per capita income refers to the total income of the Province of the Eastern Cape, divided by the total number of its citizens in residence in order to determine the just share of each citizen in the economy of the province (Cloete and Wissink, 2000:85).

1.7.14. Planning

Planning refers to the identification of objectives, according to which fiscal policy for the future can be determined (Erasmus & Visser, 2000:176). Planning, in other words, is the process of setting goals to achieve within a specific period of time with specific resources that include financial resources and human

resources (Knipe, van der Waldt, van Niekerk, Burger and Nell, 2002:170).

1.7.15. Stabilization

Stabilization refers to the macro-economic objectives which include an acceptable rate of economic growth, full employment, price stability and sound balance of payments (Black et al, 2003:25).

1.8. Organization of chapters

1.8.1. Chapter 1

Chapter One introduces the motivation for the study, the problem statement and the research which relates to the budget control function of the provincial treasury. The budget control function embodies monitoring which is viewed as an analytic procedure that is used to produce information about the causes and consequences of the implementation of public policies. Monitoring permits analysts to describe the relationships between policy programmes, operations and their outcomes. The net result is to determine whether the organization is utilizing its budget effectively and efficiently to accomplish its objectives. If the budget is not utilized effectively and efficiently to achieve the programmes of the organization appropriate corrective measures must be taken to alleviate the dysfunctional behaviour.

1.8.2. Chapter 2

Chapter Two deals with the budget control theories of the provincial treasury as envisaged in fiscal policy. The budget control theories are embodied in the fiscal policy. The fiscal

policy includes allocative efficiency that is found in budgeting systems that comprise the line-item budgeting system, planning programming system and zero base budgeting system; as well as stabilization function, distribution function, and economic growth. The other variables of fiscal policy include fiscal discipline, control framework and public debt and budget deficit.

1.8.3. Chapter 3

Chapter Three deals with the application of budget control theories to South Africa with specific reference to the Province of the Eastern Cape and the relationships between the national and provincial treasuries. In accordance with the intergovernmental fiscal relations, all revenue raised nationally is divided among the national, provincial and local spheres of government. This viewpoint is enshrined in terms of section 214(1) of the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996). This approach to intergovernmental transfers is viewed as the most important vehicle to achieve economic equity through fiscal redistribution, taking into account the provincial economic inequalities caused by among other things the apartheid system.

1.8.4. Chapter 4

Chapter Four deals with the research methodology, in which the analysis of the variables of budget control is discussed. Pie charts and graphs are used to show the distribution of the responses to the variables of the budget control function of the provincial treasury. A review of the research findings will also be conducted in this chapter.

1.8.5. Chapter 5

Finally, Chapter Five proposes recommendations for improved budget control within the Eastern Cape, particularly in the Department of Education; and draws conclusions. The recommendations will be based on the findings as well as international experience gathered from the literature review.

1.9. Conclusion

This Chapter explored the budget control measures of the provincial treasury with particular reference to the Eastern Cape Department of Education. The budget control function of the provincial treasury is linked to the repeatedly reported over-expenditure in the Eastern Cape Department of Education in 2004/5 financial year. The prevalence of ineffective budget control in the Eastern Cape Department of Education was echoed by various community organizations such as SADTU to raise the perception of public financial crisis.

The Chapter introduced the motivation for the study, problem statement, definition of concepts and the research methodology that relate to the budget control of the provincial treasury. The budget control function in a unitary state with a fiscal federal approach such as South Africa tends to be entangled with intergovernmental fiscal relations. The Province of the Eastern Cape finds itself involved in the fiscal intergovernmental relations in the preparation and execution of its fiscal policy. The relative uncontrollability of government expenditure due to legal entitlement is viewed as one single fact that makes public financial administration different from the private sector. Public sector budgeting is always aligned to service delivery goals if

budget control measures are to be effective. The stable fiscal policy objectives may be viewed as the cornerstone for effective budget control measures of treasury in any government.

CHAPTER 2

LITERATURE REVIEW ON BUDGET CONTROL

2.1. Introduction

The aim of this chapter is to give a theoretical overview of the budget control function as it relates to public financial administration. The budget control function is a two-fold exercise that embraces verification of the budget transactions and determining the authority that enabled the expenditure to be incurred. Budget control monitors levels of income and expenditure and thus performs an oversight function to ensure efficient and effective usage of appropriated funds.

The regular oversight of appropriations inevitably creates a strong relationship between fiscal policy and budget control. Section 17 of the PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999 establishes a provincial treasury for each province that is responsible for financial matters. The provincial treasury in accordance with the above legislation is entrusted with the responsibility of preparing the provincial budget and ensuring its effective implementation to effect service delivery. In addition to these powers the national treasury may delegate any of its powers to a provincial treasury according to section 10 of the said Act. This inevitably places the provincial treasury at the heart of the provincial fiscal policy. This chapter thus explores the budget control theories that are embodied in fiscal policy.

Fiscal policy represents national and provincial government decisions on the nature, level and composition of government

expenditure, taxation and borrowing geared to pursuing particular goals. Fiscal policy is also viewed as the government application of fiscal instruments to give effect to its financial policy. These instruments are taxes, allocation of financial resources, government spending and government debt operations that influence economic activities. The variables of fiscal policy that are explored in this chapter embrace allocative efficiency, fiscal discipline, the control framework and public debt and budget deficit

2.2. Allocative efficiency

Allocative efficiency refers to the effectiveness in the allocation of scarce financial resources to ensure that the demands and preferences of the citizens of the province are met in a fair manner (Premchand, 1983:66). This is properly put by Gildenhuys (1997:396) as public policy expressed in monetary terms. In other words, allocative efficiency may be viewed as effectiveness in allocation of scarce financial resources from the provincial revenue fund to departments according to criteria established in terms of highest provincial government priorities and national priorities. The actual formula for determination of each province's equitable share is based on demographics and economic profile (Black et al. 2003:313). The vertical division of national collected revenue between national, provincial and local governments is based on the allocation of functions in each sphere of government.

The provincial treasury has to ensure that the fiscal policy objectives are aligned with specific performance objectives if the budget control function is to be attained. The budget serves

three economic tasks, that is, stabilization, distribution and economic growth (Black et al. 2003:25). However, it is imperative to ensure clarity in regard to economic allocation before exploring the economic tasks that are served by the budget. Economic allocation determines whether there is efficiency and effectiveness in the allocation of financial resources as budget control begins with allocative efficiency.

Gildenhuys (1997:509) suggests that there must be development and adaptation of budgeting systems to provide political decision-makers with sufficient accurate information to make responsible decisions. A budgeting system must also encourage the relevant officials to achieve the set objectives effectively and efficiently (Erasmus and Visser, 2000:168). The budgeting systems embrace, among other things, line-item budgeting, the planning programming budgeting system, objective budgeting system and zero-base budgeting system. All these budgeting systems are, in practice, utilized in the budgeting process. The challenge is not to allow one budgeting system such as the line-item budgeting system that is incremental in nature to encroach upon the others. Brief reference to these budgeting systems is needed in discussing the budget control function of the provincial treasury as these systems are at the core of effective budget control. The criteria for the allocation of scarce financial resources are based on these budgeting systems.

These budgeting systems are the important pillars of budget control measures as allocation of scarce financial resources is embedded in the budget control function. It was reported that the Bisho pension fiasco, which occurred in the 1998/99

financial year was blamed on two MECs (Botha,1998). The audit warned that the provincial treasury had under-allocated funds to the Department of Welfare in the Eastern Cape (Botha, 1998). Furthermore, the provincial treasury's under-allocation of funds to the provincial Department of Welfare engendered a backlog in excess of R1 billion in the 1998/99 financial year (Botha, 1998).

Proactive budget control through allocative efficiency obtainable in budget systems is conducive to measuring effective allocation of scarce financial resources. It is through the proper adaptation and implementation of these budgeting systems that fruitful benefits may be attained by a province from the broad national budgeting framework or Medium Term Expenditure Framework (MTEF). Therefore, the effective implementation of the budgeting systems by the Eastern Cape provincial treasury in the MTEF of various provincial departments determines the efficient allocation of scarce financial resources for the enhancement of budget control measures.

2.2.1.(a) Line–item budgeting system

The line–item budget is a financial plan of estimated expenditures expressed in terms of the kinds and quantities of objects to be purchased and the estimated revenue needed to finance them during a specified period (usually one year) (Babunakis,1976:8). In the line-item budgeting system, the format is aimed at cash control (Gildenhuys, 1997:509).

The individual resource items are either approved or disapproved by the legislature and when an item has been

approved, the money must be spent only for that item and not for any other purpose (Gildenhuys, 1997:509). All items are categorized as part of standardized expenditure items or as stated by Nigro and Nigro (1980:339), as categorizing according to objects of expenditure (Gildenhuys, 1997:509). Gildenhuys (1997:509) maintains that the category of expenditure and objects of expenditure are the same and cannot be changed without the prior approval of the legislature. These categories and objects of expenditure include, inter alia, personnel, stock, equipment, transport, printing and rent. In this system if funds are not spent in each category during the financial year from 1 April to 31 March such funds are surrendered to the exchequer account.

In practice, however, the projects that should have run from the beginning of the financial year may only be implemented towards the end of the financial year due to delays in tendering processes. In such situations treasury approvals are required for virement of funds or roll over of funds according to National Treasury Regulations promulgated in terms of the PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999.

However, line-item budgeting is not conducive to long-range planning as its focus is annual (Babunakis, 1976:8). Secondly, the line–item budget provides justification for decisions that have been made previously and the data obtained in the implementation process are not utilized to evaluate alternative courses of action (Babunakis, 1976:8 and Gildenhuys, 1997:511). According to Jones and Pendlebury (1992:53), the performance and the programme budgeting systems contain line-item budgeting elements for various activities, service

programmes and projects. In practice, these scholars believe that there is a combination of the budgeting systems. Coombs and Jenkins (1991:81-82) state that the incremental approach in line-item budgeting results in items being budgeted for on the basis of the funds allocated during the previous financial year. In this system, amounts budgeted for various items are increased simply on the basis of possible price increases and the expected inflation rate (Erasmus and Visser, 2000:174).

According to Gildenhuys (1997:512), governments find it very difficult to control expenditures from year to year. There are various reasons for the uncontrollability of government expenditure. Government expenditures originate from social programmes such as education, health, pensions, etc, and people are legally entitled to such support (Gildenhuys, 1997:512). The rights to goods and services conferred by the Constitution are regarded as constitutional entitlements (Black et al. 2003:86).

However, the conception that the entitlements are subject to budgetary constraints is vague to officials. The wide commitment in public policy to the budget leads to litigations that lead the government to pay beyond the budget. There is also the challenge of acquiring accurate data in a developing province such as the Province of the Eastern Cape (Cloete and Wissink, 2000:84). The comment from the Statistics Council Census sub-committee indicated that the 2001 Census showed an under-estimation of children under the age of five years and an overestimation of children aged between 10 and 19 years (Statistics South Africa, Census 2001:3). This makes it difficult

for the Eastern Cape Department of Education and provincial treasury to plan accurately.

If effective budget control is to be enhanced, the provincial treasury must be recognized by the provincial departments as having the power to reallocate funds amongst different Votes. The continuous monthly monitoring of expenditure trends should lead to reallocation of financial resources to Votes that are under financial constraints rather than to lock funds in departments that are under-spending. This is attainable where treasury is hands-on in the analysis and evaluation of departmental priorities and departmental spending trends.

Accordingly, the line item budgeting system is inappropriate in handling the above budget problems and in accommodating effective budget control (Gildenhuys, 1997:513). According to Gildenhuys (1997:513), the line item budgeting system is not suitable for performance auditing because the goals, objectives and targets of the proposed expenditure, as well as performance standards, are not identified.

The most important disadvantage of this budgeting system is that it puts the bureaucrats in complete control of the operational budget and allows them to spend money as they think fit as long as they are within the budgeted items within the Vote. Bureaucrats create the nature and the extent of government activities and determine the objectives and targets to be realized. This gives rise to a quest for an alternative budgeting system that will absorb these challenges. There has been a need to integrate planning with the budget to ensure that there is a balance between the budget demands and the

available financial resources (Abedian and Biggs, 1998:463). This led to the introduction of the planning, programming budgeting system.

2.2.1.(b) Planning, programming budgeting system

The South African budgeting system is based on the elements of PPBS and it is called Budgeting By Objectives (Erasmus and Visser,2000:172). The programme budgeting system is based on the output of the expenditure, that is, the control part is whether the goods and services to be purchased are worth the costs to be incurred. This system involves the classification of government expenditure according to goods and services to be rendered to the public in the current, medium and long-term (Savoie, 1996:123). The parliamentary appropriation by programmes signifies the utilisation of the output classification of expenditure for the purpose of expenditure control (Savoie, 1996:124).

Planning involves the identification of objectives according to which policy for the future can be determined (Van Straaten, 1984:97-98). Planning involves the formulation of rational decisions in keeping with which future actions can be determined. The formulation of objectives also forms part of the Planning, Programming Budgeting System (PPBS) (Erasmus and Visser, 2000:176).

Programming involves the classification of the planned activities into programmes to ensure that the activities take place in accordance with the programmes (Erasmus and Visser, 2000:176).This also gives decision makers a framework for the way in which planning can be implemented. Related activities

are grouped together for allocation of funds in programming (Erasmus and Visser, 2000:176). This offers an opportunity for determining the extent and costs of a programme in relation to each other. In the programme structure activities are divided into programme categories and sub-categories (Erasmus and Visser, 2000:176). The creation of sub-categories is aimed at explaining the objective in detail, creating more manageable units to facilitate the evaluation of information and establishing the criteria for the comparison of the programme categories, according to Erasmus and Visser (2000:177).

The purposes of planning, programming budgeting systems are to determine objectives, analyse and evaluate them to ensure that they achieve the greatest level of efficiency (Van Straaten, 1984:96). Effective analysis and evaluation of efficiency are based on technical rationality, economic rationality, social rationality, legal rationality and substantive rationality if effective budget control is to be achieved (Dunn, 1981:225). In the planning programming budgeting system a multi-year programme such as the Medium Term Expenditure Framework (MTEF) in South Africa is developed and the progress made is measured through regular evaluation of the programmes according to Van Straaten (1984:96). It is through this regular evaluation of programmes that the provincial treasury is able to detect any material breach of the PFMA,1999 (Act 1 of 1999), as amended by Act 29 of 1999 by a provincial department.

The MTEF was developed within the scope of the planning, programming budgeting system that was referred to as an objective budgeting system in South Africa. The MTEF is detrimental where the database for budget allocation is

inadequate in the base-year (Abedian and Biggs, 1998:462). The MTEF renders its fullest benefits when the budget is appropriately aligned with socio-political priorities according to Abedian and Biggs, (1998:462). According to Abedian and Biggs (1998:462-463), the prerequisites for the MTEF are:

- A reliable base-budget for each department, that is, the data that the budget is based on is accurate;
- a well-coordinated fiscal policy to ensure that the actual spending patterns fall within the acceptable level of budgeted estimates;
- an effective implementation structure that ensures that the budget control function is implemented efficiently and effectively; and
- the ultimate objective of the MTEF is the medium term service delivery that is attainable.

The implementation of the forms of rationality could determine when the incremental model is appropriate in the budget process. The prerequisites for effective MTEF give rise to effective budget control by the provincial treasury. As one of the effective budget control measures is effective service delivery, the participation agenda of the zero base budgeting system makes it relevant in allocative efficiency as a budget control measure.

2.2.1.(c) Zero base budgeting system

The zero base budgeting system involves the preparation of the operating budgets from zero base. Even though the organization might be operating more or less as in previous years, the budgetary process assumes that it is starting anew (Jones and Pendlebury, 1992:78). According to Van Straaten (1984:116), zero base budgeting is a management process that provides for systematic consideration of all programmes during the formulation of budget requests. Steyn (1980, in Van Straaten, 1984:116) and Gildenhuys (1997:527) define zero base budgeting as a system where the values of existing programmes and activities are re-evaluated during the preparation of the budget. According to these definitions, the conclusion one could reach is that all existing and new government services and projects are evaluated annually to justify being provided for in the budget.

Zero base budgeting questions the necessity of existing programmes and projects every year (Gildenhuys, 1997:526). The intended expenditure must be defended as if each programme or project is being considered for the first time. According to Gildenhuys (1989:594), the primary goals of the zero base budgeting system are the following:

- To concentrate on programmes and projects that yield fruitful results to the communities;

- to justify the existence of projects and programmes in every financial year to ensure the enhancement of efficiency and effectiveness; and

- to promote flexibility in the allocation of funds in order to avoid the locking of funds in redundant programmes and Votes.

The objectives of zero base budgeting according to Gildenhuys (1997:527) and Van Straaten (1984:116-117) are the following:

- All programme managers at all levels of the departmental hierarchy must make a contribution to the budgeting process in so far as the determination of priorities by the Eastern Cape provincial treasury and the provincial Department of Education is concerned. The shortcoming has been that the budget process was not inclusive and as a result Eastern Cape Provincial Treasury Circular No. 5 of 2004 was issued to provincial departments in terms of Section 18 of the PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999. The intention of the Circular was to ensure that the regional offices and district offices make budget proposals according to the needs of their areas of jurisdiction;

- the identification of priorities is at the core of the allocation of scarce financial resources; and

- the provincial treasury as a driver of provincial fiscal policy should ensure that the provincial priorities are aligned with the provincial budgets as public policy always has financial implications. This scenario necessitates a proactive provincial treasury that participates in strategic planning for various provincial

departments. This could enable the provincial treasury to acquire primary knowledge of plans that could result in enormous future expenditure without a source of financing. This responsibility is reflected in the PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999 that no official in the province shall commit the Provincial Revenue Fund without the authority of the MEC for Finance.

According to Phyrr (1977, in Erasmus and Visser, 2000:186), there are four steps that are necessary to establish the zero base budget. These include the identification of decision units, developing decision packages, the ranking of the decision packages and preparing the operational budget. Steyn (in Van Straaten, 1984:119 and Gildenhuys, 1997:528) points out that decision units can be programmes, functions, cost centres, organizational units, or even line or appropriation items. Gildenhuys (1997:528) states that decision units can also refer to capital projects, special service projects and any other isolated projects. In other words these are the units that initiate the budget for the attainment of their objectives. Developing decision packages refers to a collection of bodies where various decisions concerning the achievement of one specific objective are made (Gildenhuys, 1997: 528). It involves a document that identifies and describes each decision unit in such a manner that management can:

- Evaluate it and rank it against other decision units competing for funding; and

- decide whether to approve or disapprove it (Erasmus and Visser, 2000:190).

This makes it possible to weigh the various decision packages (programmes) against each other and assign a priority to each, according to Erasmus and Visser (2000:192) and Gildenhuys (1997: 529).

