

GOVERNMENT SPENDING REVIEWS COMPANION GUIDE



GTAC

Analyse
Activate
Assess

Strategic & Technical Advisory

National Treasury
REPUBLIC OF SOUTH AFRICA

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#1.

**WHY DO A
SPENDING
REVIEW?**



Spending Reviews provide a methodology to support reforms on how Public Finances are allocated and managed. These reforms seek to:

1. Ensure that due consideration is given to the costs associated with introducing new policies
2. Enhance the understanding of how money is spent on existing implementation programmes
3. Empower those involved in budget analysis and policy reviews to undertake the required analysis

In a constrained fiscal environment, priority is also being given to identify potential opportunities to improve value for money, be it in the form of savings or improvements to programme designs

A GOOD CIVIL SERVANT...

1. Sees the big picture
2. Changes and improves
3. Makes effective decisions based on evidence
4. Leads and communicates
5. Collaborates and partners
6. Builds capability for all
7. Achieves intended outcomes
8. Delivers value for money
9. Manages quality services
10. Delivers at pace

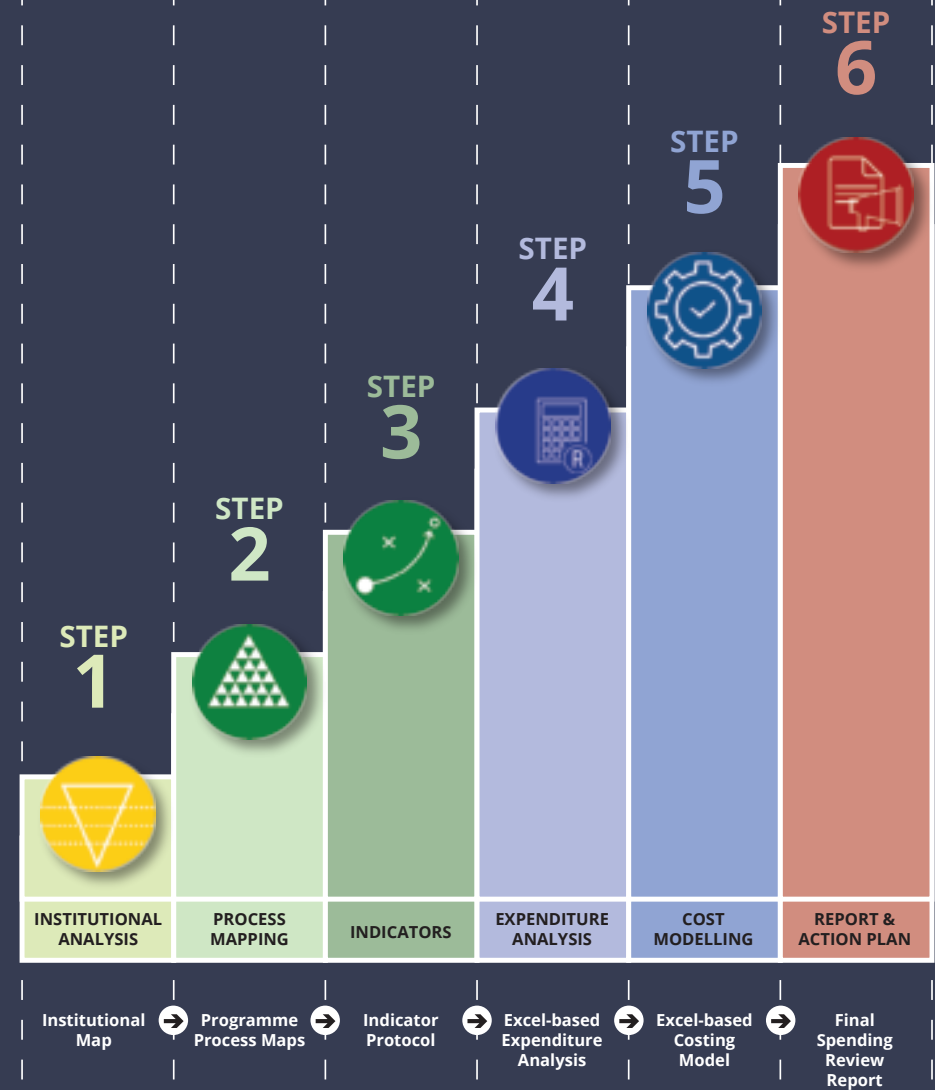
#2.

