

MASTER OF BUSINESS ADMINISTRATION (MBA)



Module Guide

PUBLIC SECTOR MANAGEMENT

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REGENT Business School

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INTRODUCTION TO THE MODULE

The objective of this module is to facilitate the student's understanding of the theoretical issues pertaining to the role of government in a mixed economy, as it translates into expenditure on government functions. The scope of the module verges across several cross references to, and examples from, countries making up the Southern African Region. The increased level of interaction and economic co-operation between these countries, and across the African continent as a whole, makes it almost impossible to look at the role of government and public policy in isolation. In view of the interrelatedness of the economies of the Southern African countries as well as cultural and historical links between these, students from neighbouring countries should therefore also find the contents of the module accessible and relevant.

HOW TO USE THIS MODULE

This module should be studied using the recommended textbook (s). You should read about the topic that you intend to study in the appropriate chapter before you start reading in detail in the recommended textbook (s). Ensure that you make your own notes/summaries as you work through both the textbook (s) and this module.

At the commencement of each chapter you will find a list of objectives. These objectives outline the main points that you should understand when you have completed the chapter with its accompanying section(s).

Avoid reading all the material at once. Each study session should be no longer than two hours without a break.

In the course module chapter, you will find the following symbols and instructions. These are designed to help you study.



SELF ASSESSMENT ACTIVITY

You may come across self-assessment questions which will test your understanding of what you have learnt so far. Answers to these questions are given at the end of each chapter. You should refer to the textbook(s) when attempting to answer the question.



ACTIVITY

You may come across activities which ask you to carry out specific tasks. In most cases there are no right or wrong answers to these activities. The aim of these activities is to give you an opportunity to apply what you have learnt.



READING

At this point you should read the suggested reference.



THINK POINT

A think point asks you to stop and think about an issue. Sometimes you are asked to apply a concept to your own experience or to think of an example.



READING

The core texts for this module are :

Black P.A, Calitz E, Steenkamp T.J and Associates (2008) Public Economics, 3rd Edition, Cape Town, Oxford University Press.

TUTOR MARKED ASSIGNMENTS

You will be required to complete and submit an assignment by a specified date. This assignment is assessed as part of your course work. Therefore, it is very important that you complete it.

At an MBA level students are expected to read widely and show the marker that they have the ability to analyze a variety of viewpoints (backed by theoretical justification).

Examination

The examination will cover all aspects of the syllabus in the module. Students are expected to supplement their knowledge with additional reading, in order to be adequately prepared.

TABLE OF CONTENTS

	Topic	Page
	Introduction	2
Chapter 1	Overview of public administration and the public sector	7
Chapter 2	Public Sector Economics	85
Chapter 3	Public Financial Management	125
Chapter 4	Local Government Management	199
Chapter 5	Ethics and Governance Considerations for the Public Sector	245
Chapter 6	Strategic Management in the Public Sector	280
Chapter 7	Introduction to Public Policy and Policy Analysis	297
Chapter 8	Service Delivery Challenges and Solutions	324
Chapter 9	Impact of Technology on Public Administration	341
	Bibliography	356

CHAPTER 1

OVERVIEW OF PUBLIC ADMINISTRATION AND THE PUBLIC SECTOR

OUTCOMES

After studying this chapter you should be able to:

- differentiate between public managers, political office bearers and public officials;
- identify the domain within which these officials function; and
- determine the roles and functions of the various categories of functionaries mentioned above.
- differentiate between the public, private and government sectors;
- identify the domain within which the public service exists; and
- understand and explain the various government interventions.
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1.1 INTRODUCTION

Public servants have rarely been popular. At best, they are seen by the general public as a necessary item of expenditure. At worst, they are considered to be an unnecessary extravagance. They are generally described as 'unproductive', with the implication that production is something which only occurs in factories and similar places. Few people stop to consider the *service* aspect of the civil service or the local government service. The emphasis tends always to be on cost rather than on output. This misconception is something which people working in central and local government have lived with for a long time and most of them are resigned to it. How much of this public attitude is attributable to the behaviour and attitudes of civil servants and local government officers themselves?

Anyone who has walked down the anonymous corridors of council offices or a government department inevitably has the impression of remoteness and impersonality. The worst features of bureaucracy seem to be reflected in the public sector. Why should not all local and central government offices, to which ordinary members of the public have to visit, be bright and inviting, at least in the reception areas? Why should their hours of opening be geared to the needs of their employees rather than their clients and customers? Should there not be more positive attempts to let the public know of the services to which they are entitled and for which they are largely paying? Too often, however, 'public relations' is seen as a very low priority provision, particularly among elected representatives of local authorities.