The ranking of the decision packages involves assigning a priority to the various decision packages (Van Straaten, 1984:123). The ranking of the decision packages in order of priority allows managers at each level of the organization to determine which specific goals and objectives are more important than the others and to allocate limited resources to the important objectives (Erasmus and Visser, 2000:192). There are various levels of priority ranging from level 1 to level 5; according to Erasmus and Visser (2000:193). Packages on level 1 are those to which the highest priority is assigned, whilst packages at level 5 are assigned the lowest priority. A manager may determine whether the package can be approved for that financial year (Erasmus and Visser, 2000:193). The zero base budgeting system is a micro-economic instrument whereby the objectives of the Eastern Cape Department of Education, for example, are transformed into effective plans and budgets.

The disadvantage according to Van Straaten (1984:128-129), is that despite the rational approach associated with the zero base budgeting system, an incremental approach to the budget is, nonetheless, followed. According to this view, only in cases where decision packages deviate significantly from the

previous year's budget are they analysed and evaluated. The other important disadvantage is that political considerations mean that programmes that are sometimes pursued may not achieve the highest level of tangible results (Van Straaten, 1984:129 and Gildenhuys, 1997:9-10).

The budgeting systems as indicated in the line item budgeting system, planning, programming budgeting system and zero base budgeting show how budget control operates under allocative efficiency. It is imperative to note that any of these three budgeting systems can be implemented in one budgeting process.

2.2.2.(a) Stabilization function

The stabilization function requires a more precise evaluation of the economic impact of government operations on the economy and the subsequent adjustment of the budget (Premchand, 1983:67, Musgrave and Musgrave, 1989:12, Combs and Jenkins, 1991:132 and Gildenhuys, 1997:432). Reliance of the provincial treasury on the national treasury with regard to adjustment estimates, utilization of forecasting techniques and closer co-ordination with monetary authorities provides a few examples. Forecasting and the early warning system derived by In-Year-Monitoring are good instruments to enable the provincial treasury to make adjustments to the budget to overcome the unforeseen changes in the economy (Premchand, 1993:24). For example, in the investigation of failure to pay social security grants in 1998, it was found that the MECs for Finance and Welfare in the Eastern Cape knew for more than five months that payment for social security grants would not

be effected, but they failed to institute the necessary processes to rectify the anomaly timeously (Botha, 1998).

Budget adjustment is an integral part of effective budget control. More stringent plans for controlling expenditure will be needed if the budget is to achieve a degree of restraint or a specific stimulus in the economy. A budget provides an estimate of a ceiling in the utilization of scarce financial resources in a financial year. Budget implementation is vital as a control measure as proper financial planning is needed to satisfy the unlimited demands that are prevalent in a developing province such as the Eastern Cape. If controls are loose, and if government spending increases at a rate higher than scheduled or expected the budget becomes a destabilizing factor (Premchand, 1983: 67-68). As noted in the introduction the expenditure of the Department of Education in the Eastern Cape was increasing higher than scheduled in the 2004/05 financial year. This rendered the provincial budget as an instrument of control of scarce financial resources immaterial.

2.2.2.(b) Distribution function

Distribution is intended to give a fair share of the provincial economic resources to all provincial citizens (PGDP, 2004-14:8). The members of the communities communicate their needs to the community leaders and needs are analysed to establish the real needs that could be funded through public funds. Public funds are obtained through taxation for distribution to the neediest members of the communities (Musgrave and Musgrave, 1989:11). This could be referred to

as the re-allocation of income into a certain income group in the society according to Black et al. (2003:301).

Distribution imperatives in the Eastern Cape Department of Education may be exemplified by the allocation of funds to various programmes such as public schools and Model C schools. For example, in the public schools parents pay a minimum school fee of R560 per annum, that is, R47 per month for the maintenance of the school as per information received from Bisho High School. Section 3 of the South African Schools Act 84 of 1996 stipulates that there must be compulsory learning for learners from the age of seven to the age of fifteen years. In accordance with the provisions of this Act the state must fund public schools from the public revenue on an equitable basis to ensure learners' right to education and the redress of the past inequalities in education.

The distribution function in the province is designed to meet the needs of the specific income group, particularly the poor (Premchand, 1983:68 and Musgrave and Musgrave, 1989:11). The right to education in this scenario makes it unlawful for any public school to turn away learners at public schools for inability to pay school fees. At Qaqamba Senior Secondary School in Duncan Village the principal reported that this public school admitted 1300 learners and only 220 paid the school fees in 2004 (Bro, 2004). The National Norms and Standards for School Funding of 2006 encourage those parents who have a good income to contribute financially to ensure the quality of education of their children in public schools. This is specifically to ensure that redress and improved equity are accomplished as public spending in public schools must be specifically

targeting the needs of the poorest. This means that allocative efficiency must embody recognition of legal entitlement symbolized in the distribution imperatives if the provincial treasury is to be effective in the budget control function.

Fiscal responsibility is a joint responsibility that covers the whole range of government institutions (Premchand, 1993:29). According to the PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999, although the preparation and the implementation of the budget is delegated to provincial departments such as the Eastern Cape Department of Education, the Eastern Cape provincial treasury is expected to share the database of learners who attend public schools. This stems from the fact that the allocative function embraces the presentation of motivation of provincial fiscal policy to Financial and Fiscal Commission (FFC), meetings of the Minister of National Treasury and Members of the Executive Council for Finance (MinMECs) of the nine provinces and National Council of Provinces (NCOP). The provincial treasury should share the distribution imperatives of the spending provincial departments in order to persuade them to accept the allocated revenue and their equitable share (Abedian and Biggs, 1998:462).

However, the emergence of inflation as a problem has resulted in greater attention being devoted to the stabilization function at the expense of considering allocation, and distribution (Premchand, 1983:69). This may make the conduct of treasury officials be observed as insensitive to the real needs of the communities, a state of affairs that may lead to non-compliance with the financial legal framework. Fiscal policy requires an

effective budgetary process that integrates economic, financial and programme analysis (Premchand, 1983:69).

2.2.2.(c) Economic growth

According to Greenwald (1982:276), economic growth refers to a continuous increase in the production of material goods and services within the economy on an annual basis. Peterson (1978:507) argues that economic growth should also take into account the increase in production capacity. Education is at the heart of development and as such liberation from illiteracy and lack of a particular skill opens the doors for economic empowerment. According to Statistics South Africa 2001, it was estimated that 22, 8 percent of the population of the Province of the Eastern Cape had no schooling and only 6,3 percent in the same year had qualifications higher than Grade 12. However, the percentage of those whose qualifications were above Grade 12 is insignificant taking into account the budget allocation to the Eastern Cape Department of Education. In an endeavour to curb the challenge of the marketability of the matriculants, the National Department of Education has produced a policy that will take effect from 2008 that Grade 12 pupils will acquire a certificate of Further Education and Training instead of the Senior Certificate (Daily Dispatch Correspondent, 2004).

It is imperative that the gap between service delivery and the budget should be closed at all times if allocative efficiency is to be enhanced. According to the provincial budget, the highest allocation of R7 billion in the province was allocated to the Eastern Cape Department of Education during the 2000/2001 financial year(Eastern Cape Budget Statement 2003/2004:172).

The average real economic growth for the Province of the Eastern Cape over the period 1995 to 2001 was 2.4 percent per annum (Eastern Cape Budget Statement 2003/04:15).

In order to enhance effective economic allocation, the expenditure on education in the province must translate into sustainable economic growth. This stems from the fact that the provincial treasury must make efforts to analyse the effects of budget allocation in terms of real output. The consideration of the economic output of the expenditure may enable the provincial treasury to persuade provincial departments to consider the value of the rand in their expenditures. It is normal that a Senior Secondary School, that is, a public school, should have a nil result in Grade 12 after an allocation has been made to run the public school (Daily Dispatch Correspondent, 2005).

2.3. Fiscal discipline

Fiscal discipline refers to the effectiveness of the attempts by the institution such as the Eastern Cape provincial treasury to balance income and expenditure (Premchand, 1983:4). This is stated by Black et al. (2003:11) as once there is a budget imbalance the government exercises influence on the balance between saving and investment. The application of the principle involves a departure from the balance of income and expenditure that distinguishes the broader responsibilities of the state such as natural disasters and wars where the state borrows money to cater for these unforeseen circumstances.

The historical perspective of budget control depicts endeavours for attainment of a balance between income and expenditures.

This is supported by Premchand (1993:24) on the assertion that there is a need for co-ordination between revenues and expenditures on a continuous basis to ensure that the changes in the former and the impact on the latter can be identified to effect remedial actions. Black et al. (2003:11) wrote that under normal conditions where there are insignificant departures, there ought to be a balance between income and expenditure. Black et al. (2003:11) suggest that in order to achieve a balance between income and expenditure as approved by the legislature in practice one should estimate for a moderate surplus. This is referred to as formulating the expenditure plans to include contingency provision for unforeseen circumstances Premchand, (1993:24). It is an accepted principle that treasury should ensure that funds are always available for incurring expenditure by various state departments (Premchand, 1993:24). This responsibility emanates from the fact that the provincial treasury is endowed with the powers to implement and manage the financial and fiscal instruments of the province.

On the other hand, the balancing of income and expenditure in the 1930s was challenged when fiscal policy came into being in its own right (Premchand, 1983: 6). The balancing of income and expenditure was challenged by John Maynard Keynes (Premchand, 1983:6). The deficit spending advocated by Keynes is planned government spending implemented by the treasury, unlike the unplanned deficit spending experienced in the Eastern Cape Department of Education in the 2004/5 financial year (George, 2004). PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999 states that provincial departments such as the provincial Department of Education in the Eastern

Cape must comply with any remedial measures imposed by the provincial treasury to prevent overspending of the Vote. Compliance should of course take note of the legal implications of a commitment. This means that in the public service if services have been rendered there is no way that the expenditure could not be incurred on account of non-availability of funds. In that scenario the postponement of disbursements of commitments is tantamount to recurrence of unchecked budget deficit.

2.4. Control framework

Control framework is viewed as being at the centre of the management function, as many of its tasks are associated with control. Control may be defined as a statutory limitation of action that is imposed on institutions (Gildenhuys, 1997:135). According to Premchand (1993:28), early attention to control was paid in organizing the state treasury. The provincial treasury of the Eastern Cape was established in 1994 by amalgamation of the three treasuries of the former Transkei, former Ciskei and former Eastern Cape Province. This is indicative of the fact that the provincial treasury of the Eastern Cape could be suffering from teething problems in budget control function envisaged in the PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999. In that scenario, deficit spending by the provincial Department of Education could have been averted by the provincial treasury as it constituted material breach of national economic policies.

Controls are considered to represent rational systems that are designed to enhance the performance of organizations in regard to expenditure management. These processes enable

the specification of objectives, the allocation of resources and the economic, efficient and effective utilization of resources while pursuing the objective of stability (Premchand, 1993:29).

Control is also an expression of power and of a hierarchical relationship and as such this is witnessed in intergovernmental fiscal relationships (Premchand, 1993:29). There must be a balance between the attainment of objectives and the maintenance of stability in financial administration if quality deliverables are to be accomplished, as will be explained under the following sub-heading.

2.4.1. Management process

Control should be viewed as a network of administrative processes. Several techniques are used to ascertain that government transactions are undertaken in pursuit of a coherent strategy or objective (Premchand, 1993:29). The control process may consist of strategic planning, management control and operation control. The strategic planning refers to the formulation of objectives and the corporate plans (Premchand, 1993:29). The second phase encompasses the obtaining of resources and the policies determined to govern the use of resources. The last phase of the control processes is to ensure that tasks are carried out as intended.

2.4.2. Nature of controls

The effective management of expenditure depends substantially on the nature of the control exercised (Premchand, 1993:33). Control is generally associated with the exercise of power either legally vested in an institution or alternatively claimed as part of tradition. For instance, the PFMA, 1999 (Act 1 of

1999) as amended by Act 29 of 1999 specifically places the MEC for Finance as the head of the provincial treasury responsible for financial matters and thereby endowed with the powers to formulate the financial policy and take decisions of treasury. Power is defined as the ability to do or act in order to effect something, according to Gildenhuys (1997:84). One who is vested with controls should have the resources to impose his/her will and wishes (Gildenhuys, 1997:84). If the resources are not available, one is powerless (Gildenhuys, 1997:84). Without this presumed power, controls may vary in their effectiveness. Power is drawn from two essentials, that is, motives and resources (Premchand, 1993:33). In an organizational setup, the legal and explicit motive is drawn from the assignment of a specific responsibility to that institution (Premchand, 1993:34). If such assignment is backed by the power to manage resources through allocation and utilization, that truly forges a stronghold of power.

However, Canetti (1981:294) makes a distinction between power and force, i.e. the former operating in a wider space and being less dynamic, while the latter is close and immediate in its effect. According to Canetti (1981:294), the exercise of power and force implies a breakdown in the social relationship. The man-made distinction between those who give orders and those who have to obey them implies that they have no common language between them (Canetti, 1981:294). Power can be formal, and it can be informal, according to Premchand (1993:34). In any of these cases power has a purpose or central value for the achievement of certain intended effects.

The power that has a purpose of achievement of intended effects becomes a legitimate authority. Authority is the power conferred upon ministers and public officials to execute the policy and decisions of the parliament (Gildenhuys, 1997:85). Authority creates an environment of obedience, according to Gildenhuys (1997:85).

The specification of efficiency standards is largely viewed as an exercise in co-optive power as these standards are jointly determined by the treasuries and the spending departments (Premchand, 1993:36). The budget is a policy statement on which financial control is exercised in order to ensure that the financial policy made by the legislative authority is adhered to (Gildenhuys, 1997:396) The framework of controls is largely dominated by the central departments such as provincial treasury or national treasury as they are responsible for policy and for specifying methods to achieve it, according to Premchand (1993:36). Most of the controls of the spending departments seem to operate in a reactive, rather than proactive, manner, concerned with crisis or other short-term agendas (Premchand, 1993:36-37). Obvious attempts at circumventing controls and prominent leakages such as accumulation of payment arrears and ghost employees tend to undermine confidence in the system. Once there are crises in the system, a proactive approach is needed, as dysfunctional behaviour should be removed from the system to maintain financial stability.

2.5. Public debt and budget deficits

Public debt may be defined as the sum of all the outstanding financial liabilities of the government with a primary and legal

responsibility to reimburse the amount borrowed and interest depending on the conditions of the agreement (Black et al. 2003: 247). A budget deficit is the excess of spending over revenue (Rosen,1988:415). In order to avoid the over-expenditure the expenditure is monitored through the use of instruments such as the Early Warning System implemented through In-Year-Monitoring and cash flow projection. The adjustment budget serves to rectify the budget oversight.

Refinancing simply means borrowing new money to pay the existing creditors. It is the duty of the Eastern Cape provincial treasury to ensure that the provincial departments do not deteriorate in their financial administration. The refinancing of provincial departments such as the Eastern Cape Department of Education for payment of creditors would be tantamount to a debt trap. However, provincial departments are not allowed to borrow money to finance budget deficit according to the Borrowing Powers of Provincial Governments Act, 1999 (Act 48 of 1996).

2.6. Conclusion

The budgeting systems as reflected in the line-item budgeting system, planning, programming budgeting system or objective budgeting system and zero base budgeting system are instruments for allocative efficiency. The economic allocation in the budget control function of the provincial treasury serves three economic tasks that embrace stabilization, distribution and economic growth.

Fiscal discipline may be looked at as the attempt to balance income and the expenditure to ensure that funds are always

available to incur the necessary expenditure. The provincial treasury is endowed with powers to implement, and manage financial and fiscal instruments in the province. The provincial treasury is effective in maintainance of fiscal discipline if the variance between actual income and expenditure is managed without interference by national treasury.

The provincial treasury is an institution in the hierarchy of the provincial administration that is responsible for the budget control function. Budget control by nature is preventative in that it should prevent any material breach of the macroeconomic policy of the country. The expenditure forecasts give the provincial treasury a certain leeway to take appropriate measures to prevent budget shortfalls in provincial departments before the situation becomes irreversible.

It is obvious that the public debt and budget deficit must be planned with the provincial treasury if provincial government liabilities are to be managed effectively and efficiently. The restriction of budget deficit to a minimum puts the country's economy on a sound financial footing as that is an attempt to prevent the creation of a debt trap.

CHAPTER 3

APPLICATION OF BUDGET CONTROL THEORIES TO SOUTH AFRICA

3.1. Introduction

South Africa is characterized by economic affluence as well as extreme poverty and inequality. This scenario exists for historical reasons as well as on account of the skewed distribution of income and earnings. The national budget holds an important redistributive function to address the socio-economic extremes experienced as well as historical imbalances created among other things by the apartheid system. In the longer term, even individual incomes are strongly influenced by the current allocation of fiscal resources through the impact on human capital and economic growth in general. This chapter deals with critical issues taking place in South African intergovernmental fiscal relations that affect the budget control function in the Eastern Cape Department of Education. The application of budget control theories to South Africa as envisaged in fiscal policy is discussed under the headings distribution of income, expenditure, management process and assets and liabilities.

3.2.Distribution of income

Education is increasingly recognized as one of the best financial investments states can make (Right to Education-Period April 2000-March 2002). As an empowerment right, education is a primary vehicle by which economically and socially marginalized adults and children can lift themselves out of poverty and obtain the means to participate fully in the

communities (Right to Education – Period April 2000-March 2002). In South Africa, particularly in the Eastern Cape Department of Education, apart from key policy and legislative measures, appropriate rules and regulations have been adopted by both national and provincial governments, geared at ensuring the effective realization of the right to education. Education is at the top of the list of provincial priorities and as such the provincial administration must employ a proper mix of skills and capabilities to ensure that funds allocated are utilized efficiently and effectively. As the Department of Education is at the cutting edge of advancement of knowledge, effective budget control can ensure continuity in the promotion of skills.

The national budget, through resource allocation, is the most important redistributive mechanism available to any government to change the distribution of private earnings in the medium term (Black et al. 2003:224). The current allocation of fiscal resources has long-term benefits due to its impact on human, capital and economic growth. In South Africa, where poverty, socio-economic development and income distribution are important issues, the role of fiscal policy is particularly pertinent (Black et al. 2003:224). Black et al. (2003:224) assert that almost a quarter of the total population lives below the international poverty line of $1 a day, an extremely high proportion for an upper middle income developing country. This situation poses a challenge to the escalation of expenditure on education particularly in the Eastern Cape Department of Education as education is constitutionally recognized as a right.

3.2.1. Revenue

The Constitution of South Africa Act,1996 (Act 108 of 1996) through section 228 entitles the provincial legislature to impose taxes, levies and duties other than income tax, value-added tax, general sales tax, and rates on property or customs duties. The above and other income generating taxes such as company and excise taxes are reserved for collection by national government.