**WHAT DO
WE ACHIEVE
BY DOING A
SPENDING
REVIEW?**

A SPENDING REVIEW ALLOWS YOU TO IDENTIFY THE FOLLOWING FOR THE PROGRAMME:

1. Determine who is spending
2. Explores the logic of the programme
3. Measures progress
4. Reveals patterns in expenditure
5. Explores options for savings
6. Clarifies the message

This is achieved by completing each of the 6 steps of the Spending Review Methodology

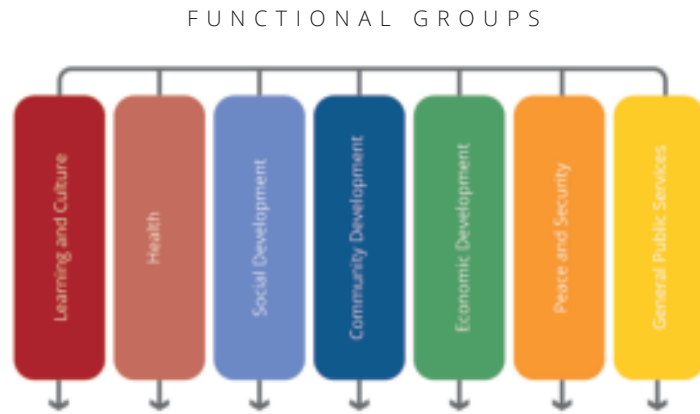


#3.

**HOW DO WE
DO IT?**

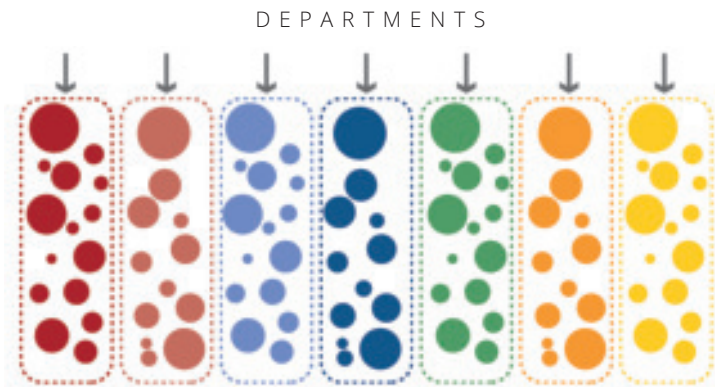
LEVEL 1 ANALYSIS

- Identify the key trends in the functional groups expenditure as recorded in the BAS and PERSAL data
- Emphasis to be placed on identifying significant expenditure categories where influence and control can be exerted



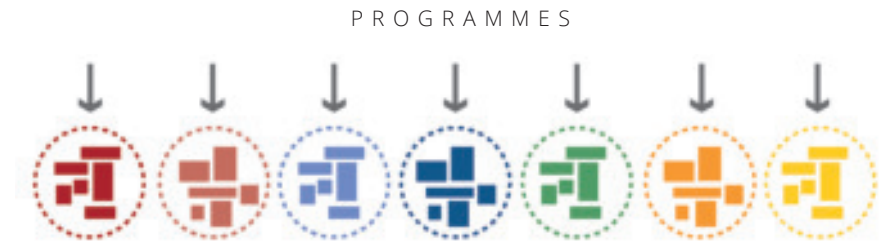
LEVEL 2 ANALYSIS

- Identify the key trends in the departments expenditure as recorded in the BAS and PERSAL data
- Emphasis to be placed on identifying significant expenditure categories over which the department can exert influence and control.
- This analysis follows the same logic used in level 1 analysis