For example, in South Africa, and in most African countries, governments have done little to improve this public image. Indeed, public service has been denigrated more frequently than it has been praised, resulting in an appreciable fall in morale in both the civil and local government services. This denigration is an aspect we shall examine further in this chapter.

1.2 The concept of a public service

According to Derbyshire (1984:125), “when one considers the vast workforce of the public service one tends to think of people in discrete, watertight compartments. Thus we speak of the civil service, the local government service, the health service, and so on. Very rarely, if ever, do we use the expression the ‘public service’. Is it possible-is it helpful-to speak of a public service?”

It might be a useful concept if we were able to identify common features in the structure, organization, or methods of these separate groups of employees. Then we could analyse and judge them on the basis of common characteristics.

The first thought that probably springs to mind, when the public service, or public servants, are mentioned, is one of bureaucracy. ‘Government from a desk’ seems the most obvious characteristic of a civil servant or local government employee. However, when we try to define bureaucracy, we are forced to conclude that it is by no means confined to the public sector. The majority of people work in bureaucracies. Professor Elliot Jaques, of Brunel University, estimates that 90 per cent of the working populations of the United States and the United Kingdom operate in some kind of bureaucratic organization. Bureaucratic structure is not a very reliable characteristic to look for in search of common ground.

Public managers and administrators function, whether they are aware of it or not, within a political environment. Of necessity, this conditions their approach to their work. However, we should avoid over-emphasizing this point as far as the great majority of public servants are concerned. In both the civil service and the local government service it is really only those people in senior positions, and who work reasonably close to the ‘political coal face’, who are constantly aware of the political obligations and constraints confronting them: the majority of employees are just ‘doing a job’. A similar point can be made about the private sector. We often stress that private enterprise is conditioned by the profit motive, but it would be misleading to think that every worker in every firm, however lowly his/her position, had profitability at the forefront of his/her mind. Most of them, too, are just doing a job.

Nevertheless, the political context containing the public sector does create something which is peculiar to it: close political control and accountability. This brings an additional dimension to decision taking at most levels. In other words, before a decision is taken, it is not just a question of whether it is right technically or administratively, but also whether it will be politically acceptable and, as such, will it stand the test of political scrutiny? The political context must, then, be viewed as a reliable characteristic of the public service. Are there others?

There are, although there is nothing quite so clearcut and distinctive. Many large organizations in the private sector, and most of those in the quasi-governmental sector, display these characteristics, but only rarely in the developed form do we find them in central and local government. They may be summarized as: the absence of patronage and nepotism in selection and promotion procedures; the concept of anonymity whereby it is the temporary politician who is in the public eye while the permanent official is in the background; and the presence of a national structure and machinery for pay and working conditions. We should remember, however, that, at chief officer level in local government, the 'anonymity rule' does not apply so obviously.

Using these characteristics as our criteria, we are forced to the conclusion that only the civil service and the local government service completely qualify for inclusion in the public service. Employees in ad hoc regional or provincial authorities lie on the fringe of such a service; people working in the nationalized industries may be in the public sector but we cannot regard them as part of the public service. Even defining the public service as narrowly as this produces problems. If we are to think of a common body of people forming a public service we should really see them as being in common employment with opportunities to move and progress within the total organization. In practice, this happens only rarely; there is still little movement between the civil service and local government. Whether or not there should be more is one of the questions we will discuss in our final, evaluating chapter.

Before we look at the two parts of what we are calling the public service, let us consider a little more closely the concept of bureaucracy.

1.3 The Concept Bureaucracy

Bureaucracy is a word more often used as a term of abuse than as a description. To many people it signifies delay, 'red tape', coldness, impersonal attitudes and inefficiency. Whereas private enterprise suggests dynamism, relevance, and adaptability, bureaucracy-epitomizing 'public enterprise'-suggests sluggishness, remoteness, and rigidity. Both impressions, if used as generalizations, are travesties of the truth.

Only a minority of privately run organizations are, by international standards, highly efficient, and some of them display many of the characteristics for which the public sector is often criticized. Equally, the British public service, although now not perhaps the best in the world, has certainly served as a model for many others and is still copied today. How, then, has public administration become so closely associated with bureaucracy, and why has bureaucracy acquired such a bad name? Public administration is associated with bureaucracy because it is, in its structure and methods of working, essentially bureaucratic. Having said that, most organizations of size are bureaucratic, and this is not necessarily to be deplored: it is inevitable. Bureaucracy has a bad reputation largely because of the consequences of badly run bureaucracies. A highly bureaucratic organization, which is ill-managed, is likely to reveal more obvious defects than a non-bureaucratic one. To explain this, let us look at the essential characteristics of bureaucracy.