Provinces are permitted to collect revenue on limited sources. The Eastern Cape collects revenue from motor vehicle licences, hospital fees and gambling proceeds. Hostel fees that are collected by the Department of Education are insignificant as a buffer to the rising education expenditure. The Financial and Fiscal Commission (FFC) has proposed that provinces be allowed to collect a surcharge on the national personal-income-tax base (Abedian and Biggs, 1998:67). Provinces are allowed to levy taxes, provided that each province does not prejudice national economic policies and economic activities across provincial boundaries. This restriction makes it difficult for provinces to impose a surcharge on the national personal income tax base.

Moreover, the income tax in South Africa has already been recognized as high. For example, the Minister of Finance, Mr Trevor A. Manuel, indicated in the 2005/2006 Budget Speech that the maximum marginal rate of tax remains at forty percent, and the changes to the tax brackets result in significant relief for all taxpayers. Labuschagne (1996:93) refers to these restrictions as placing a question mark over the original taxing powers of the provinces (in Abedian and Biggs, 1998: 67). The

South African government is exercising the fiscal federal system when it delegates budgeting to the provincial governments, and the municipalities. This means that fiscal decentralization exists to the extent that the said levels of government are empowered by the Constitution or particular laws to raise taxes and carry out spending activities (Abedian and Biggs, 1998:59).

Provinces in South Africa have insignificant own revenue capacity compared with sub-national governments in other countries and thus are highly dependent fiscally on central government (Abedian and Biggs, 1998:67). In keeping with this perspective, national legislation, not provincial legislation established the Provincial Revenue Fund. For instance, section 21(1) of the PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999 stipulates that the provincial treasury is in charge of that province Provincial Revenue Fund and must enforce compliance with the provisions of section 226 of the Constitution, namely that all money received by the provincial government must promptly be paid into the Fund, except money reasonably excluded by this Act or other Act of Parliament.

Own revenue collection in the Eastern Cape has always been insignificant. In the 2000/1 financial year, the province collected R394 million of the R18 billion budget, which is two percent of provincial revenue. In the 2001/2 to 2002/3 financial years, the province collected R554 million and R637 million of the R20 billion and R23 billion budgets respectively, representing only three percent of the provincial revenue (Eastern Cape Provincial Government Budget Statement 2003/04:37). This indicates that 97 percent of the provincial

revenue is derived from equitable share and conditional grants from the national government. Therefore, provincial strategies should be developed to broaden the provincial tax base rather than relying mainly on motor vehicle licences.

3.3. Expenditure

The concept of expenditure is defined as an amount of money spent on service delivery (Erasmus and Visser, 2000: 108). The economic analysis of government expenditure rests on the broad distinction between current and capital expenditure (Abedian and Biggs, 1998:319).

Current expenditure includes the remuneration of public sector employees, purchase of goods and services, interest payments and transfer payments to corporations, public entities, private business enterprises (subsidies), households (social securities or grants) and membership fees to regional and international organizations, inter alia African Union, New Partnership for African Development etc. Current expenditure such as remuneration of employees is determined at national government level (Abedian and Biggs, 1998:429). Personnel costs account for a huge portion of the budget of the Province of the Eastern Cape. For example, in the 2000/1 financial year personnel costs accounted for approximately 60 percent of total budget allocation. The expenditure on personnel in the Province of the Eastern Cape has grown exponentially, from 2000 to 2003 by 60 percent, 57 percent and 49 percent in the 2000/1, 2001/2 and R2002/3 financial years respectively (Eastern Cape Provincial Budget Statement for 2003/2004:28).

The economic classification of the expenditure is important for two reasons. The first reason relates to the economic impact of the different spending items like capital spending on social and economic infrastructure. These are usually regarded as growth promotion more than current expenditure, such as consumption spending and transfer payments (Abedain and Biggs, 1998: 320). According to the 2003 Intergovernmental Fiscal Review, the 2003 provincial budgets reflected strong real growth on non-personnel and non-capital expenditure of 7,5 percent in 2003/04. According to this review, total education spending grew by 4,6 percent in real terms from R53,1 billion to R58, 9 billion in 2003/04. Within education, the highest growth is in non-personnel and non-capital expenditure which shows real growth of 16,1 percent in 2003/04 and is projected to grow at an average annual rate of 9.4 percent within the MTEF 2003/04, 2004/05 and 2005/06.

The above level of growth is expected to help the sector allocate increasing amounts to learner support materials and reinforce improvements in the quality of school education, according to the review. The 2003 Intergovernmental Fiscal Review recorded that the Eastern Cape recorded the highest budget deficit of R968 million in 2003/04.

The second reason for the importance of economic classification is prudent financial management practices (Abedian and Biggs, 1998:320). It is considered that current expenditure should be financed from current revenues, while capital expenditure should be financed through borrowing as the latter generates returns in the long run. During the 1970s and early 1980s, it was the South African government's policy

to reduce the public sector's share of total fixed investment in order to free resources for investment by the private sector (Abedian and Biggs, 1998:321).

The government intervenes in capital formation when there is a massive investment needed in the public interest such as job creation and the private sector does have the economic muscle to invest in ventures like that at Coega. The reluctance of the government to intervene in the economy has led to the growth in current expenditure, rather than capital expenditure. The growth of current expenditure on non-personnel non-capital expenditure was 7.5 percent in 2003/04 and 2004/05 and projected to be 8.3 percent over the next three years, that is, 2005/06, 2006/07 and 2008/08, according to the 2003 Intergovernmental Fiscal Review. In all provincial budgets, 80 percent of the budget is concentrated on the three functional areas, namely health, education and welfare which are the joint responsibility of national, and provincial governments. It is thus imperative that effective accounting systems are implemented to alleviate the occurrence of unbalanced budget and to track all the financial commitments.

3.3.1. Fiscal discipline through effective accounting

Fiscal discipline relates to effective control of the budgetary aggregates (Abedian and Biggs, 1998:435). The notion of fiscal discipline has taken various forms such as a balanced budget norm, maintaining financial discipline within the annual financial cycle from 1 April to 31 March and equating recurrent expenditure with current tax revenue (Abedian and Biggs, 1998:435).

Establishing and maintaining fiscal discipline may require a meaningful departure from traditional means of treasury controls based on the annual financial planning system. According to section 39(1) & (2) of the PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999 the accounting officer for a department is responsible for ensuring that the expenditure of that department is in accordance with the vote of the department and the main divisions within the vote, and must take effective and appropriate steps to prevent any overspending of the vote of the department or a main division within the vote.

Moreover, there is also a tendency to overestimate the expenditure in order to cope with the rising uncertainty (Abedian and Biggs, 1998:436). It is inherent in a public policy to give legal entitlement that provides a broad financial commitment. This requires continuous research to determine current and future financial implications of public policies.

However, in the provinces, the over-estimation of the budget is prohibited in such a way that the accounting officer of the department accounts for under-expenditure. The under-expenditure is recognized as under-performance and locking of scarce financial resources that could have been used by other departments. Public funds, which are not to be immediately utilized, are invested by the provincial treasury in the medium term in financial institutions to generate interest. In order to fulfil this obligation, the accounting officers of departments are requested by the provincial treasury to make cash flow forecasts so that funds can be made readily available by treasury when the need arises. Accounting officers within the

provincial departments account for the variances for over- or under-projection in the departmental cash flow projections so that variances can be kept insignificant at all times. All these efforts are geared towards balancing the budget for the maintenance of fiscal discipline. Section 39(2)(b) & (c) of the PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999 specifies that an accounting officer must report to the executing authority and the relevant treasury on any impending shortfalls in budgeted revenue and overspending of the department's vote.

The persistence of deficit financing in economic booms and recessions has rendered the control of fiscal aggregates largely inoperative (Abedian and Biggs, 1998:447). In terms of section 25 of the above Act, the MEC for Finance may authorize the use of funds from that province's Provincial Revenue Fund to defray expenditure of an exceptional nature which is currently not provided for, and which cannot, without serious prejudice to the public interest in the province, be postponed to a future appropriation by the provincial legislature. A fiscal control system which has been adopted in various countries is a medium-term expenditure framework for stabilizing the budget aggregates (Abedian and Biggs, 1998:447).

Finally, a new approach has been established where treasury, instead of exercising control over items of expenditure, would control total spending by restraining the sub-aggregates of the budget. This is referred to as decentralization of some issues of the budget control function to the accounting officers of various provincial departments to comply with the notion of "let

the managers manage" espoused in section 38 of the PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999. Treasury assigns limits of spending for each department and expenditure items are left at their discretion. Although reprioritization is allowed for flexibility in the appropriated funds, section 43 of the above Act specifies that accounting officers are given up to 8 percent to make virements between programmes without approaching the provincial or national treasury.

3.3.2. Cash appropriation

Once appropriation has taken place, the implication is that funds must be spent on that which they have been appropriated for (Gildenhuys, 993:488). Budget control takes place through a cash appropriation schedule and by regular comparison of actual expenditure with the schedule of amounts of the vote schedule, in order to identify over-expenditure, under-expenditure and backlogs in good time and make corrections timeously (Gildenhuys, 1993:488). In terms of section 4(3) of the Division of Revenue Act 5 of 2004 (DORA) subject to section 28(2) of the Act, each province's equitable share must be transferred to the province in weekly instalments in accordance with a payment schedule determined by National Treasury after consultation with the head official of the relevant provincial treasury. According to this section, the payment schedule must reasonably account for the monthly spending commitments of provinces, the revenue at the disposal of provinces and the minimization of risk and debt servicing costs according to Division of Revenue Act 5 of 2004. Section 28(1) of this Act stipulates that subject to subsection (2) a transferring officer may, in respect of an allocation, after consultation with the National Treasury and the relevant

provincial treasury, amend a payment schedule due to underspending of funds or on the grounds of under-performance or non-compliance with the conditions of allocation. It is, therefore, imperative to clarify that section 28(2) of the said Act stipulates that the national treasury may, in the interest of better cash-flow management, or to deal with financial mismanagement, amend any payment schedule for an allocation after consultation with the head of a provincial treasury in the case of provincial allocations.

The provincial treasury, in co-operation with the accounting officers of various provincial departments, works out a cash appropriation schedule for every budget vote in which the amount approved for the year is sub-divided into 12 instalments. The instalments are then made available to the accounting officers by the treasury on a monthly basis to finance the expenditure of provincial departments such as the Eastern Cape Department of Education (Gildenhuys, 1993:489). Section 40(4)(a) & (b) of the PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999 stipulates that the accounting officer of a department must, each year, before the beginning of a financial year, provide the relevant treasury in the prescribed format with a breakdown per month of the anticipated revenue and expenditure for that financial year, and in each month submit information in the prescribed format of actual revenue and expenditure for the preceding month and the amounts anticipated for that month in terms of section 40(4) (a) of the said Act.

In the Eastern Cape Province, departments submit to the provincial treasury weekly cash-flow requisitions on every

Friday for payment in the next week. The weekly cash-flow requisitions are added at the end of the month to reflect the actual monthly expenditure of funds. A comparison of the actual expenditure with the appropriation at the end of each month serves as an early warning system for controlling the activities of a department, in order to avoid over-expenditure of funds and undersupply of services at the end of the financial year (Gildenhuys, 1993:489). The accounting officer of the department is required to account for variances whether they are under- or over-expenditure.

Expenditure does not always proceed uniformly in practice because some activities are seasonal, where periods of intensive activity alternate with quiet periods during the same year (Gildenhuys, 1993:489). For example, it could be assumed when the budget is approved that the purchase of vehicles for Provincial Revenue Services' staff members will be in June. However, if it is discovered later on that the vehicles suitable for the revenue collection monitoring in the Eastern Cape Province are out of stock and could be available in November, the expenditure in that scenario cannot be divided into twelve instalments as it is a once-off payment. The cash appropriation schedule is at the cutting edge of the budget control function of which the provincial treasury should, for example, have identified the likely over-expenditure in the provincial Department of Education. The provincial treasury should have taken appropriate steps to advise the said department that the over-expenditure was irreversible and provide appropriate steps, such as additional funding through an adjustment budget, if effective budget control were to be enhanced.

3.3.3. Cash and accrual accounting methods

A cash-only deficit would include only the outlays of the government for which cash has been disbursed and only cash revenue received during the fiscal year (Abedain and Biggs, 1998:188). The cash accounting system does not take account of the government commitments like capital projects which are in progress and other commitments which were in progress in the past financial year. This underestimates that a government commitment is tantamount to the expenditure incurred.

On the other hand, an accrual-only deficit records transactions on a payment order basis and reflects income and spending actions measured at the time when they take place, even if they do not immediately generate cash flows (Abedain and Biggs, 1998:188). In other words, the government expenditure does not fit squarely into these accounting methods as some of its operations go beyond the current financial year, thereby making it appropriate to combine cash and accrual systems. An accrual based deficit would be larger than a cash based one, due to arrears accumulated on interest, wage or goods and services expenditure, according Abedian and Biggs, (1998:188). In practice, most countries make use of hybrid procedures like interest payments, which are usually measured as they accrue rather on payment.

One of the reasons that data may be unreliable is the use of suspense accounts which could result in under-recording of the expenditure. In an attempt to resolve this problem, Treasury Regulations promulgated in terms of section 76 of the above Act require that the suspense accounts be cleared each month

so that all expenditures can be accounted for. Indications point to the fact that the provincial treasury is unable to provide an accounting system that enables the provincial departments, particularly the Eastern Cape Department of Education, to manage their debts effectively for enhancement of effective budget control.

3.4. Budget control organization

The budget control function should be viewed as a network of various organizational units that perform financial administration processes. The delegation of powers is one of the techniques that is used to ensure that the government transactions are undertaken in pursuit of a coherent strategy (Premchand, 1993:29). In terms of section 20 of the PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999, the MEC for Finance in a province may, in writing, delegate any of the powers entrusted to him/her to the head of department or instruct the head of treasury to perform any of the duties assigned to the provincial treasury in terms of this Act. Section 17(1)(a) & (b) of the aforementioned Act stipulates that a provincial treasury consists of the MEC for Finance in the province, who is the head of the provincial treasury and the provincial department responsible for financial matters in the province. In terms of the section 20 of the Act, a delegation of power or instruction to the head of the department is subject to any limitations or conditions that the MEC for Finance may impose. The MEC for Finance may authorize that head of treasury to, in writing, sub-delegate the delegated power to another treasury official or the holder of a specific post in that treasury or to the accounting officer for a provincial department. To delegate does not divest the MEC for Finance

of the responsibility concerning the exercise of the delegated power or the performance of the assigned duty. This indicates that the MEC for Finance is responsible for the fiscal policy of the province, particularly the budget control function. The management process is discussed under the headings of strategic planning, monitoring and accountability.

3.4.1. Strategic planning

The MTEF assumption is that planning of service delivery can best take place within a medium-term framework. The objectives set out in the MTEF influence annual budget planning. Accounting officers must, on an annual basis, prepare a strategic plan for the forthcoming MTEF period for approval by the executing authority, according to Treasury Regulations promulgated in terms of section 76 of the aforesaid Act. In terms of these Regulations, the approved strategic plan must be tabled in the relevant legislature at least seven days prior to the discussion of the department's budget vote. According to the Treasury Regulations the strategic plan must:

- Cover a period of three years and be consistent with the institution's published medium-term expenditure estimates;

- include specific Constitutional and other legislative, functional and policy mandates that indicate the output deliverables for which the institution is responsible;

- include policy developments and legislative changes that influence programme spending plans over the three-year period;

- include the measurable objectives, expected outcomes, programme outputs, indicators and targets of the institution's programmes;

- include details of proposed acquisitions of fixed or movable capital transfers and plans for the management of financial assets and liabilities;

- include details of proposed acquisitions of fixed or movable capital assets, planned capital investments and rehabilitation and maintenance of physical assets;

- include multi-year projections of income and projected receipts from the sale of assets;

- include details of the service delivery improvement programme; and

- include details of proposed information technological acquisition or expansion in reference to information technological plan.

Deducing from the above details one could conclude that financial cost drivers are understood by provincial treasury for effective budget control measures. This purports that the provincial treasury ought to be aware of the forthcoming financial year's budget variances. The actual fact is whether there is an early attempt by the provincial treasury to prevent imminent over-expenditures by provincial departments in order to attain effective budget control. The alignment of the

strategic plans and the budget helps the provincial treasury and provincial departments, particularly the Eastern Cape Department of Education, to ensure that the financial implications of projects and programmes are understood.

In addition, the strategic plans form the basis for monthly, quarterly and the annual reports of the provincial departments to enhance effective budget control function. These reports are required by provincial treasury from provincial departments in terms of section 40(1)(d) of the aforementioned Act. The financial reports are the instruments used to ensure that there is no deviation from the budget.

The provincial treasury evaluates and monitors deviations from the monthly cash flow forecasts that are made at the beginning of the financial year. According to this perspective the provincial treasury is better placed to facilitate effective performance monitoring, evaluation and corrective action according to Treasury Regulations. Premchand (1993:29) explains that the implementation of the plan and the budget requires an advanced programme of action developed within the parameters of the ends of the budget and the means available. The budget implementations require work plans with costs and timeframes in order to enhance the budget control.

3.4.2. Monitoring

Monitoring is an indispensable aspect of budget management (Abedain and Biggs, 1998:464). There are a variety of forms of

monitoring, embracing at one level the activity manager or programme manager under the control of the accounting officer, and at the another level the political office bearers such as Minister or MEC or the legislature. These are endeavours to effect efficiency in service delivery. There are many delegations within the department even at the lowest level supervisor where deviations from planned objectives and purchase of goods and services can be monitored.

The preliminary step in monitoring is the availability of the three-year strategic plan being aligned to the policies of the government and the first year being the operational plan that includes the service delivery indicators and costs. This becomes the annual budget once they are approved by the legislature. It is the duty of the executive authority to ensure that the accounting officer's performance agreement is consistent with the operational plan and Key Performance Indicators (KPIs) from the beginning of the financial year.

At the beginning of the financial year the accounting officer must submit regular monthly monitoring reports to the Minister or MEC and the relevant treasury. For instance, section 38(1)(g) of the PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999 stipulates that the accounting officer for a department or a constitutional institution must, on discovery of unauthorized, irregular or fruitless and wasteful expenditure, report in writing to the relevant treasury and tender board in the case of irregular expenditure in the purchase of goods and services. This is an indication that the provincial treasury is at the cutting edge of the budget control function. Moreover, section 39(2)(b) of the said Act stipulates that the accounting

officer must report to the relevant treasury any impending shortfall in budgeted revenue and overspending of the department's vote or a main division within the Vote and in terms of subsection (c) comply with any remedial measures imposed by the relevant treasury in terms of this Act to prevent the overspending of the vote or a main division within the vote.

The monthly reports, quarterly and annual reports required from the accounting officers of various departments in terms of the above Act focus on performance against the budget and against service delivery plans and should alert managers as to when remedial action is required. The accounting officer must submit to the relevant treasury and executive authority within 15 days after the end of each month:

- The actual revenue and expenditure of the past month in a format determined by the national treasury;

- projections of anticipated expenditure and revenue for the remainder of the current financial year in the format determined by national treasury;

- information on conditional grants received; and actual spending against them and information on all transfers; and
- any material variances; and a summary of actions to ensure that the projected expenditure and revenue remain within the budget.