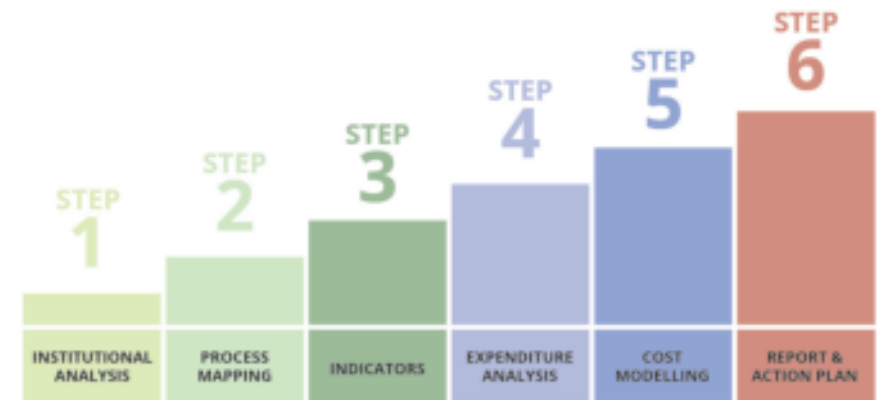


LEVEL 3 ANALYSIS

- Spending Review six-step methodology



SIX STEP METHODOLOGY



- The data used includes BAS and PERSAL as well all any other relevant administrative and non-financial information that can be accessed for the programme

#4.

WHEN DO WE DO SPENDING REVIEW?

CALENDAR

Each step should be completed within a defined timeframe so that it can inform the budget process

1.

DATE:

Institutional Analysis



2.

DATE:

Process Mapping



3.

DATE:

Indicators



4.

DATE:

Expenditure Analysis



5.

DATE:

Cost Modelling



6.

DATE:

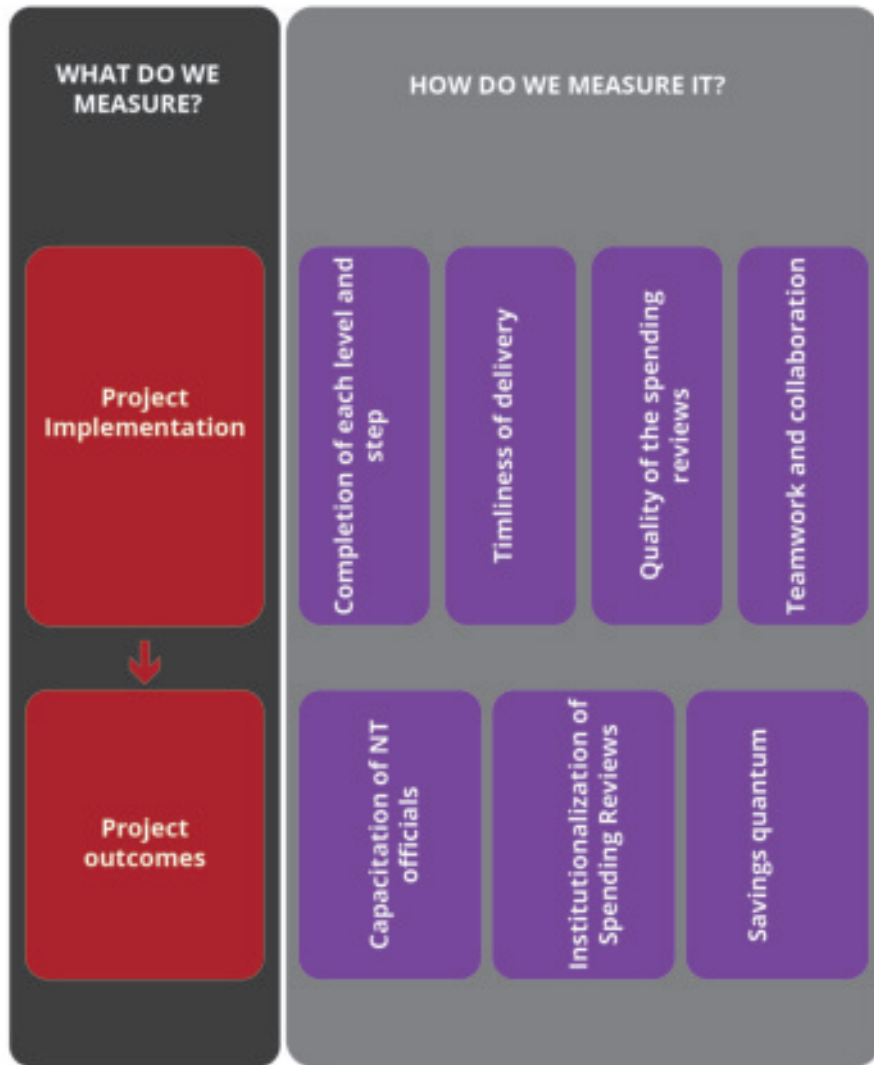
Report and Action Planning



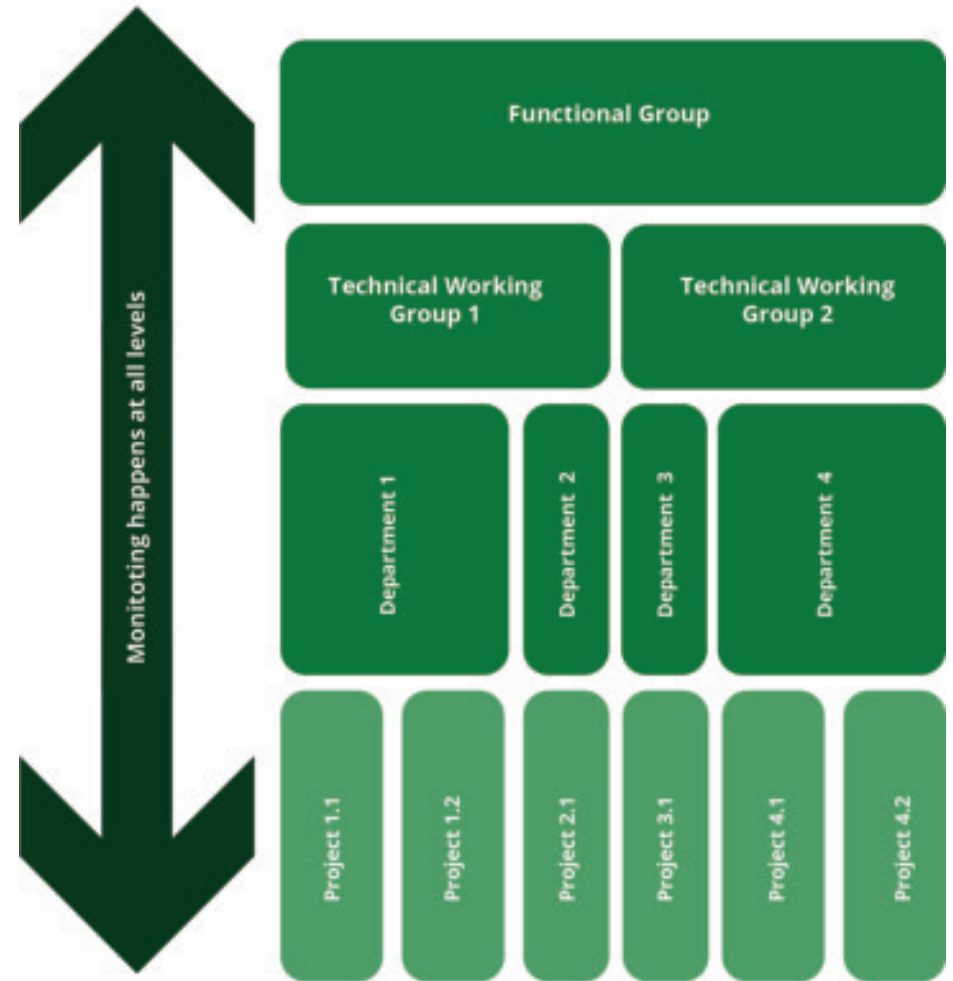
#5.

**HOW DO WE
MEASURE THE
SUCCESS OF
A SPENDING
REVIEW?**

MONITORING AND EVALUATION FRAMEWORK:



PROJECT IMPLEMENTATION



#6.

**HOW DO I GO
ABOUT DOING
A SPENDING
REVIEW?**



- Identify the key trends in the functional groups expenditure as recorded in the BAS and PERSAL data
- Emphasis to be placed on identifying significant expenditure categories where influence and control can be exerted

FUNCTIONAL GROUP:

What are the key expenditure trends of the Functional Group?

What categories of expenditure do I have influence and control over?

INSTITUTIONAL MAP

- Clarify the problem statement
- Identify key policies, laws and regulations
- Identify the programme beneficiaries
- Identify who is involved in the design and implementation of the programme
- Identify what decision rights or authority the different role players have
- Map the flow of funds
- Identify the role-players and map service delivery
- Map service delivery processes



Who has the power to make decisions on, and implement savings at programme level, departmental level, and national level?

STEP 1 INSTITUTIONAL ANALYSIS

This is the starting point of your analysis. Spend some time understanding all the stakeholders and their inter-relationships

IDENTIFYING WHO

PROCESS MAPS & LOG FRAME



- Unpack the programme to understand how it works (from inputs to impacts)
- Clarify the assumptions made by the programme designers (especially around resourcing)
- Identify the resources (inputs) and processes (activities) that need to be costed
- Determine the performance and administrative information you need for expenditure analysis and costing

What impact will savings have on the delivery chain?