Max Weber (1864-1920) viewed bureaucracy as a very advanced and rational form of human organization, and although he was aware of its imperfections, believed that, on balance, the good features more than outweighed the bad. The characteristics of a bureaucracy, developed from Weber's ideas, may be summarized as:

- a hierarchical system of authority;
- a systematic division of labour;
- a clear specification of duties for everyone working in it;
- clear and systematic disciplinary codes and procedures;

- the control of operations through a consistent system of abstract rules;
- a consistent application of general rules to specific cases;
- the selection of employees on the basis of objectively determined qualifications; and
- a system of promotion on the basis of seniority or merit, or both.

Both the civil service and the local government service in Britain display these characteristics to greater or lesser degrees. In theory, and to a considerable extent in practice, they imply that the whole organization is more important than any of its individual parts. They also imply that the organization, personified by a central or local government department, can carry on its work with little or no loss of continuity whatever changes take place in the personnel within it. These characteristics are both the strength and weakness of a bureaucracy.

1.3.1 Strengths and weaknesses of bureaucracy

A hierarchical system of authority means that the administration of policy is clear and unequivocal: what is decided at the top is passed down for implementation in a precise and direct manner. It also means that decision taking can take a long time if the discretion of the person at the bottom is limited and s/he has to refer constantly to the person above.

A systematic division of labour makes the fullest use of training and expertise but it can lead to excessive departmentalism. This division in turn, can inhibit good communications to the ultimate detriment of clients. All too often we have heard the phrase 'I don't know anything about that: it's not my job'. At the same time it is obviously advantageous that everyone in the organization should clearly know what their duties are. Ideally, each person should know what they are responsible for, whom they are responsible to, and what authority they have. A well-designed, well-managed bureaucratic system ensures that all these things are known and understood.

Clear and systematic disciplinary codes and procedures imply firmness but fairness of treatment, and the majority of people will respond well to this arrangement. There will, however, inevitably be exceptions to the general rule and the inability of a bureaucratic system to deal easily with the 'special cases' is one of its weaknesses.

The most recognizable characteristics of a bureaucracy are that operations are controlled through a system of abstract rules and then subsequently the general rules are applied to specific cases. It will be obvious that if a unit of a few hundred civil servants or local government servants is dealing with a clientele of several hundred thousand it will be impossible to consider the case of every applicant for a benefit or a service on its individual merits. Public administrators inevitably deal in generalities and general treatment can often be unfair as far as an individual is concerned. Dealing in generalities is rather like dealing in averages. If you were to take the individual weights of a small group of people, aggregate them, and then calculate the arithmetic mean average, it is quite possible that no single member of the group had the exact weight of the average. Administration for the 'average case' can often mean that no single client is completely satisfied with the way s/he is treated.

Recruiting people on a basis of objectively determined criteria of age, qualifications, and experience seems, at first glance, the best method of selection, and in most cases it is. Again, however, this method tends to ignore the 'special case'. Bureaucracies are not happy resting places for eccentrics, even though eccentricity may be an expression of high talent. It is sad, but true, that most people entrusted with recruiting into the public service would prefer to appoint a 'second-best' who would be likely to conform than a 'genius' who would not.

The final characteristic of a bureaucracy which we have identified is a system of promotion on the basis of seniority or merit, or both. The best bureaucratic organizations would put merit clearly before seniority, without completely discarding the latter. All too often, however, seniority is the dominant criterion and this can mean that the ability to survive, without ruffling anyone's feathers, is the surest route to the top.

In this brief examination of bureaucracy, we have looked at its strengths and how these strengths are its potential defects. What lessons can we learn from this? First, the objectives of the organization must be clearly defined, and continually reviewed and redefined. Second, more attention should be paid to informal structures and informal relationships. In most large organizations, for example, in addition to the formal channels of communication, there is the informal system, usually known as 'the grapevine'. Trying to ignore the grapevine, or even suppress it, is seldom profitable: it is more sensible to appreciate it and even use it. A third piece of advice to be considered is that apparent operating costs should not be allowed to obscure 'real' costs. An example of this advice can be taken from a highly successful organization in the private sector, Marks and Spencer. Many years ago Marks and Spencer embarked on a study of the cost-effectiveness of their administrative procedures and came to the conclusion that the cost of operating many controls was greater than the losses they were supposed to prevent. Thus, over the years, they progressively made a number of procedures redundant and in their head offices, in London's Baker Street, they now have a 'museum' of discarded forms. It is no coincidence that the man brought in from business to set up a unit for the elimination of bureaucratic waste and improvements in efficiency, Lord Rayner, was seconded by Marks and Spencer. Because of the political context within which public administration operates, it is obviously more difficult to streamline procedures which are intended to provide public accountability. Nevertheless, if the 'unacceptable face of bureaucracy' is to be avoided, more experimentation with procedures must be attempted.