The provincial treasury must submit a statement of transactions to the national treasury on the 22nd day of each month. The head of the provincial treasury must certify that the information has been verified. However, there could be inaccuracy in the information collected in that large-scale accounting systems could have errors in the capturing of data. For instance, the data capturers could erroneously use incorrect codes leading to misallocation between cost centres and items.

Moreover, some transactions could be incomplete when the report is required thereby rendering the report an untrue reflection, and hindering any attempt to have an accurate projection of the anticipated expenditure. Financial data are a leading performance indicator which should be accompanied by non-financial indicators. A lack of such indicators hinders the effective budget control by the provincial treasury. This, however, should be rectified by the provincial treasury if effective budget control is to be enhanced in the provincial departments, particularly in the Eastern Cape Department of Education. The inaccurate data may be submitted to the executive authorities and the Cabinet or the Provincial Executive Council on a quarterly basis to measure efficiency and effectiveness. These reports are also submitted to the relevant portfolio committee and Select Committee on Public Accounts (SCOPA)(Treasury Regulations, 2001:15 and Back et al. 2003:269).

3.4.3. Accountability

Accountability in the public service in South Africa is enshrined in the legal framework of the country. Section 195(1)(f) of the Constitution of South Africa Act 108 of 1996 states that public

administration must be accountable. The FFC (1995:4-5) notes that accountability can be promoted by requiring those in authority to justify and to subject all public accounts to rigorous annual auditing. As if that were not enough, the PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999 and Treasury Regulations introduced internal audit units and internal audit committees that could be shared or not shared by provincial departments, depending on the discretion of the relevant treasury. The Interim Management Team appointed by the President to enhance service delivery in the Province of the Eastern Cape recommended that the departments which spend massively, namely the Department of Education, Social Development, Department of Health and Department of Roads and Public Works must have their own internal audit and audit committees, not shared ones. For example, in the Eastern Cape Department of Education the internal audit function commenced in 2003 performed by a consortium of consultants (Department of Education Annual Report 2003/04:127).

Internationally, there is a growing consensus that public service managers must be held accountable (Abedian and Biggs, 1998:354). The accountability of public service managers not only encompasses the verification of the correctness of procedures followed in the appropriation of public funds, but also whether such funds are used effectively and efficiently to achieve predetermined policy objectives.

In an attempt to monitor the above scenario, one needs a detailed monitoring of the programme outputs to determine whether the desired policy objectives, as set by the politicians, are realised with the available resources. There is also a

consensus that increasing managerial accountability should go hand in hand with decentralization of authority within the legal framework. For instance, section 38 of the above Act prescribes all functions of the accounting officers, as far as financial management is concerned, thereby trying to make them manage finances following the maxim ‘let the managers manage’. In addition, the provisions of section 45 of the Act stipulate that an official in a department must ensure that the system of financial management and internal control established for that department is carried out within the area of responsibility of that official.

The officials are thus responsible for the effective, efficient, economic and transparent use of financial and other resources within each official’s area of responsibility. This shows that the budget control function is not only a management function, but also the responsibility of the staff at large. This highlights the fact that all public servants in the performance of their duties are accountable for financial transactions in their areas of responsibilities. In terms of section 64 of the aforementioned Act any decision of the executing authority to proceed with implementation of a directive that will result in unauthorized expenditure must be in writing and the accounting officer must advise the executive authority of the likelihood of unauthorized expenditure and file the copy of the directive and the reasons with the National Treasury and Auditor General and if a provincial department is involved also with the relevant treasury.

However, accountability in over-expenditure of funds is centred in the responsibility of the accounting officer. The accounting

officer is accountable for mismanagement of public finances in the provincial departments in such that he/she is answerable for whatever directive issued to measure compliance with the public interest. The directive with financial implications is measured against serious prejudice to public interest if the directive is postponed to a future appropriation by the provincial legislature. If the explanation given is not satisfactory, a charge of financial misconduct normally follows and possible recovery of the amount in question if the state incurred fruitless and wasteful expenditure in terms of the aforesaid Act and Treasury Regulations. At the other end of the continuum, if the explanation is satisfactory the expenditure involved is approved by the legislature as a charge against the provincial revenue fund.

3.5. Public debt

Public debt may be defined as the sum of all the outstanding financial liabilities of the public sector in respect of which there is a primary, legal responsibility to repay the original amount borrowed and to pay interest (Black et al. 2003:247). It is imperative to note that the budget is an estimate of income and expenditure as resources are always scarcer than the demands; it is always the case that the level of income is less than expenditure. For example, R8,8 billion was allocated to the Department of Education and R9,8 billion was spent in the 2002/3 financial year (Department of Education Annual Report 2003/04:137). In the 2003/4 financial year, R9,9 billion was allocated to the said department and R10,4 billion spent which means that there was a continuous trend towards a budget deficit in the Department of Education leading to public debt in the Eastern Cape government (Department of Education Annual

Report 2003/04:137). This shows that there has been a challenge to effective budget control in the Eastern Cape Department of Education. The actual budget deficit during the 2004/5 financial year, ending on 31 March 2005, was R655 million which significantly indicates an ineffective budget control function (Department of Education Annual Report 2004/05:123).

As the budget debt stems from the actual revenue being significantly less than estimated in the budget, it is imperative for the management to analyse the revenue trends so as to come up with facts to explain the causes of the variances. It is through these facts that timely budget adjustments can be made so that deficit can be avoided in order to escape the debt trap.

A debt trap occurs when the government has to incur debt in order to honour its existing debt servicing obligations (Abedian and Biggs, 1998: 280). On 31 December 2001, the total debt of the South African government amounted to R462 billion which was 50.7 percent of the GDP, or roughly R10 400 per head of the population (Black et al, 2003:248). The size of the debt as a percentage of the GDP rose substantially in the 90s after which it stabilized in the 48-51 percent range, according to Black et al. (2003). The surge led various economists to warn against the danger of a debt trap (Black et al, 2003:248). It is because of this trend that provinces in South Africa are not allowed to overspend their budgets without appropriate measures to prevent the overspending in terms of the PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999. Thus an

effective budget control function is a key pillar of any sustainable fiscal framework.

It is worth noting that the accumulation of unplanned debt is a cause for concern as it is contrary to sound financial management. Keynesian theory asserts that the government should be aware of the onslaught of depression and take a decision to stimulate the economy by planned government deficit spending, according to Premchand (1983:6). For example, the application to over-expend during the 2004/05 financial year was received for approval by the MEC for Finance on 27 May 2005 when the debt had already been incurred in 2004/5 financial year (Department of Education Annual Report 2004/05:123).

3.5.1. Borrowing

Section 230(1) of the South African Constitution Act,1996 (Act 108 of 1996) entitles the provinces to raise loans to supplement fiscal transfers from national government. A province may raise loans for capital or current expenditure in accordance with the Borrowing Powers of Provincial Government Act,1996 (Act 48 of 1996). However, loans for current expenditure may be raised only when necessary for bridging purposes during a fiscal year and must be redeemed within twelve months, according to Abedian & Biggs, (1998:68). In order to borrow, provinces would require a comprehensive asset register and detailed income and revenue records.

A provincial government has to assume full responsibility for its debt obligations. Only the MEC for Finance of the province acting in accordance with the Borrowing Powers of Provincial

Governments Act, 1996 (Act 48 of 1996) may borrow money or issue a guarantee, indemnity or security or enter into any other transaction that binds or may bind a Revenue Fund to any future financial commitment. In terms of the PFMA, 1999 (Act 1 of 1999) as amended by Act 29 of 1999 it is also stated that only the MEC for Finance may enter into a transaction that binds a Provincial Revenue Fund to a future financial commitment. The national government does not undertake to guarantee provincial loans.

However, the Borrowing Powers of Provincial Governments Act, 1996 (Act 48 of 1996) also establishes a Loan Coordinating Committee (LCC) which consists of the Minister of Finance and the provincial MECs for Finance. The LCC coordinates the borrowing requirements of the nine provincial governments in a particular year after considering the aggregate demand for capital-market funds in that financial year. The LCC also considers the total debt of each province and the bodies they control as well as each province's contingent liabilities and their ability to service their debts. The over-expenditure in the Eastern Cape was never approved by the MEC for Finance, thereby indicating ineffective budget control (Department of Education Annual Report 2004/05:123).

3.6. Conclusion

South Africa entered the second decade of democracy in 2005. Among developing countries, the South African democratic dispensation is still in its infancy. The programme of reconstruction and development is thus still relevant. The aim of the programme is to spread the services to the previously disadvantaged communities. This shows that there should be

growing involvement of the state in the provision of social services and welfare programmes such as education. Education is recognized as one of the best financial investments as it is visualized as the primary vehicle for empowerment of the economically and socially marginalized. This point of view is particularly imperative in the Eastern Cape where the socio-economic baseline reflects absolute poverty.

It is, therefore, a fact that in providing the common services like education, the government is running at a loss in monetary terms. The benefit in common goods is intangible and is measured in terms of the rate of social mobility and social stability. This means that if the actual revenue collected in the form of taxes is less than the budgeted revenue, the government is forced to borrow funds. This crowds the economy in that the higher the demand for money, the higher its price. This connotes that the more the government borrows, the higher the interest rates for the ordinary members of the public.

Fiscal discipline plays a pivotal role in stabilizing the economy and that is done through continuous forecasting and adjustment of the fiscal plans to accommodate unforeseen circumstances, so that the socio-economic goals of the province are accomplished. There should be a balance between income and expenditure if effective budget control is to be achieved. The financial legal framework in South Africa is clear on the balance budget norm that the accounting officers of the provincial departments must not over-expend their budgets without appropriate plans in place to prevent the over-expenditure.

The accrual system of accounting provides some relief, as it records transactions on a payment order basis and reflects income and expenditure measured at the time when they take place, even if they do not generate cash flow. This, to a certain extent, measures the level of commitments with the amounts already paid, so that the level of commitments can be controlled in the Basic Accounting System (BAS). It is a challenge to determine the expenditure incurred through claims against the state through acts and omissions by government officials. The expenditure on this category depends on how many court orders are received from courts in each financial year and how much is involved to settle the debts. The more the officials are reluctant to take decisions, the more the court orders against the state. These claims against the state symbolize the legal entitlement of public policy that should be noted if budget control function is to be effective.

The budget control function of a provincial treasury is entangled with administrative processes. That is why management processes have to be discussed. The delegation of powers is one of the techniques used to ensure that the government transactions are undertaken in a coherent manner. However, to delegate financial administration to provincial departments does not mean that the MEC for Finance is absolved from the responsibility of exercising the delegated power. In applying the budget control function of the provincial treasury to the management process, it is imperative to give a bird's eye view on strategic planning, monitoring and accountability. The MTEF renders its fullest benefits only when the base budget, upon which the medium-term projections are

based, is appropriately aligned with socio-political priorities. The failure to take note of this perspective could lead the MTEF to becoming the mechanism for perpetuating incremental budgeting.

The provincial government has to assume full responsibility for its debt obligations. This is an attempt to maintain healthy macro-economic stability of South Africa. Thus each provincial government borrows money within the structure of the central government. It is imperative to note that the central government does not allow provinces to exceed their budgets without appropriate steps as that indicates uncontrolled debt operation. The uncontrollable debt operation of the provincial departments inevitably leads to ineffective budget control function that renders unstable fiscal policy by provincial treasury.

CHAPTER 4

RESEARCH FINDINGS

4.1. Introduction

The aim of this study is to establish whether the budget control role of provincial treasury in the Eastern Cape is played to the fullest taking into cognizance the repeatedly reported projected over-expenditure in the Department of Education during the 2004/05 financial year. The variables that were tested encompassed fiscal policy instruments. The application of stable fiscal policy by the Eastern Cape provincial treasury could lead to effective budget control particularly in the Eastern Cape Department of Education. The sub-variables of fiscal policy are economic allocation, fiscal discipline, budget control framework, and public debt and budget deficit.

4.2. Response rate and data analysis

The public expects the government to operate in an accountable and transparent manner in respect of public funds. Budget control is by nature a tool to ensure that all public servants who deliver public goods and services verify expenditure trends to be within the scope of work approved by parliament. This led the population of this study to include level 8 to level 16, that is, State Accountant, Financial Administration Officers, Assistant Directors, Deputy Directors, Directors and above as these levels form middle to high levels of government administration.

The author administered the survey through questionnaires in order to arrive at conclusions in this study. The questionnaires were distributed to forty (40) finance personnel in the Provincial Treasury Head Office in Bisho and the Eastern Cape Department of Education Head Office in Zwelitsha respectively. A more than fair response rate was obtained as 31 questionnaires were completed and returned. It is worth noting that the 31 questionnaires received is a reflection of the fact that 77,5 percent of the respondents returned the questionnaires.

The completed questionnaires were quality checked, and no spoilt questionnaires were identified. There were insignificant errors such as the respondent not marking a sub-item that had been marked in another item. The completed questionnaires were put into numerical order and each sub-variable was put into one numerical variable. In other words, the completed questionnaires were quantified and organized for data capturing and data analysis. Computation and the calculations of raw scores were processed using the Microsoft Excel computer programme of the Eastern Cape provincial treasury to allow for interpretation, and analysis.

4.3. The findings: Biographical information of respondents

It was considered imperative that the biographical information of the respondents be presented in the findings. These data form a comprehensive picture of the quantity and quality of the respondents. The biographical information is presented in graphical format in Figures 1(a), 1(b) and 1(c) below. The data are given according to department, qualification and rank.

The population in this study is composed of officers and officials of the Eastern Cape Department of Education and the provincial treasury. Findings as depicted in Figure 1(a) indicate that 84 percent of the respondents are provincial treasury personnel and 16 percent constitute the response from the Eastern Cape Department of Education.

Department

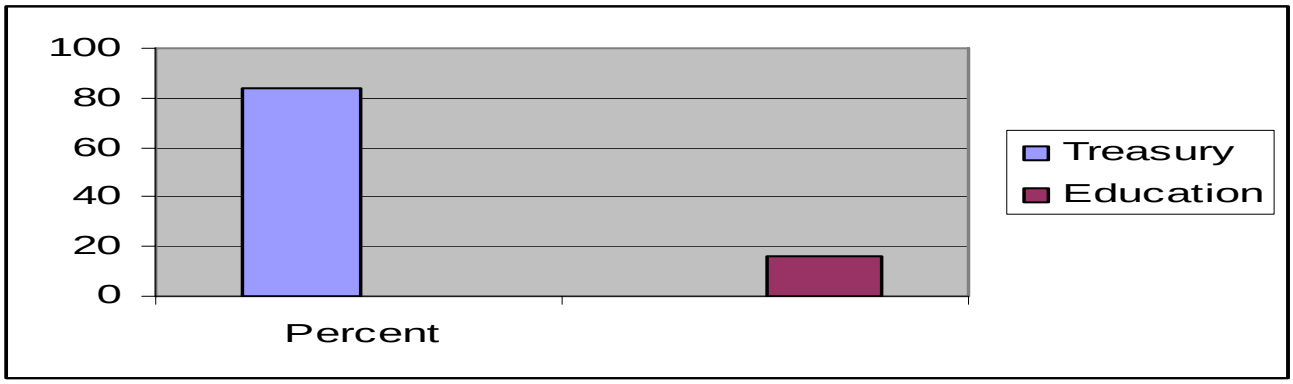

Figure 1.(a)

The qualification typifies the quality of the employees in provincial treasury and the finance branch of the Eastern Cape Department of Education. It is encouraging to note that 48 percent of the respondents have Bachelors' Degrees which is an indication of the fact that the greater number of the respondents are trainable. Figure 1(b) below depicts qualifications of the respondents.

Qualifications

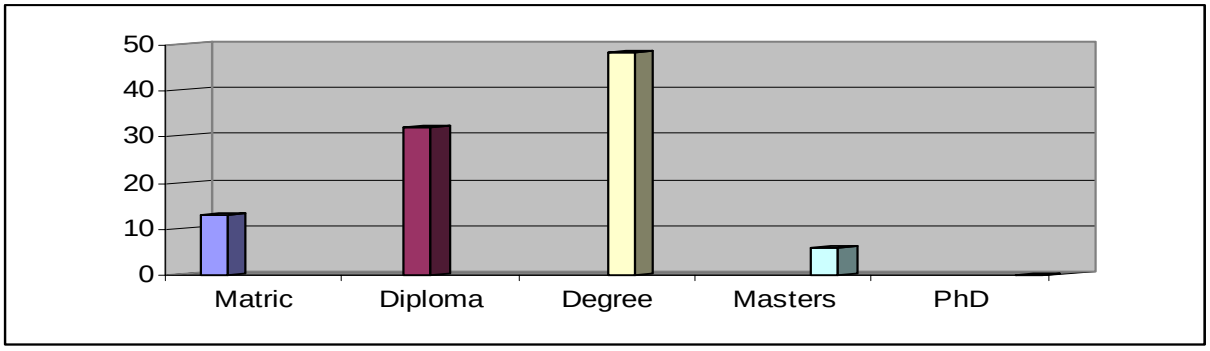

Figure 1.(b)

The category of biographical information is also composed of five ranks that are considered to be involved in the budget control function. These ranks embrace state accountants, financial administration officers, assistant directors, deputy directors and directors and above. Ranks are presented in Figure 1(b) below.

Ranks

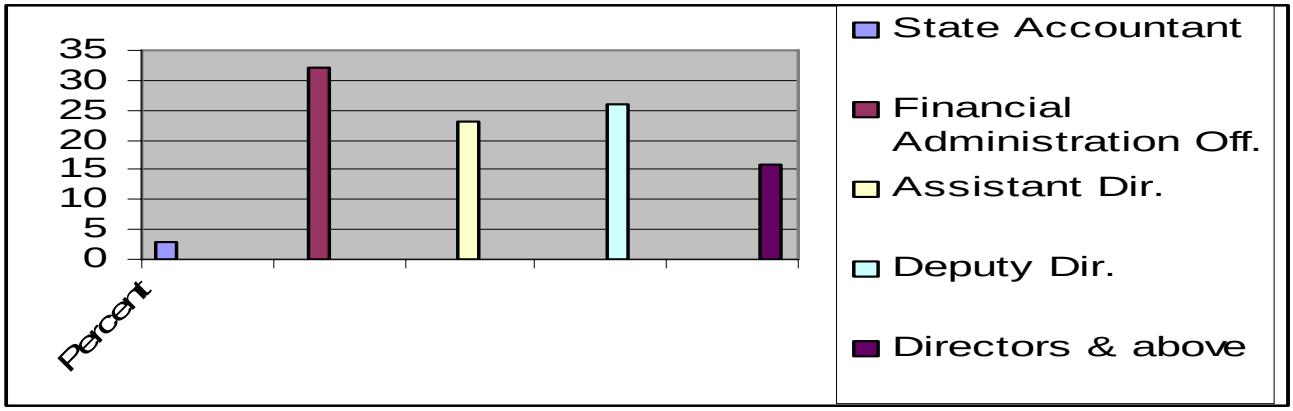

Figure 1.(c)

4.3. Findings: The budget control function

The budget control function variables that have been tested in this study are economic allocation, fiscal discipline, control framework and public debt and budget deficit.