STEP 2 LOGICAL ANALYSIS

This is an extensive body of work. It will require a number of iterations in development and thorough discussions with the Spending Review team and partners

EXPLORING LOGIC

INDICATORS & PERFORMANCE ANALYSIS

- Identify the indicators that measure output, outcomes and impacts (performance indicators)
- Identify the indicators that track inputs and activities (i.e. administrative information)
- Where applicable, include appropriate demographic indicators.
- Where applicable, highlight the applicable norms and standards
- State the sources used or that can be used for performance
- Analyse performance trends and patterns



How will savings impact on service delivery and quality of outputs?

STEP 3 INDICATORS

This step requires some skill in the development of indicators and gathering relevant administrative information. This step is critical in order to assess quality of outputs, efficiency in resource utilization and economy in procurement

MEASURING PROGRESS

EXPENDITURE ANALYSIS

- Consolidate raw expenditure data related to implementation programme
- Clean raw expenditure data to enable meaningful analysis
- Group expenditure to create 'expenditure buckets' and show link with log frame
- Analyse the expenditure to identify key trends and patterns at an aggregate level and per expenditure bucket
 - Look at expenditure of departments WHO, locations at facility level WHERE, or type of expenditure items WHAT
 - Understand general overheads, programme overheads (back office costs) and direct programme costs
- Compare expenditure data to performance, administrative, operational and demographic information to determine unit costs and identify costs drivers
- Benchmark unit costs across locations, organisations, and/or against market rates
- Explain the flow of funds
- Understand the relationship between inputs and outputs, and management policies and practices
- Seek opportunities for improvement and/or anomalies in the implementation of the programme
- Review and confirm baseline

Do expenditure trends and patterns indicate a potential and/or need to find savings?

STEP 4 EXPENDITURE ANALYSIS

This is a complex and extensive body of work and requires in-depth understanding of budget and expenditure data. A thorough understanding of the BAS system is necessary

REVEALING PATTERNS

COST MODELLING

- Understand the different types of demand and input variables that inform your cost model
- Identify quantity, demand, inputs and price that drive costs
- Apply the seven principles required for building a good cost model
- Explore the fiscal implications by developing different cost scenarios
- Identify policy choices, based on cost model scenarios
- Develop an interactive costing
- Identify trade-offs to be made between cost scenarios



Which option provides the most savings, with the least compromise on service delivery?

STEP 5 COST MODELLING

The success of this step is dependent on the accuracy and level of detail provided in the preceding steps

EXPLORING OPTIONS

SPENDING REVIEW REPORT

- Produce the final report (hard copy and electronic)
- Use the following format: One-page summary, three-page executive summary and 25-page report
- Use as many appendices as necessary
- Emphasize the implications of the research; no need to defend the methodology
- Write like a journalist
- Present the report as a critical communication tool in government

Can you clearly and logically communicate:
• The reasoning and methodology followed to find savings
• Your plan to action out savings?

STEP 6 REPORT AND ACTION PLANNING

It is important to write a concise report that flows logically and has a clear structure. The report should present a cogent argument based on sound technical analysis



CLARIFYING THE MESSAGE

SAVINGS



- Clarify the problem statement
- Understand the key policies, laws, regulation and informal practices that govern the programme
- Identify the programme's beneficiaries
- Establish who is involved in the design and delivery of programme
- Evaluate what decision rights or authority the different role players have in the implementation of the programme
- Map governance and reporting practices within and between spheres
- Map the flow of funds from across different sources and institutions
- Identify the potential for savings and efficiency improvements from examining the institutional design, programme duplication and policy shifts

Deliverable: Institutional Map

PROGRAMME:

Who has the power to make decisions on, and implement saving at programme level, department level and national level?

Who are the stakeholders?



#1

Map of institutional relationships

Map of the flow of funds



#1



- Unpack the programme to understand how it works
- Clarify all the assumptions made by programme designers (especially around resourcing)
- Map the processes involved in the delivery of the programme
- Demonstrate how inputs are converted into activities, outputs, outcomes and impacts in a logical framework
- Identify the key programme elements that link to key areas of management control
- Identify the potential for savings and efficiency improvements in how the programme operates

Deliverable: Process Map & Logframe

Is this programme addressing the right problem?