4.4.1. Economic allocation

The economic allocation may be described as the extent to which the scarce financial resources are distributed fairly between competing demands of the citizens. The legal obligation that is embodied in public policy forms the basis for the fair distribution of scarce public financial resources to enhance the effective budget control function. The sub-variables of economic allocation include incremental budgeting (line item budgeting system), the planning, programming budgeting system and zero base budgeting system. The findings also explain the economic tasks that embrace stabilization, distribution and economic growth to measure the impact of the budget control on education.

4.4.1.(a) Incremental budgeting

In this sub-variable the respondents were given three options such as yes, no and don't know to choose from. In the first question the respondents were asked whether there is a limit in the utilization of voted funds. Altogether 39 percent agreed that there is a ceiling, 16 percent indicated that there is no ceiling whilst 45 percent did not know that there is a limit in the utilization of voted funds for the purchase of items in the Department of Education's budget. This is an indication of the fact that the greater number of the respondents do not perceive the budget as a restraint to control scarce financial resources. Figure 1.1 below shows a clear picture of the respondents' responses.

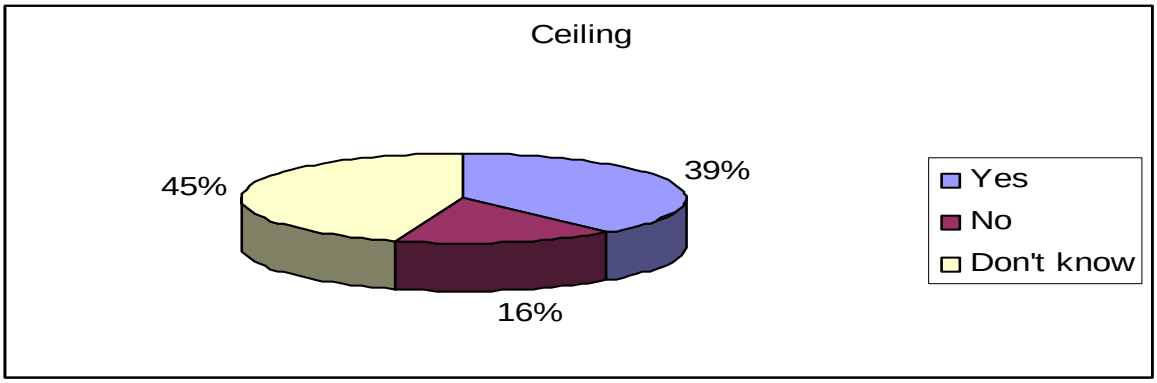

Figure 1.1

Secondly, when asked whether funds are diverted for other purposes without the approval of the legislature, 16 percent agreed that funds are diverted for other purposes. In response to the question 49 percent of the respondents disagreed and 35 percent did not know that funds are diverted for purposes other than those they were budgeted for. These frequencies are depicted in Figure 1.2. below.

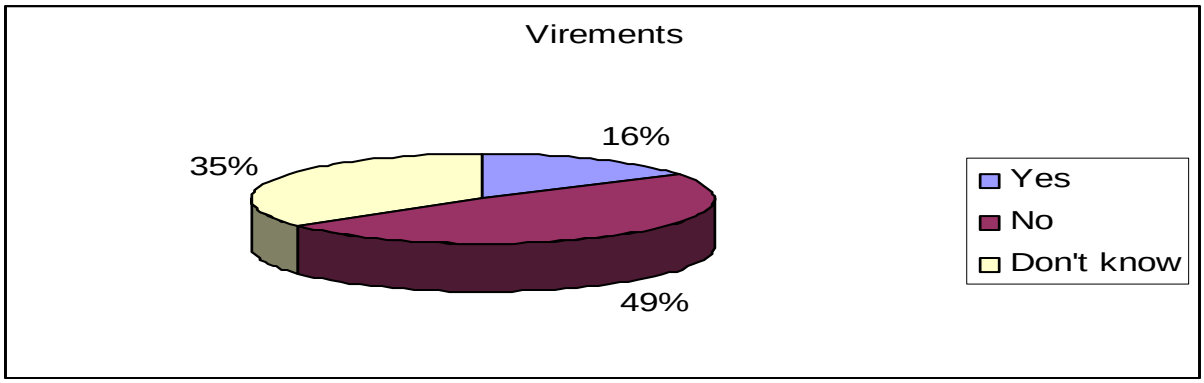

Figure 1.2

Thirdly, regarding the question as to whether the budget is incremental, 19 percent agreed that the budget is incremental, 55 percent disagreed that the budget is incremental whilst 26 percent did not know that the budget is incremental. This is shown in the pie chart in Figure 1.3. below.

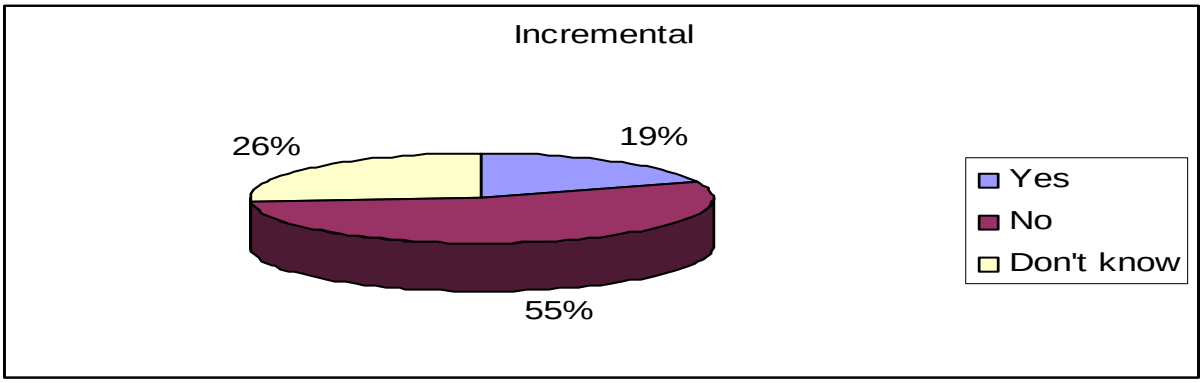

Figure 1.3

Finally, in reply to the question whether provincial treasury and Department of Education officials determine the activities and targets to be realized, 58 percent of the respondents agreed, 23 percent responded no whilst 19 percent responded by stating that they did not know. The determination of activities and targets by officials could be seen as one of the reasons that cause the budget control function to be under threat. The budget control function could be under pressure if there is no harmony between officials and the political dynamics that influence the allocation of scarce financial resources. Figure 1.4 below shows the response of the respondents to the determination of activities and targets by officials.

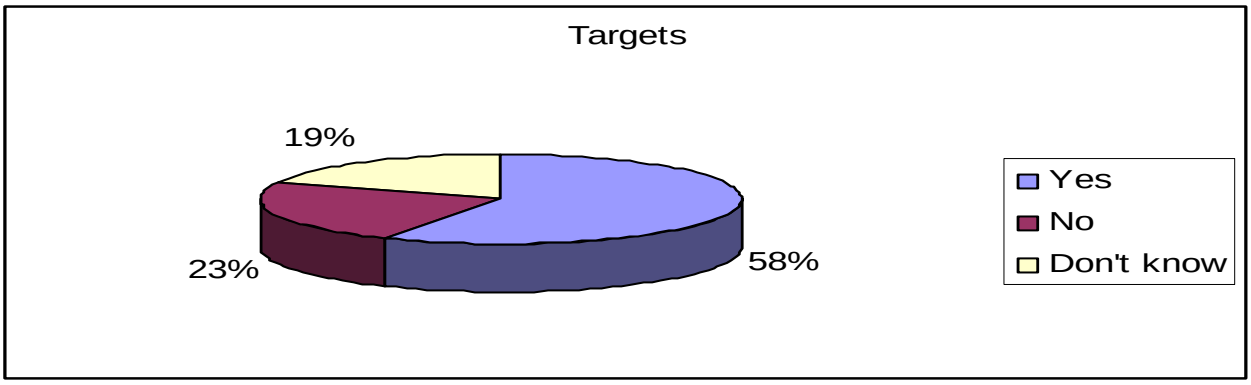

Figure 1.4

4.4.1.(b) Planning, programming budgeting system

The respondents were asked whether they are involved in analyzing the value of existing and new programmes to which 16 percent responded positively, 71 percent responded negatively and 13 percent did not know. The 71 percent of respondents who are not participating in financial planning is significant. This reflects what is termed a “top down” approach in financial planning that is a hindrance to the budget control function. Figure 2.1 depicts the respondents’ responses.

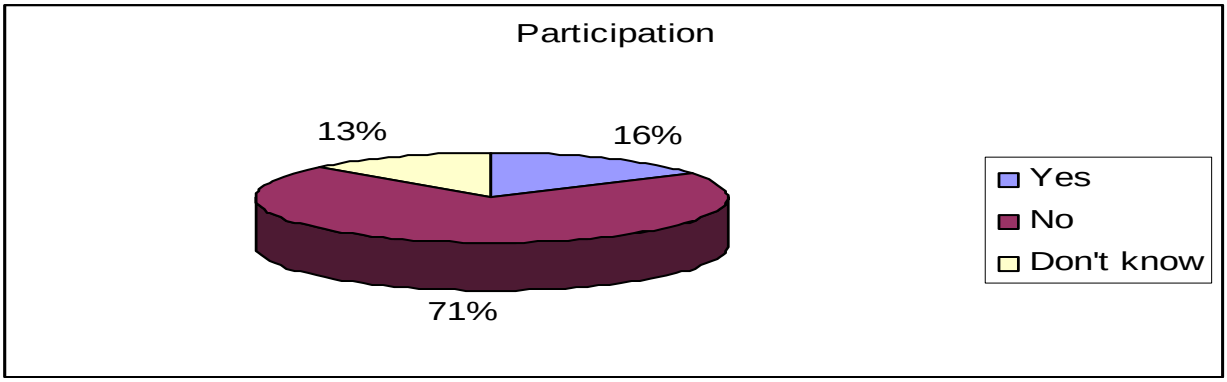

Figure 2.1

Moreover, as regards the question whether the Department of Education had a database of part-time educators, 29 percent agreed, 16 percent disagreed and 55 percent of the respondents did not know whether there is a database of part-time educators. The indications are that there is no database for part-time educators as the 29 percent that agreed that there is a database is insignificant. Figure 2.2 below shows the responses of the respondents.

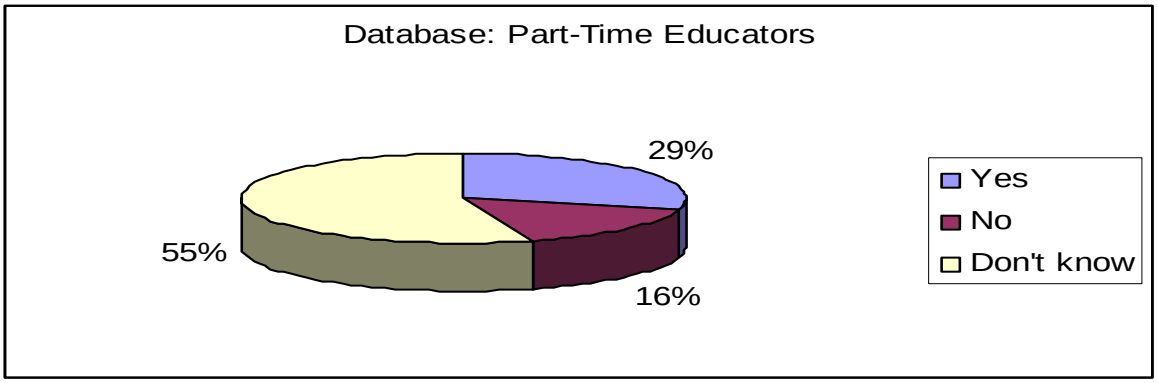

Figure 2.2

Furthermore, the response to whether there could be an allocation in the budget of the Eastern Cape Department of Education without being initiated by it was that 19 percent agreed, 58 percent disagreed. Altogether 23 percent did not know that there could be an allocation in the budget of the Department of Education without being initiated by it. Figure 2.3 below is a graphic presentation of these responses.

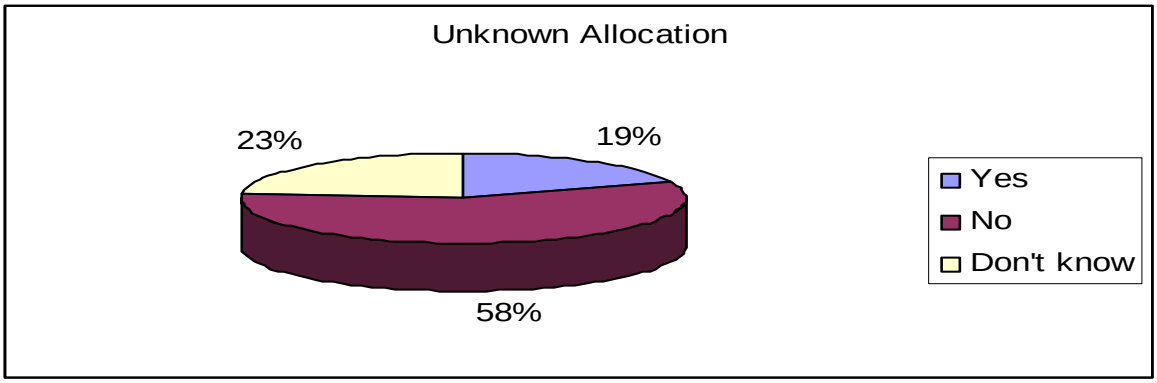

Figure 2.3

In response to the question regarding the Department of Education making provisions in the budget for the previous years' commitments, 32 percent agreed, 19 percent and 48 percent did not know. The distribution of responses is reflected in Figure 2.4.

In another case the respondents were asked to choose from five options that included strongly agree, agree, undecided, disagree and strongly disagree on the planning, programming budgeting system. The respondents were asked whether the provincial treasury ensures the provincial Department of Education implements effective financial planning. In response 10 percent strongly agreed, 77 percent agreed to the statement, 6 percent were undecided, and 6 percent disagreed with the statement. Refer to Figure 2.4 below.

Finally, a further statement put to the respondents was whether the provincial treasury implements the multi-year budget as another incremental model of budget control. The response was that 10 percent strongly agreed, 81 percent agreed with the statement while 6 percent were undecided, and 3 percent disagreed. This is an indication of the fact that if the data were inadequate when the Medium Term Expenditure Framework was established, there was a challenge to change the budget figures to accommodate the changed circumstances. Figure 2.4 below correctly portrays response of the respondents to the aforesaid statement.

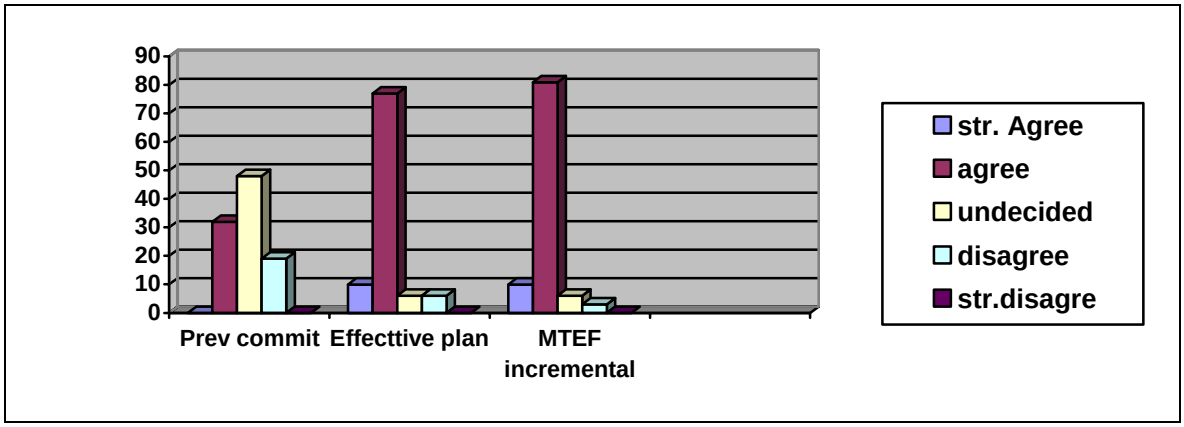

Figure 2.4

4.4.1.(c) Zero base budgeting system

In regard to the provincial treasury's involvement in the analysis of the need for the existence of certain programmes in the provincial Department of Education, 13 percent strongly agreed and 45 percent agreed. Moreover, 16 percent of the respondents were undecided and 26 percent disagreed with the statement. This scenario is spelt out in Figure 3.1 below.

Secondly, in the statement regarding the provincial treasury assisting the provincial Department of Education in determining priorities, 16 percent strongly agreed, 48 percent agreed, 13 percent were undecided, 19 percent disagreed and 3 percent strongly disagreed. It is significant to state that the financial administration in the province was centralized in the provincial treasury where decentralization should be accompanied by assistance. Figure 3.1 below shows the attitudes of the respondents in a graphic display.

Thirdly, the respondents were asked whether there is wide participation in the budget process, and 6 percent strongly agreed, 39 percent agreed, 32 percent were undecided, 19 percent disagreed and 3 percent strongly disagreed. Figure 3.1 below provides an accurate picture of the respondents' responses.

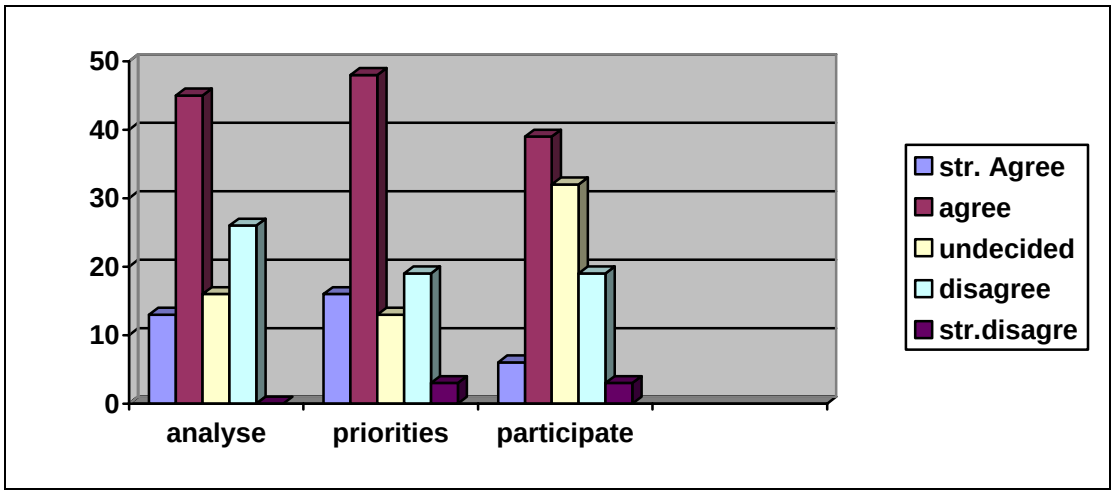

Figure 3.1

In addition, in response to the question whether the cost centres are advised of the budget cuts, 16 percent strongly agreed, 58 percent agreed, 19 percent were undecided, and 6 percent strongly disagreed that the budget cuts by provincial treasury are communicated to regions. Figure 3.2 below gives a clear picture of the responses of the respondents.

Moreover, the respondents were asked whether a satisfactory explanation is provided when treasury cuts the budget. With this statement 10 percent strongly agreed and 58 percent agreed that a satisfactory explanation is given whilst 19 percent were undecided, 10 percent disagreed and 3 percent strongly disagreed. These responses are reflected in Figure 3.2 below.

Finally, regarding the statement on whether the provincial treasury is effective in ensuring that programmes that are not budgeted for are not implemented, 16 percent strongly agreed, 48 percent agreed whilst 16 percent were undecided and 19 percent disagreed. Figure 3.2 reflects this finding.

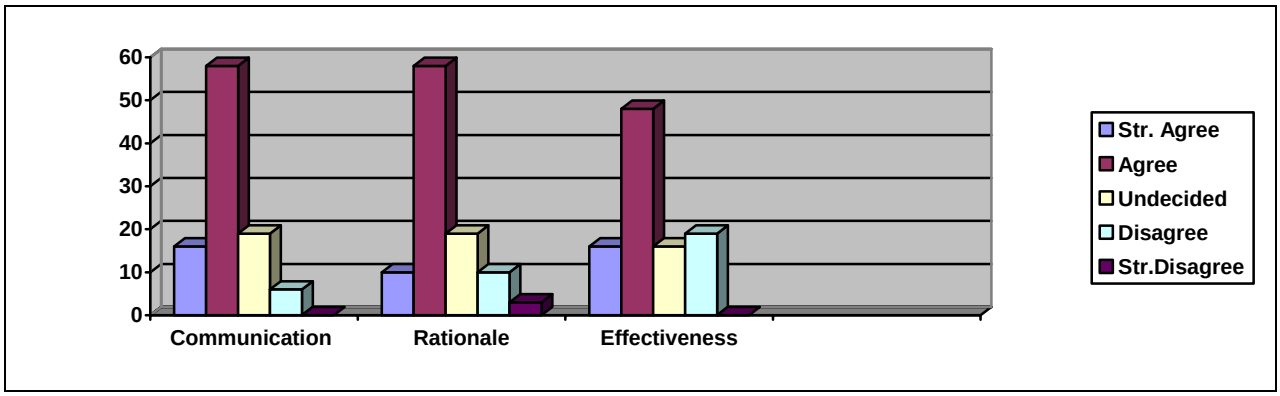

Figure 3.2

4.4.1.1.(a) Stabilization function

The respondents were also requested to indicate whether they strongly agreed, agreed, were undecided, disagreed or strongly disagreed on whether the provincial treasury provides Department of Education with additional funding through adjustment estimates if there is likely to be over-expenditure. The frequency of the respondents' response indicates that 19 percent strongly agreed, 52 percent agreed, 13 percent were undecided whilst 16 percent disagreed. It is imperative to note in this finding that 16 percent of the respondents came from the Department of Education. This is to a large extent an indication of the fact that Department of Education officials are of the view that the provincial treasury does not provide additional funding to the Department of Education if there is likely over-expenditure which explains the bank overdraft that resulted from the 2004/05 deficit. Figure 4.1 depicts the distribution of the responses of the respondents.

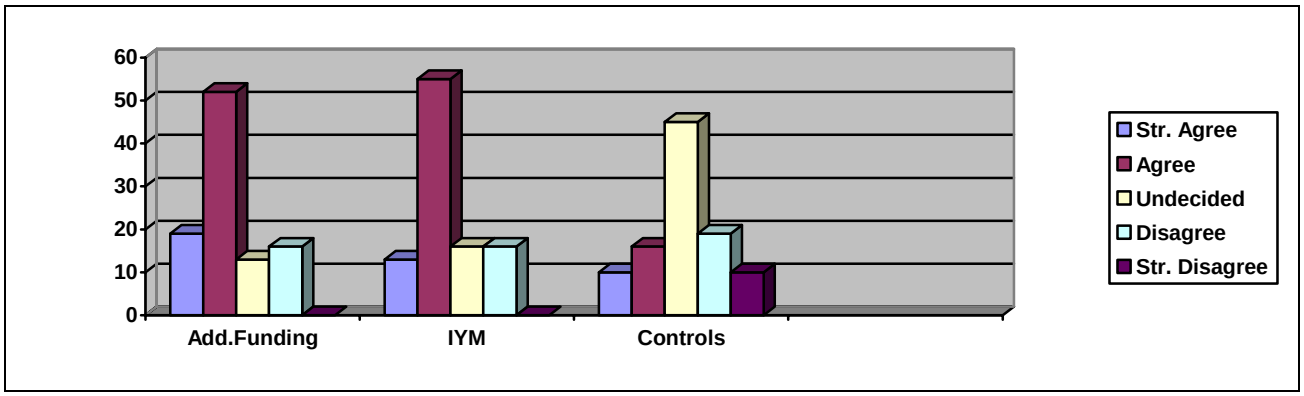

Figure 4.1

4.4.1.1.(b) Distribution imperative

The respondents were asked whether the Department of Education has a database of learners who are unable to pay tuition at public schools. Altogether 6 percent agreed, 58 percent were undecided, 23 percent disagreed, and 13 percent strongly disagreed. Figure 5.1 below depicts the distribution of the responses of the respondents.

Lastly, in response to a question as to whether the department makes provision for funds in order to reimburse public schools that admit learners from poor families, 3 percent strongly agreed, 13 percent agreed, 58 percent were undecided whilst 13 percent disagreed and 13 percent strongly disagreed. Figure 5.1 below shows the frequency of the responses.

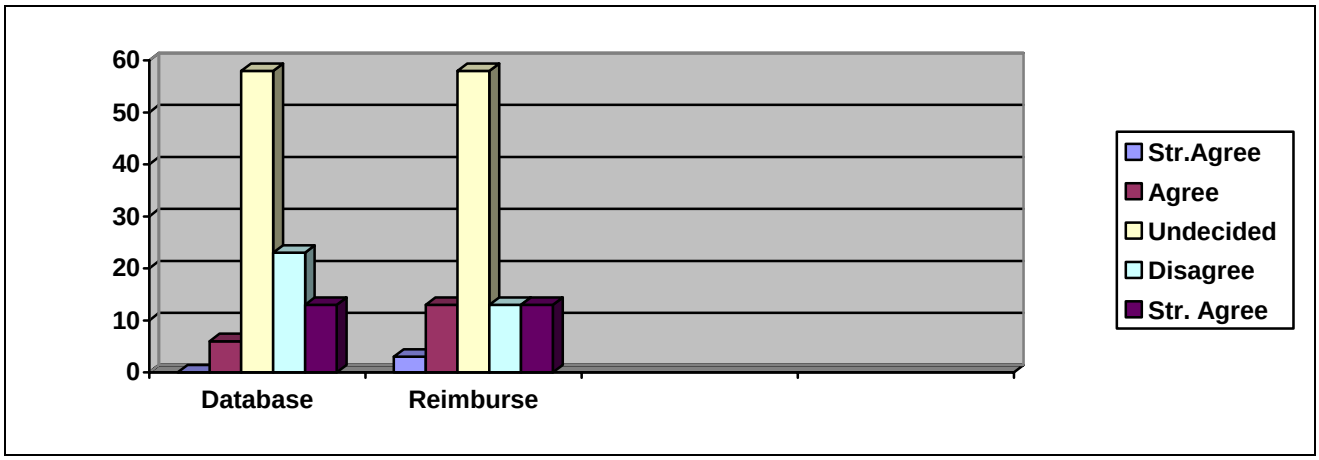

Figure 5.1

4.4.1.1.(c) Economic growth

The respondents were required to select one of the following categories, i.e. yes, no or don't know as their response to the questions put to them. In response to the question as to whether the provincial Department of Education and the provincial treasury have statistics of students who qualify in their careers after leaving public schools, 6 percent responded in the affirmative whilst 45 percent responded negatively and 49 percent did not know. Figure 6.1 depicts this distribution of responses.

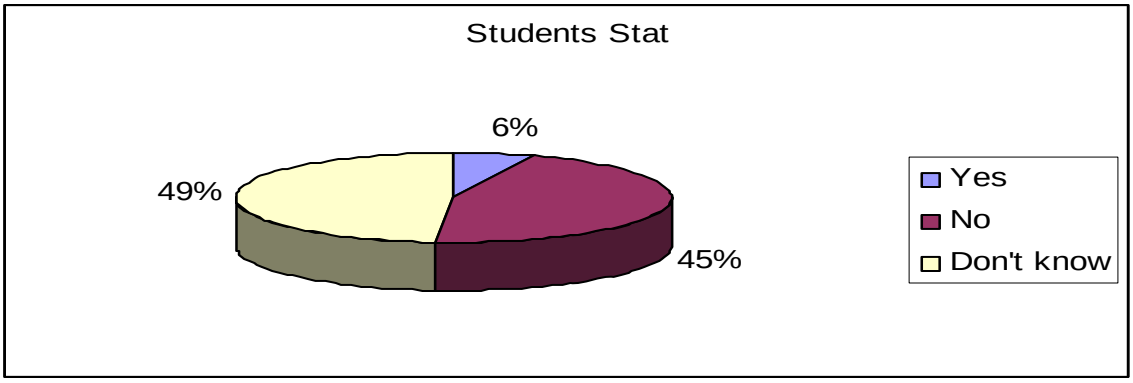

Figure 6.1

Moreover, when the respondents were asked whether the majority of matriculants who leave public schools with no

tertiary entry certificates get employment, 3 percent of the respondents answered in the affirmative whilst 68 percent responded negatively and 29 percent did not know. Figure 6.2 below depicts the frequency of these responses.

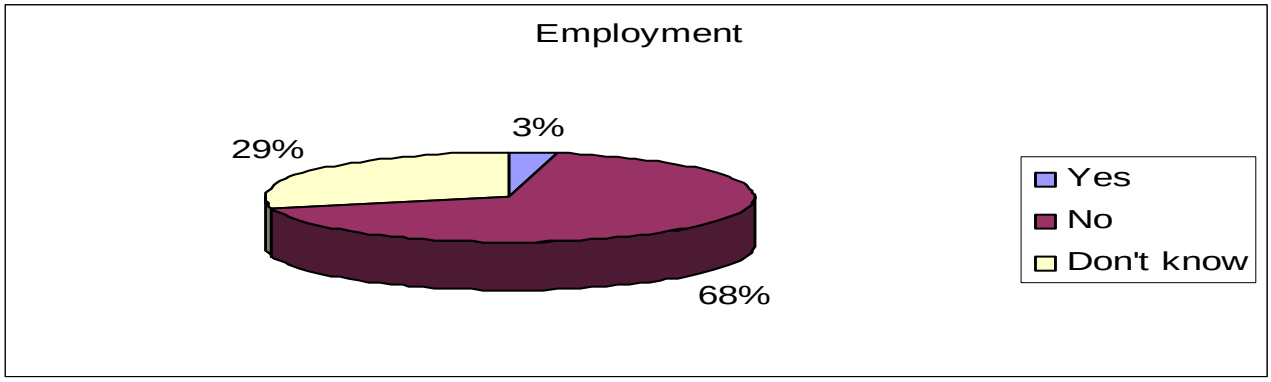

Figure 6.2

In addition, the respondents in their response to the question as to whether the provincial Department of Education and the provincial treasury ensure that training is offered to the public school leavers so as to be employable, 19 percent responded in the affirmative, 29 percent responded negatively and 52 percent did not know. Figure 6.3 depicts the distribution of these responses.

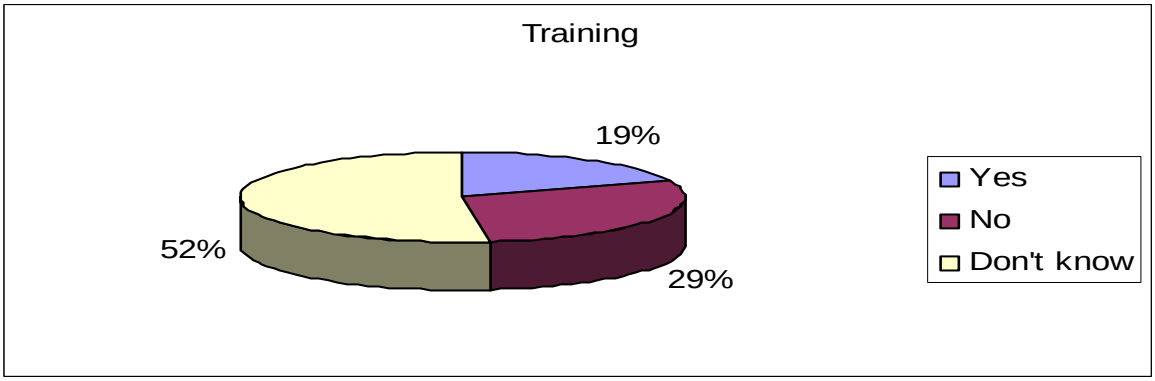

Figure 6.3

Finally, when the respondents were asked whether the provincial treasury and the Department of Education consider options like technical education rather than producing unemployable public school leavers, 16 percent agreed, 29 percent responded negatively and 55 percent did not know. Figure 6.4 below depicts the responses of these respondents.

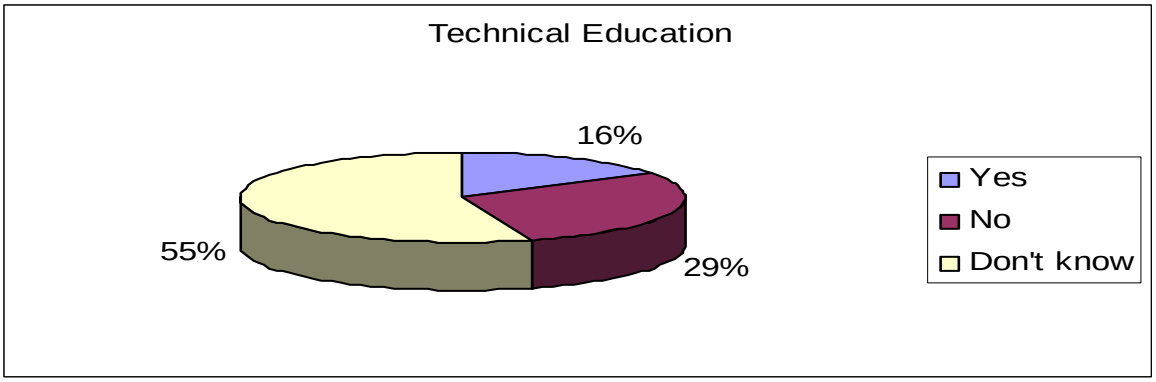

Figure 6.4

4.4.2. Fiscal discipline

With what is termed fiscal discipline an institution strives to balance its income and expenditure. In a modern form the variance between the income and expenditure should be insignificant if fiscal discipline is to be maintained (Blacks et al. 2003:11). In this part of measuring the ineffective budget control in the Department of Education, the respondents were asked to show their response to a statement by one of the five options, i.e. strongly agree, agree, undecided, disagree and strongly disagree. In the statement that the provincial Department of Education spending should be equal to the revenue allocated, 19 percent strongly agreed, 45 percent agreed, 16 percent were undecided and 19 percent disagreed.

Finally, the respondents were asked whether the provincial treasury gives some leeway to the Department of Education to

budget for a moderate surplus. The response was that 6 percent of the respondents strongly agreed, 10 percent agreed, 39 percent were undecided whilst 35 percent disagreed, and 10 percent strongly disagreed. Figure 6.5 shows the distribution of the respondents' responses to the question about fiscal discipline.

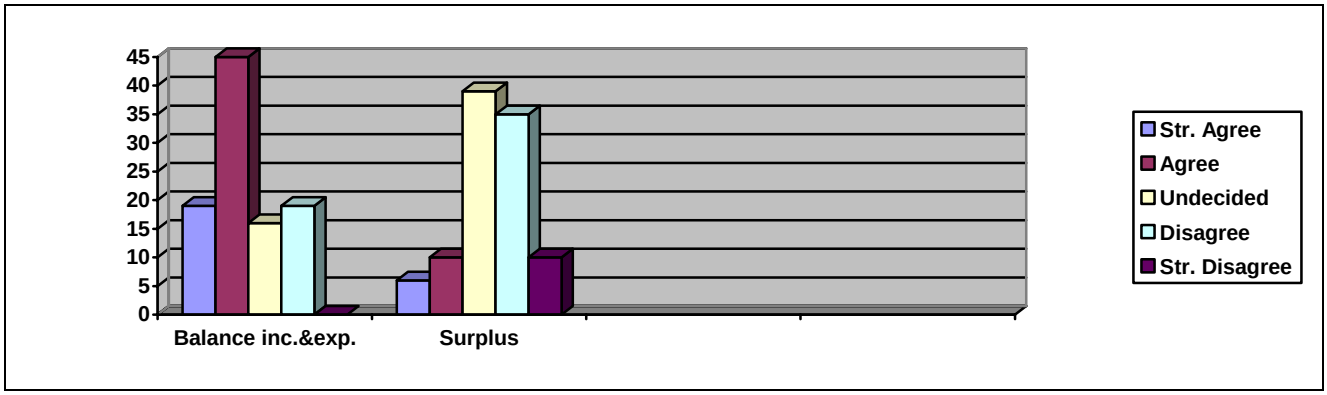

Figure 6.5

4.4.3. Control framework

As regards the question whether the provincial treasury's existence is relevant in playing an oversight role, 48 percent strongly agreed, 39 percent agreed, 10 percent were undecided whilst 3 percent disagreed. Figure 6.6 below gives a reflection of the respondents' response.

Furthermore, for the question whether the provincial treasury should exist only to receive taxes and an equitable share from national treasury (decentralization of functions), 29 percent strongly agreed, 42 percent agreed, 16 percent were undecided, and 13 percent disagreed. Figure 6.6 depicts this distribution of responses.

Moreover, as regards the statement about whether the provincial treasury should centralize payment functions, 6 percent strongly agreed, 16 percent agreed whilst 23 percent were undecided, 45 percent disagreed and 10 percent strongly disagreed. Figure 6.6 shows this distribution of responses.