Does it make sense?



#2

Is there a logical structure to the programme?

Are there any potential inefficiencies in the way activities are organised and sequenced?



#2



**LEVEL 3 ANALYSIS:
STEP 3**

- Identify performance indicators that measures outputs, outcomes and impacts.
- Identify administrative indicators that track inputs, activities and outputs as well as the efficiency and economy in the use of resources.
- Where applicable, include appropriate demographic information in the analysis
- Where applicable, highlight the applicable norms and standards
- Find and state the sources of performance, administrative and demographic information

Deliverable: Indicator Protocol

What is and isn't being measured by the programme?

Are the indicators precise, relevant, useful and verifiable?



#3



LEVEL 3 ANALYSIS: STEP 4

- Consolidates raw expenditure data relating to the programme
- Clean and prepare raw expenditure data for analysis
- Group expenditure into 'expenditure buckets' that link to the programme's delivery processes
- Analyse the expenditure to identify key trends and patterns at an aggregate level and for each expenditure bucket
- Analyse the expenditure in terms of departments (who), locations (where) (especially at facility level) and items (what)
- Estimate general overheads, programme overheads (back office expenditure) and direct programme expenditure
- Combine expenditure, performance, administrative and demographic information to identify costs drivers and/or unit costs
- Benchmark unit costs across locations, organisations, and/or against market rates
- Examine how management policies and practices influence expenditure patterns.
- Use the analysis to identify opportunities for savings and efficiency improvements in the implementation of the programme.
- Use the analysis to determine the expenditure baseline for the programme.

Deliverable: Excel-based Expenditure Analysis



#4

KEY QUESTIONS TO GUIDE INITIAL ANALYSIS...

BAS

What is the expenditure per time period

- For total expenditure
- For specific categories of expenditure

Is expenditure decreasing or increasing

- What is the rate of increase/ decrease
- Use year-on-year growth rate calculations
 - Use compound annual growth rate
- Is expenditure growing faster or slower than budgets as a whole?

What could the future expenditure on the programme be?

- Simple growth projections
- Inflation adjusted growth projections

Outliers:

- On what and where is the most money spend?
- On what and where is the least money spend?

Share of expenditure

- What share of expenditure is spend on various expenditure categories?
 - Rank expenditure (do a pareto analysis)

What is the cost structure for the delivery of a service?

- Is it too high or too low
 - Is there variation across locations? Why does this occur? Is this justifiable?
- What is the relationship between expenditure and performance?

KEY QUESTIONS TO GUIDE INITIAL ANALYSIS...

PERSAL

What do we know about the establishment?

- How many people?
- Basic demographic details
- Length of service
- Appointments and terminations over time

How much do we spend on CoE and how has that changed over time?

What drives compensation spending in my sector?

Are there external factors?

- Function shifts?
- Changes in policy/legislation that led to more/fewer personnel?
- Outsourcing (PEs or pvt sector) and insourcing?

Internal factors

- Changes in personnel numbers
- Changes in average remuneration
- Changes in basic conditions of service
- Basic salary & benefits
- Changes in ranks of posts/individuals

Growth in CoE vs. growth in rest of budget...

- Has the budget grown as quickly as CoE?
- How does the department react?



#4



- Understand the different types of demand and input variables that will inform the costing model
- Identify quantity, demand, inputs and price that drive programme costs
- Build a functional costing model in line with good practice principles
- Explore the fiscal implications of different decisions by incorporating scenarios into the model
- Identify policy choices, expenditure cuts and savings based on cost model scenarios
- Identify trade-offs and savings between different costed scenarios to inform decision-making

Deliverable: Excel-based Costing Model

What are the key policy questions that this modelling should be able to answer?

What option provides the most savings, with the least impact on service delivery?





- Writes a final report in an engaging and concise way
- Uses the correct format for the spending reviews
- Presents a cogent and logical argument based on the technical analysis
- Makes clear and actionable recommendations on savings, efficiency gains and expenditure cuts
-

Deliverable: Spending Review Report

What savings did you find?

What is your plan to action out savings?