The respondents were asked whether the provincial Department of Education has enough personnel with financial administration skills. The responses to this question are 13 percent agreed, 23 percent were undecided, 29 percent disagreed, and 35 percent strongly disagreed. Figure 6.6 below depicts the distribution of these responses.

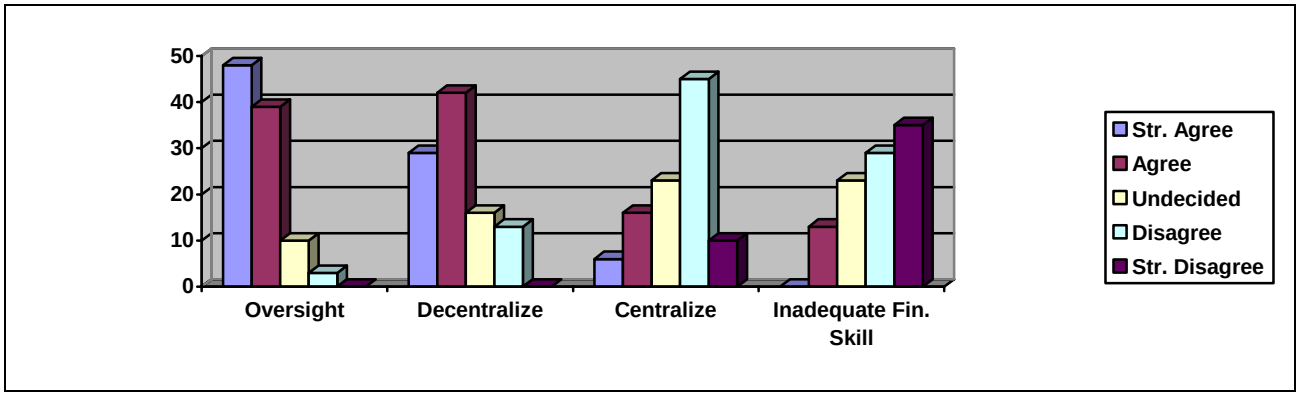

Figure 6.6

The respondents were further asked whether the provincial Department of Education is compliant with the PFMA rule of prevention of overspending. The response is that 3 percent strongly agreed, 16 percent agreed, 29 percent were undecided, 35 percent disagreed and 16 percent strongly disagreed. In other words 51 percent of the respondents disagree that the Department of Education is compliant with the PFMA rule that accounting officers must avoid the

overspending of the Vote. Figure 6.7 below depicts the above frequency of responses.

The respondents were also asked whether the provincial treasury is required to approve the strategic plan of the Department of Education. The responses were that 6 percent strongly agreed with the statement, 32 agreed, 26 percent were undecided, 29 percent disagreed, and 6 percent strongly disagreed. Figure 6.7 shows the distribution of the responses regarding the involvement of the provincial treasury in policy agendas with future financial implications.

The respondents were further asked to show their attitude to a statement that the Department of Education has clear procedures for quarterly reporting to the executing authority. The responses were that 6 percent strongly agreed, 23 percent strongly agreed, 52 percent were undecided, 13 percent disagreed and 6 percent strongly disagreed. This effectually means that 29 percent agreed and 19 percent disagreed. Figure 6.7 below shows the frequency of the responses.

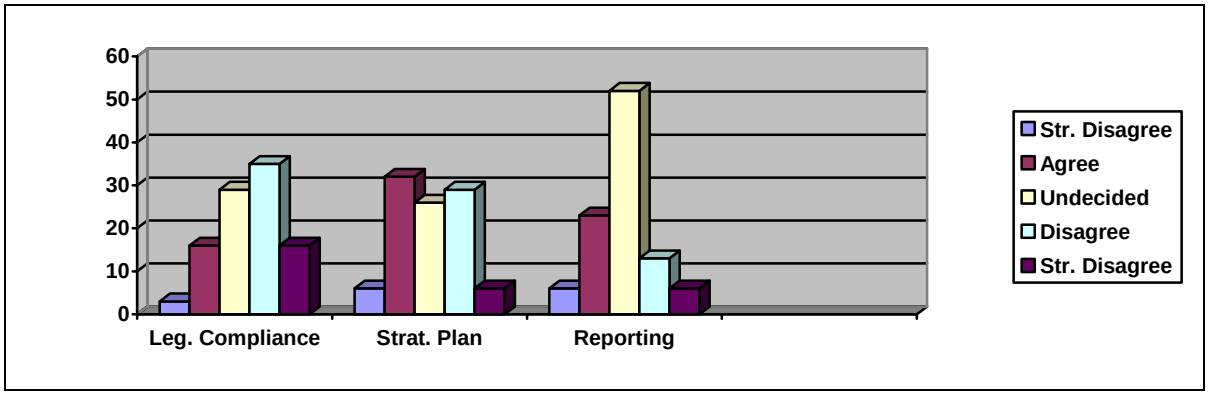

Figure 6.7

The respondents were also asked to show their attitude or knowledge as to whether the type of control by the provincial treasury is that of ceaseless monitoring. The responses obtained were 10 percent strongly agreed, 42 percent agreed, 29 percent were undecided, 10 percent disagreed, and 10 percent strongly disagreed. This shows that 52 percent of the respondents agreed that the type of control by the provincial treasury is that of ceaseless monitoring and 20 percent indicated that the provincial treasury is not monitoring the provincial Department of Education closely. Figure 6.8 below depicts the distribution of responses.

Finally, the respondents were asked to respond to the statement that the type of control by the provincial treasury is that of persuading the Department of Education to accept the economic policy objective of a balanced budget. The responses were 13 percent strongly agreed, 42 percent agreed, 26 percent were undecided, and 19 percent disagreed. This means that 55 percent of the respondents indicated that the type of budget control by the provincial treasury is persuasive in approach. Figure 6.8 shows the distribution of the respondents' responses.

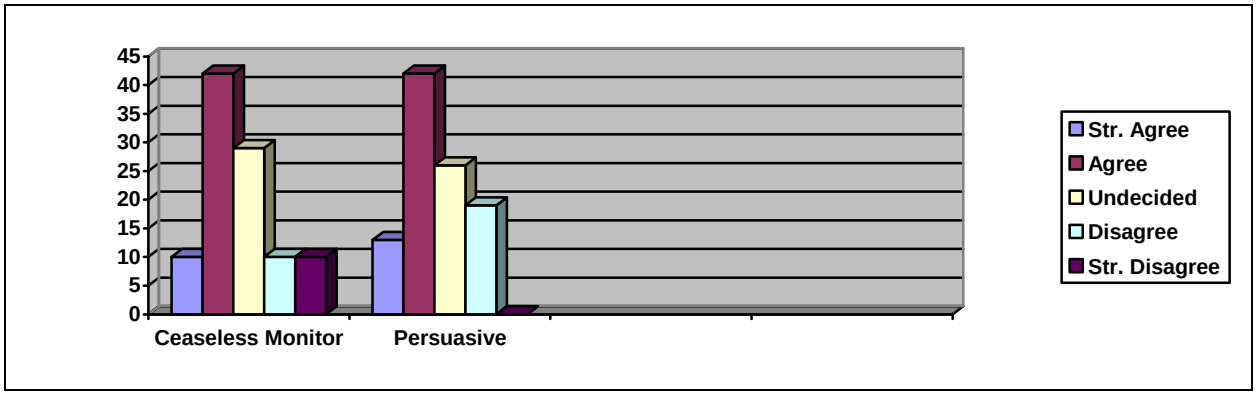

Figure 6.8

4.4.4. Public debt and budget deficit

Public debt is the sum of all the outstanding financial liabilities of the institution where there is a primary and legal responsibility to repay the amount owing. The respondents were asked to show their attitude and knowledge through a choice of five options embracing strongly agree, agree, undecided, disagree, and strongly disagree with a given statement. The respondents were asked whether the provincial treasury effectively monitors the cash flow requisition of the provincial Department of Education. In response 23 percent strongly agreed, 61 percent agreed, 10 percent were undecided, 3 percent disagreed and 3 percent strongly disagreed. This means that 85 percent agreed that the provincial treasury accurately monitors the cash flow of the provincial Department of Education and 6 percent disagreed with the statement. Figure 6.9 below shows the distribution of the responses.

Finally, in response to the question whether the provincial Department of Education and provincial treasury are effective in ensuring that the previous financial year's commitments are not paid in the current budget without additional funding, 10 percent strongly agreed, 45 percent agreed, 16 were undecided, 23 percent disagreed, 6 percent strongly disagreed. This implies that 55 percent agreed that provincial treasury and Department of Education are effective in ensuring that the previous financial year's commitment is not reimbursed without additional funding whilst 29 percent disagreed. Figure 6.9 reflects the frequency of the responses.

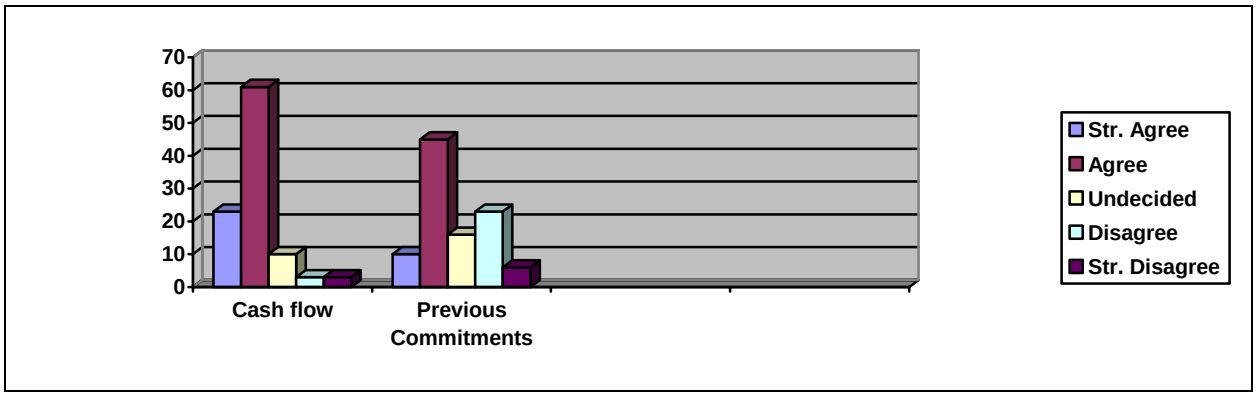

Figure 6.9

4.5. Conclusion

The findings prove that the provincial treasury of the Province of the Eastern Cape has a challenge in the economic allocation of scarce public financial resources. In the incremental sub-variable of allocative efficiency, the results reveal that the budget control function is regarded as a management function. This is reflected by the fact that a mere minority of the respondents agrees that the budget provides a restraint in the utilization of scarce financial resources. This indicates that the majority of the respondents were excluded from the understanding of the importance of budget control through inadequate communication and inadequate transparency.

The study under sub-variable incremental budget system of allocative efficiency establishes that the budget system that is implemented by the provincial treasury is incremental. The majority of the respondents depicted that the provincial treasury utilizes the MTEF as another incremental model of budget control. The results also showed that a significant number of the respondents perceived the provincial treasury

and the Eastern Cape Department of Education officials as determining the activities and targets to be achieved. The incremental nature of budgeting makes the budget information irrelevant as a ceiling has already been drawn based on the budget baseline.

Furthermore, in the sub-variable of the planning, programming budgeting system the findings demonstrate that the majority of the respondents were not involved in budget planning. In this instance the phenomenon that budgeting is a management function is also epitomized. This means that front-line managers render the services without understanding the current and future financial commitments that result in spending and withholding of payments. In this scenario commitments accumulate without checks as public policy creates a broad commitment of public funds. The budget deficit is a spin-off of the lack of additional funding to accommodate the accumulation of commitments that are not accounted for. This means that the provincial treasury is unable to ensure that the provincial departments implement the national fiscal policy objective of balancing the income and expenditure.

The provincial treasury does not effectively perform the stabilization function. The failure to effectively implement the economic allocation and distribution imperative inevitably leads to a dysfunction in stabilization function. In the public service unlike in the private sector a public institution is not declared insolvent. The spending continues even if funds are not available due to legal entitlement that is embodied in public policy. The consequences for failure to effectively plan that result in budget deficit spending lead the government to relieve

the MEC and the accounting officer of the duties on account of incompetence relating to poor budget planning and financial mismanagement.

Moreover, the findings prove that the provincial treasury is not effective in ensuring that provincial departments have institutional capacity to manage public finances. The majority of respondents felt that the Eastern Cape Department of Education does not have enough personnel with financial administration skills. Moreover, the majority of the respondents indicated that the Eastern Cape Department of Education is not compliant with the PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999. The significant number felt that the provincial treasury does not implement effective monitoring.

As regards the public debt and budget deficit, the majority of the respondents replied that the provincial treasury effectively monitors the cash flow requisitions of the Eastern Cape Department of Education. A significant number of the respondents felt that the provincial treasury was unable to effectively monitor the cash flow requisitions of the aforementioned department. Finally, the average number of frequencies showed that the provincial treasury and the said Department ensure that the previous years' commitments are not reimbursed without additional funding. A significant number felt that the said departments are ineffective in ensuring that the unbudgeted commitments are not reimbursed without additional funding or roll over of funds. This stems from the fact that public policies have financial commitments that have legal consequences.

CHAPTER 5

RECOMMENDATIONS

5.1. Introduction

This study has examined the effectiveness of the budget control role of the provincial treasury with particular reference to the Eastern Cape Department of Education. It is obvious in the results that the budget control function is regarded as a management function. It has been found that the provincial treasury is relevant in playing an oversight role on appropriations. It is also encouraging that the provincial treasury assists provincial departments in assessing the need for particular programmes to ensure effective and efficient use of scarce financial resources. However, it has also been found that the MTEF is used by the provincial treasury as another incremental model. This has led the MTEF budgeting to be applied on an inaccurate budget base. The purpose of this Chapter is to make recommendations for the enhancement of improved budget control as reflected in the results.

5.2. Recommendations

Recommendations are discussed under the headings financial capacity building, and the budget control function. There is a strong correlation between effectiveness on budget control and the level of capacity building of officials. Better capacitated officials are associated with effective service delivery.

5.2.1. Financial capacity building

It is glaring in the results that the majority of the respondents are graduates. This is an indication of the fact that officers of the two relevant departments are trainable. It is recommended

that on-the-job-training should be offered to finance personnel to ensure that the budget control function is not perceived as a management function. This area of the budget control function needs further research as on-the-job-training is a continuous process that internalises the goals and objectives of the organisations to the officials. There is also a need for continuous training on budgeting to ensure that officers keep abreast of the new developments in the field of public finance budgeting.

Participation in decision making particularly in budget control will be effective when the officials possess the capacity to influence decision making. It is imperative that there must be capacity building in budget control at all levels from level eight to level thirteen if effectiveness is to be attained. Capacity building is a continuous process that includes among other things to inculcate into officials leadership principles, motivation, commitment, courage and intangible attributes that are needed for effective budget control function. Training in financial management would ensure that budget control is not regarded as only a management function.

5.2.2. The budget control function

The study tested various sub-variables associated with budget control function of provincial treasury and revealed various challenges that are linked to budget planning. This makes the recommendations focus on budgeting process, fiscal discipline, public finance organization, and budget deficit.

5.2.2.1. The budgeting process

The study revealed some challenges regarding allocative efficiency by the provincial treasury. This necessitates the recommendations to give an emphasis on the budgeting process. The issues that are considered in the budget process include budgeting system, budget planning, participation in budget process, budget adjustment, equity in budget process, and economy in budget process

5.2.2.1.1. Budgeting system

The majority of the respondents indicated that the provincial treasury utilizes the multi-year budget, that is, MTEF as another incremental model for the allocation of scarce financial resources. It is recommended that there must be a shift from the use of the incremental model of the budget system towards the planning, programming budgeting system. This move would allow for effective implementation of MTEF. Effective planning means that projects pursued by provincial departments are replaced harmoniously with the understanding of the provincial treasury. This will ensure that the provincial treasury allocates funds on the basis of need rather than on the pretext of the previous financial year.

The incremental system is reflected in the MTEF because some of its features are relevant as it is a tool for budget control. Abedian and Biggs (1998:448) in support of this perspective assert that the incremental budget system was introduced to focus on inputs and as a tool of financial control. This type of resource allocation is based on technical rationality that is

portrayed in the determination of the budget baseline (Dunn, 1981:225). According to Dunn (1981:225), there are multiple rational bases that are fundamental to most budget policy choices. These include technical rationality, economic rationality, social rationality, legal rationality and substantive rationality. The incremental model that is built on the MTEF is detrimental where the database for budget allocation is inadequate in the base-year.

The MTEF renders its fullest benefits when the budget is appropriately aligned with socio-political priorities (Abedian and Biggs, 1998:462). According to Abedian and Biggs (1998:462-463), the prerequisites for the MTEF are:

- A credible base-budget for each department;
- a coordinated policy package to ensure that the actual spending patterns fall within the acceptable level of budgeted estimates;
- an effective implementation structure that ensures that the approach establishes and gains increasing credibility; and
- the ultimate objective of the MTEF is the medium term service delivery that is attainable and credible.

The implementation of the forms of rationality could determine when the incremental model is appropriate in the budget process. There is always a need to integrate planning with the budget to ensure that there is a balance between the budget

demands and the available financial resources. The greater the divergence between the total budget demands and the available resources, the greater the need for the influence of treasury in interpreting the public sector priorities (Abedian and Biggs, 1998:450). The provincial treasury must be effective in determining the financial implications of policies that are determined by the national government. It is through this knowledge that effective budget control can be accomplished at provincial level.

5.2.2.1.2. Budget planning

Respondents to the questionnaire viewed the provincial treasury as geared towards ensuring that provincial departments implement effective budget planning. However, the significant number indicated that the provincial treasury does not encourage provincial departments to implement effective budget planning. It is recommended that there must be integration between performance planning and budgeting. This is attainable if the provincial treasury could be involved in the initiation stages of public policies to determine current, medium and long term financial implications. In the findings the majority of the respondents indicated that they were not aware of the database of part-time educators. The provincial treasury must be conversant with the provincial departments' financial constraints that have current, medium term and long term financial implications. The personnel replacement policy holds financial implications and their ramifications must be understood by provincial treasury if planning and budgeting are to be integrated. It is imperative that plans must feed into the

future budgets and the budgets must provide for the constraints to future plans.

Intergovernmental fiscal relations must be inclusive of the affected provincial departments and the provincial treasury in public policy making if budget planning is to be improved. The improvement of budget planning inevitably leads towards the continuum of effective allocation of financial resources for an effective budget control function. This stems from the fact that public policy creates legal entitlements with financial implications that should be analysed and be provided for in the budget by treasury in the current, medium and long term.

The MTEF is a superior budgeting system that is relevant to any improved planning, programming budgeting system in South Africa. If the MTEF is adopted after taking into account the above prerequisites, it would provide an excellent budgeting system. Within the MTEF the programmes have well defined outputs that are linked to desired objectives or outcomes. Each output has clearly defined inputs. In this budgeting system the service delivery is defined up-front since before the provincial legislature discusses the provincial departments' budget in terms of the Treasury Regulations the strategic plan of each department is discussed. In the strategic plan the magnitude of the service delivery, costs, target groups and service delivery period are made transparent.

The implementation of the MTEF has been experienced in other countries of the world. New Zealand adopted a system of budgeting by output like the MTEF with the emphasis on delivery efficiency (Abedian and Biggs, 1998:461). Australia

adopted a Performance Based Budgeting System (PBS) that focused on the outcomes (Abedian and Biggs, 1998:461). Countries such as the United Kingdom, Sweden and Malasia have experimented with PBS in different mixtures. It is a common feature of the various systems that policy makers determine their programmes, activities, outputs, standards and quality of the services within the given financial fiscal constraints.

5.2.2.1.3. Participation in budget process

A significant number of the respondents indicated that the provincial treasury does not analyse the need for various programmes in the provincial departments. The provincial treasury must have a more comprehensive view of the provincial departments' strategic interests and programme priorities if the efficient allocation of resources is to be enhanced.

The communication challenge has also been expressed in the findings. A significant number of the respondents have indicated that the budget cuts by the provincial treasury are not communicated to the cost centres and that the rationale for such cuts is also not communicated to the cost centres. The whole question of the zero base budgeting system is jeopardised if the lower levels that deal on a daily basis with the clientele of the government are excluded from the budget process. Effective and efficient allocation of resources for effective budget control in zero base budgeting relies on decision packages. These decision packages are the sources of

decisions that initiate the budget by officers who are close to the preferences and tastes of the communities. It is recommended that there must be improved communication in the whole budget process in order to enhance effective budget control function.

5.2.2.1.4. Budget adjustment

A significant number of the respondents indicated that there is no additional funding for likely over-expenditure. The provincial treasury must ensure that the stabilization function is exercised effectively so that the budget becomes responsive to the fluctuations in the economy. The monthly expenditure forecasts must lead to corrective action by the provincial treasury to enhance improved budget control. For example, if more revenue is collected more than was estimated in the budget due to increased economic activities, additional budget allocations must be made to accommodate the unforeseen circumstances.

Budget control is effective where the budget is responsive to the fluctuations in the economy. In support of this assertion Hanekom and Thornhill (1983:178) state that budget control and monitoring allow for periodic corrective action if the realized results deviate from the plans. It is, therefore, imperative to note that the budget control function is ineffective if the budget is not adapted to changed conditions. The monthly expenditure trends that are obtained in the In-Year-Monitoring must be used by the provincial treasury for adjustment budgets and shifting of funds to Votes that require additional funding. It is in this way that the provincial treasury

could be observed as sensitive to the needs and plans of the provincial departments in delivering the public services. The provincial treasury must consider all requests in terms of their legality rather than concentrating on the ability of provincial departments to utilize funds as indicated in previous years' figures and budget baselines.

5.2.2.1.5. Equity in budget process

The majority of the respondents indicated that the Eastern Cape Department of Education does not have a database for students who are unable to pay tuition fees in public schools and as such the department does not reimburse those schools. This means that the allocative function of the provincial treasury has not reached the distribution imperative. In other words, the maintenance of the schools in the poor communities is in a state of dilapidation as the school fees are used partly for maintenance and cleaning in the public schools. The provincial treasury must ensure that public funds are distributed fairly to all communities according to preferences and demands of the citizens. It is imperative that public schools in the poor communities must be funded in the provincial budget if equal distribution of financial resources is to be achieved. In support of this notion Premchand, (1983:69) and Musgrave and Musgrave, (1989:11) asserted that fiscal policy requires an effective budgetary process that integrates economic, stabilization and distribution imperative analysis. This is an attempt to prevent the temptation where stabilization function tends to overshadow economic allocation and the distribution imperative.

5.2.2.1.6. Economy in budget process

As regards the effect of the budget allocation to education, the majority of respondents indicated that the Eastern Cape Department of Education and the provincial treasury do not have the statistics of students who qualify in their careers after leaving public schools. The majority of the respondents indicated as well that most matriculants who leave public schools without tertiary entry certificates do not get employment. There is a need to introduce a monitoring device to measure the number of students who successfully finish tertiary level after leaving public schools. It is also imperative to measure the contribution of the school leavers and tertiary level leavers to the economy to determine the incentive to spend and manage public funds efficiently and effectively. In support of this perspective Musgrave and Musgrave (1989:11) assert that there is a need for balancing equity and efficiency objectives to ensure effective budget control measures. Black et al. (2003:301) make reference to uniformity in the redistribution of income among provinces to accomplish effective budget control. According to this perspective, lower income earners can move away from provinces with poor distributional imperatives to those provinces with better distributional positions. The performance measurements of the output of the provincial budget on education into the economy are required if budget control is to be properly achieved.

5.2.2.2. Fiscal discipline

The implementation of budget control depends on the fair allocation of financial resources. The majority of the

respondents indicated that the provincial treasury does not give the Eastern Cape Department of Education the leeway to budget for a moderate surplus. The provincial treasury must establish rules to guard against undermining fiscal discipline by underestimating the future costs of programmes to which resources are to be allocated. The provincial treasury must be involved in the initial stages of the policies to determine current and future financial implications and financing sources of policies.

A related concern is that departments may launch programmes with low initial costs while building in increases in the future budgets (Abedian and Biggs, 1998:448). With fiscal discipline departments are required to balance their budgets. The continuous increase of the expenditure without checks is referred to as a lack of fiscal discipline that undermines proper budget control. The decentralisation of the budget control to provincial departments does not absolve the provincial treasury from the responsibility of implementing effective and efficient provincial budget control.

On the strength of the above statement the provincial treasury must ensure that the accounting officers of provincial departments account for variances for monthly over-expenditures or under-expenditures. This would enable appropriate action to be taken by the provincial treasury before the over-expenditure or under-expenditure is irreversible. It is, therefore, imperative to note that expenditure that is higher than the budget must be on planned activity if effective budget control is to be achieved.

5.2.2.3. Public financial organization

The majority of the respondents indicated that the provincial treasury is relevant in playing an oversight function. However, the management approach in the budget control function is not understood at operational level. In that scenario the budget control in the province can be associated with the machine model in policy making. The machine model assumes that a clearly formulated plan backed by legitimate decision making authority contains the ingredients for its own implementation (Cloete and Wissink, 2000:175). This is a top down approach to budget implementation and the cause for concern is that the process hinders communication of important budget data from the stakeholders.

> "The discretion at the lower level is not only inevitable, but also it is necessary for policies to be reinvented to fit the local needs" (Cloete and Wissink,2000:169).

Taking note of the above statement, it is recommended that the provincial treasury should take into consideration the fact that the mixture of top-down and bottom-up approaches in the budget process is required if budget control is to be improved. This stems from the fact that the front-line managers are better placed to understand the priorities and preferences of the citizens.

The bottom-up approach seems to bear fruit if the officers are completely trained to perform their duties. In a similar view it is indicated that the devolution of powers could promote managerial efficiency and free the budget process for policy and programme decisions (Abedian and Biggs, 1998:449). The

provincial treasury's key role would be to ensure that policy changes generated by the trade off system in provincial departments conform to government's fiscal norms and standards (Abedian and Biggs, 1998:449). According to this view the budget reforms in Australia followed a bottom-up model where the reallocation of funds is made by shifting the initiative for policy initiation to departments. Departments are encouraged to initiate trade offs among their programmes when they introduce new policies within budget constraints (Abedian and Biggs, 1998:449).

The provincial treasury must ensure that monitoring is an indispensable aspect of financial management. Budget control necessitates a level of monitoring by the provincial treasury as provincial departments are required to report income and expenditure issues in terms section 38(1)(g) and section 40 of the PFMA, 1999 (Act 1 of 1999) as amended by Act 29 of 1999. It is necessary to monitor the outputs as well as to evaluate the alignment of the policy with the strategic objectives (Abedian and Biggs, 1998:466). However, in practice the In-Year-Monitoring device by the provincial treasury only measures the inputs in each programme. This limits the evaluation of the outputs and outcomes of the programmes. In this instance, it is a challenge to limit the level of commitments as the focus of monitoring is on inputs. It is the view of the researcher that both inputs and outputs should be monitored if the provincial treasury is to be effective in budget control.

An issue that serves as a hindrance to the devolution of authority is the fact that the majority of the respondents indicated that the Eastern Cape Department of Education does

not have enough personnel with financial management skills. The budget control function is multi-disciplinary in nature. It is the view of this researcher that the provincial treasury must ensure that public finance is a multi-disciplinary field rather than just an accounting field. It is thought prudent to state that sound public financial administration could be accomplished when a multi-disciplinary approach is adopted. Unlike in the private sector, during the financial year the items of income and expenditure in the public sector may rise so high that supplementary estimates are required. In support of this contention it is stated that supplementary estimates may take the form of reducing balances and transferring them to the required budget Vote (Combs and Jenkins, 1991:132). The inactive stance that is taken by the provincial treasury when the provincial department is over-expending or under-spending its budget is unlawful in terms of the PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999.

5.2.2.4. Budget deficit

A significant number of the respondents indicated that the provincial treasury is unable to effectively monitor the cash flow requisitions of the Eastern Cape Department of Education. This is an indication of the fact that the provincial treasury is loose on budget control and departments are not compliant with the public financial prescripts. The MTEF budgeting system requires a clear outline of the cash flow requirements as well as a corresponding service delivery flow for each department up-front (Abedian and Biggs, 1998:461). The Division of Revenue Act (DORA) states that each provincial department's cash flow requirements must be made in April for the whole

financial year. The provincial treasury should ensure that the cash flow requirements accompany clearly stated outputs if effective budget control is to be maintained. The weekly and monthly cash flow requirements should be submitted by each department in order to ensure that even insignificant variances in the annual cash flow requirements are covered.

However, the provincial treasury is unable to control the variances because it does not have the financial implications of policies. Public policies have legal entitlements which the provincial treasury is unaware of during the budget allocation. The unplanned public debt continues to grow because the provincial treasury is not sensitive and responsive to public policy financial commitments. The provincial administration requires a provincial treasury that has first hand data on policies and their short, medium and long term financial implications if effective budget control is to be attained. Last but not least, compliance with public financial prescripts by provincial departments is a primary requirement for prevention of a budget deficit.

5.3. Conclusion

The purpose of the study was to explore the effectiveness of the provincial treasury in implementing a stable provincial fiscal policy in compliance with national fiscal objectives to enhance effective budget control.

The findings indicate that the provincial treasury is facing a challenge in the allocation of scarce fiscal resources. This has been observed to be as a result of the narrow conception of

treasury as providing accounting discipline rather than the wider disciplinary nature of the full treasury function. It is imperative to note that for the MTEF to bear fruit it must be based on a credible base-budget for each department. The budget control would be effective only if the provincial treasury is flexible in the allocation of scarce financial resources.

Moreover, the findings indicated that the provincial treasury was ineffective in persuading the Eastern Cape Department of Education to implement the national fiscal policy objective of balancing the income and expenditure. This stems from the fact that the financial commitments of public policies are not co-ordinated by the provincial treasury to determine the operational, medium and long term financial implications. Since public policies have legal entitlements the provincial treasury and the Department of Education in particular are unable to manage unchecked commitments.

The findings also indicated that the provincial treasury and the Eastern Cape Department of Education lack capacity for effective implementation of budget control measures. The results indicated that there is a dearth of personnel with financial management skills. This raises another exciting question whether the amalgamation of the former administrations from 1994 was implemented effectively and efficiently in order to maintain value for money in service delivery. The dearth of personnel with financial management skills is a challenge to the whole question of devolution of powers that could be embarked upon in order to 'let the managers manage' envisaged in the implementation of the PFMA, 1999 (Act 1 of 1999), as amended by Act 29 of 1999 and

the Treasury Regulations. The dearth of qualified personnel and non-compliance with the financial legal prescripts by provincial departments are challenges the province needs to overcome if effective budget control is to be achieved.

In addition, the findings showed that the provincial treasury is ineffective in taking appropriate measures to prevent deficit spending. It is noted that the In-Year-Monitoring System is not used to rectify significant variances. The system only focuses on spending patterns rather than services delivered. The inclusion of services delivered and to be delivered would enable the provincial treasury to measure commitments.

Finally, it is also a challenge that the budget is irresponsive to the fluctuations in expenditure trends. It is, therefore, through an adjustment budget that the budget deficit can be alleviated. It is imperative that the cash flow forecasts and the causes of variances be acted upon if budget deficit and public debt are to be effectively managed to enhance budget control.

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APPENDIX-1

29 November 2005

Dear Madam/ Sir

PUBLIC FINANCIAL ADMINISTRATION : BUDGET CONTROL FUNCTION

I am a master's degree student at the Nelson Mandela Metropolitan University. I am in the process of working towards finalisation of my research treatise. I would appreciate your assistance in completing the attached questionnaire. The questionnaire enquires about the budget control function in your working environment particularly in the provincial department of education. Your response to the questionnaire will be treated as confidential. I assure you that your identity will not be revealed and you should not reflect your name in the questionnaire.

Your co-operation will be highly appreciated.

M.H. Kalashe

Raymond Mhlaba Institute of Public

Administration and Leadership :

Nelson Mandela Metropolitan University

APPENDIX- 2

QUESTIONNAIRE

Kindly answer all questions by ticking the space in the empty box that best describes yourself, attitude and knowledge of your working environment. I thank you for your valuable time and assistance.

1.Gender

Male		1
Female		2

2. Which department do you work in ?

Provincial treasury		1
Department of Education		2

State your highest qualification

Std 10/ Matric		1
Degree /Diploma		2
Honours		3
Master's degree		4
PhD		5

Please state your rank

State Accountant		1
Financial Administration Officer		2
Assistant Director		3
Deputy Director		4
Director and above		5

5.1. ALLOCATIVE EFFICIENCY

Please tick your response to the questions below

5.1.(a) LINE ITEM BUDGETING STATEMENT	YES	NO	DON'T KNOW
5.1.1. Are maximum limits set for the purchase of items in the provincial Department of Education budget for programmes?			
5.1.2. Are funds provided diverted for other purposes without the approval of the legislature?			
5.1.3. Does the increase of the estimates of expenditure depend on the increase in inflation?			
5.1.4. Does the Department of Education of the Eastern Cape apply for authority for roll-over of funds from the provincial treasury?			
5.1.5. Do provincial treasury and departmental officials establish the extent of the government activities and targets to be realized?			
5.1.(b) PLANNING, PROGRAMMING BUDGETING SYSTEM			
5.1.6. Are you involved in the evaluation of the feasibility studies for existing and new programmes to determine their profitability in terms of benefit to society?			
5.1.7. Does the provincial Department of Education have a database of part-time / temporary educators?			

5.1.8. Can there be an allocation in the budget of the provincial Department of Education without being initiated by it?			
5.1.9. Does the provincial Department of Education budget for the previous year's commitments such as leave gratuities?			
5.1.(c) ECONOMIC GROWTH			
5.1.10. Do the department and the provincial treasury have the statistics of the students who eventually qualify in their careers at tertiary level after leaving public schools?			
5.1.11. Do the majority of matriculants generally get employed after leaving public schools?			
5.1.12. If no to 5.1.11, do the department and the provincial treasury meet other stakeholders to ensure that training is offered to school leavers so as to be employable?			
5.1.13. Do the provincial Department of Education and the provincial treasury consider a viable option like technical education rather than producing public school leavers without tertiary level entry certificates?			

To what extent do you agree or disagree with the following statements. Mark with an X

STATEMENT	STRONGLY AGREE	AGREE	UNDECIDE	DISAGREE	STRONGLY DISAGREE
5.1.14. The provincial treasury ensures that the provincial Department of Education is implementing effective financial planning.					
5.1.15 The multi-year budget is implemented by the provincial treasury as another incremental model of budget control.					
5.1.(d) ZERO BASE BUDGETING					
5.1.16. The provincial treasury is involved in the analysis and evaluation of all programmes to ensure the need for their existence in the Department of Education					
5.1.17. The provincial treasury assists the provincial Department of Education in determining the funding priorities.					
5.1.18. All programme managers at all levels and districts of the provincial Department of Education contribute to the budgeting process.					

5.1.19. The programme managers in the cost centres of the provincial Department of Education are advised of budget cuts by provincial treasury.					
5.1.20. Satisfactory explanations are provided to the Department of Education when the provincial treasury introduces budgets.					
5.1.21. The provincial treasury is effective in ensuring that the programmes and activities that are not budgeted for are not implemented by the provincial Department of Education.					
5.1.(e) STABILIZATION FUNCTION					
5.1.22. The provincial treasury provides the Department of Education with additional funding through an adjustment budget if there is likely over-expenditure.					
5.1.23. The provincial treasury utilizes the In-Year-Monitoring (IYM) to monitor the programmes of the provincial Department of Education to obtain funds for other programmes that must be implemented.					
5.1.24. Budget controls implemented at provincial level are loose thus the provincial Department of Education's spending increases at a rate higher than scheduled or expected.					
5.1.(f) DISTRIBUTION FUNCTION					

5.1.25. The Department of Education holds a database of learners who are unable to pay tuition fees at public schools.					
5.1.26. The department makes provision in the budget for the reimbursement of those public schools that register learners from poor communities.					

To what extent do you agree or disagree with the following statements:

5.2 FISCAL DISCIPLINE	STRONGLY AGREE	AGREE	UNDECIDED	DISAGREE	STRONGLY DISAGREE
5.2.1. The provincial Department of Education spending should be equal to the allocated revenue at all times.					
5.2.2. The provincial treasury allows the provincial Department of Education the leeway to budget for a moderate surplus					
5.3 CONTROL FRAMEWORK					
5.3.1. The existence of the provincial treasury is crucial in playing a constant oversight role.					
5.3.2. Provincial treasury should exist to receive taxes from departments and an					

equitable share from national treasury.					
5.3.3. The provincial treasury should centralize payment functions.					
5.3.4. The provincial Department of Education has enough personnel with financial administration skills.					
5.4 MANAGEMENT PROCESS					
5.4.1. The provincial Department of Education complies with the Public Finance Management Act, 1999 in expenditure management.					
5.4.2.The provincial treasury is also required to approve the provincial Department of Education's strategic plan.					
5.4.3. The provincial Department of Education has clear procedures for quarterly reporting to the executing authority.					
5.5. NATURE OF CONTROLS					
5.5.1. The type of control by provincial treasury is that of ceaseless monitoring of spending.					

5.5.2. The type of control by provincial treasury is that of persuading the department to accept the economic policy objectives of a balanced budget.					
5.6. PUBLIC DEBT AND BUDGET DEFICIT					
5.6.1. The provincial treasury effectively monitors the accuracy of the cash flow requisitions from the provincial Department of Education.					
5.6.2. The department and the provincial treasury effectively and efficiently ensure that the previous financial year's commitments are not paid in the current budget without additional funding.					