ANNEXES

DIFFERENCE BETWEEN BAS AND PERSAL

BAS contains records of all financial payments and receipts made by a department

- Payroll related payments are recorded in aggregate for the departmental unit and not at an individual level

PERSAL only contains a records of payments made to individual's on government's payroll

- Records are per individual and include fields linking the individual to their department, departmental unit, and in some case operating location (i.e., facility)

Aggregated figures in BAS, often differ from those PERSAL due to:

- **Timing differences:**
 - BAS records spending within the month that the payment is made
 - PERSAL backdates the payments to the relevant accounting month
- **Institutional units outside of departments:** Some departments have entities that record data in PERSAL but not in BAS
- **Direct BAS Payments:** Historically some payments were made straight through BAS and not through PERSAL e.g. when a new staff member did not have PERSAL number

WHAT IS BAS?

BAS, is the **basic accounting system** – used by all national and provincial government departments

It contains records* of all financial payments or receipts made by a department

It allows granular analysis of provincial expenditure patterns to identify:

- **How much** is spent in aggregate and on different implementation programmes?
- **Where** is the money spent?
- **Who** is spending the money?
- **What** the money is spent on?

** Some expenditure and receipts are only captured in aggregate in BAS for reporting purposes and the level 3 analysis will also involve an interrogation of the relevant source databases*

RAW BAS FIELD NAME	DESCRIPTION
National_Provincial	National or name of Province capturing the transactions
Responsibility_Level_1 to 15	Who is responsible for the specific task or service, to help identify the cost centre of a transaction. As the location of cost centres varies across departments, this segment is not standardised, and each department customises and maintains this segment.
Econ_Class	
Financial_Year	
Original_Budget	
Adjustment_Budget	
Virement	
Fund_Shift	
Roll_Over	
Current_Budget	
Commitment	
Total_Expenditure	
Available_Budget	
April - March	
Regional_ID_Level_1 to 8	The geographical location of the beneficiary of the service (or recipient of the goods). The beneficiary is not necessarily the department incurring the payments.
Fund_Level_1 to 9	The source of funding for the payments (e.g. discretionary voted funds or conditional grants or donor funds) and the nature of receipts. Also used to record receipts for rendering services or delivering goods, and other departmental own revenue.

RAW BAS FIELD NAME	DESCRIPTION
Objective_Level_4	The budget programme or activity against which a transaction should be recorded, i.e. what needs to be done or why. Reflects a department's programme and sub-programme structure at the level of detail required for reporting and management.
Programme_Level_5	
Sub_Programme_Level_6	
Objective_Level_7	
Objective_Level_8	
Objective_Level_9	
Objective_Level_10	
Objective_Lowest_Level_Code	
Objective_Lowest_Level	
Assets_Level_1 to 10	
Project_Level_1 to 10	Identifies whether a payment is part of a project. Departments are encouraged to name these projects.
Item_Level_1 to 11	Goods, services and other inputs purchased to help achieve a department's objective, i.e. 'what' government is paying for. Major item classifications include compensation of employees, construction of capital assets, goods and services. Each of these can be disaggregated (e.g. inventory materials and supplies fall under 'goods and services').
Infrastructure_Level_1 to 6	To identify whether a spending item relates to infrastructure and, if so, to which type (e.g. maintenance, upgrading or rehabilitation, or the construction of new assets).

WHAT IS PERSAL?

National and provincial govt personnel expenditure

- Salaries
- Allowance
- Appointments
- Terminations

Complete data from 2006 onwards:

- No sampling error
- 8% of all people employed in SA; 11% of all formal, non-agriculture employees

RAW PERSAL FIELD NAME	DESCRIPTION
description	Name of the Department
program_desc	Description of program within department
component	The PERSAL establishment is a hierarchical structure of the department and its posts within government. Component is the highest of 15 levels of the organisational structure.
allowcde	A code that is associated with the allowance description. There is one code per allowance description
allowdesc	The allowance description. Used to analyse the different remuneration categories, e.g. salary, housing, medical and other allowances
major	Highest of 4 levels of occupational classification according to ISCO88. The structure consists of ten major groups at the top level of aggregation, subdivided into 36 sub major groups, 93 unit groups and 19 sub unit groups.
minor	To analyse the personnel per minor occupation group within each major group e.g. medical specialists within Professionals and Managers
edu_ind	This field is relevant within Education. Educator - Yes (1) or No (0), shows split of personnel between educators and non-educators.
finYear	Financial year stretching from April to March

RAW PERSAL FIELD NAME	DESCRIPTION
amount	Total amount of all expenditure records.
N	Total number of personnel who benefitted from the amount
npayments	Total number of payments making up the amount