1.4 Origins of the Modern Civil Service

The modern civil service can trace its origins to Britain from the middle of the nineteenth century when a demonstrably corrupt system, based on nepotism and patronage, was gradually replaced by one based on competitive selection, objective promotion, and political neutrality. The event which prompted these reforms was the publication in 1854 of a report by Sir Stafford Northcote and Sir Charles Trevelyan. Northcote and Trevelyan had been asked by the Treasury to consider and report on the conditions which were common to all the public establishments.

They criticized the existing system of recruitment, promotion, and organization and recommended sweeping changes. These included the establishment of a Civil Service Commission, to recruit on merit by open competition, and the introduction of promotion on the basis of merit and seniority. They also recommended the creation of general grades of civil servants which would provide a clear career for all entrants with opportunities for promotion not only within a particular department or ministry but from one department to another. They became known as the Treasury classes.

The changes following the Report did not occur overnight. The Civil Service Commission, consisting initially of three commissioners, was established in 1855 and a system of open competition was gradually introduced throughout the service. There was still considerable opposition to radical change and it was several years before major parts of the Report were implemented.

1.4.1 Treasury control

The Treasury had asked Northcote and Trevelyan to report and it was the Treasury which came to dominate the civil service in the years that followed. Initially, it was mainly the case of 'the man who pays the piper calls the tune' but the Treasury's influence began to extend far beyond financial control. The whole system of grading of posts within the service was controlled by the Treasury, through the Civil Service Commission. The grades were set out in hierarchical order with the levels corresponding to approximately similar salary points. These were the 'general', as distinct from the specialist posts in the service. The specialists included ambassadors in the Foreign Service, scientists, doctors, psychologists, information officers, architects, engineers, surveyors, and so on. The highest salaries, such as those of ambassadors were accorded to those at the top of the administrative class, the others were comparable to those in all the general classes.

The philosophy behind the creation of Treasury classes was to recruit generalists to administer and execute policy and to provide the clerical support. The Treasury, following the thinking of Northcote and Trevelyan, believed that intellect, developed in whatever discipline, was the prime quality needed by a top administrator. If expert knowledge was required s/he could turn to his/her specialist experts for advice. Thus,

although it was possible to progress from the Executive Class into the Administrative Class and right up to the top of the service, the normal entry point for administrators was as Assistant Principal. This entry point was primarily an administrative trainee grade, and, as such, attracted only a modest salary. However, after a few years' service, an Assistant Principal could expect to jump quite significantly in salary to Principal, and, from there, if s/he had the ability, to Assistant Secretary and above.

Treasury control grew in the nineteenth century and became all pervasive. This control included the determination of departmental establishments, job gradings, selection and promotion procedures, training policies, working procedures, financial estimates, and, of course, departmental expenditure. There was little a department could do without prior Treasury approval. The most obvious consequence of Treasury control was that it created a unified service: it made it possible for someone entering the civil service to make his/his career in virtually any Department, irrespective of where s/he began. This flexibility is in stark contrast with local government where, as we have seen, professionalism has dominated and where the general administrator still has limited career opportunities.

1.4.2 The Fulton Report

The Treasury had its critics, however, and they grew more vociferous and influential in the post-1945 years. The main grounds for criticism were that the Treasury took a too negative approach to the control of expenditure, that its control of establishments and methods of work was too restrictive and encouraged the least desirable aspects of bureaucracy; that its responsibilities were too wide for it to undertake efficiently; that, because of its concern with departmental spending, it was less able to take a wider, positive view of economic policy; and that, in building up its own empire, it had inhibited the acceptance of responsibility by other Departments.

The criticisms were considerable but the Treasury was powerful. Not powerful enough, however, to silence its critics. Substantial changes were made in its internal organization in the early 1960s but these were not considered to be enough by some outsiders. In 1965, the Estimates Committee of the House of Commons published a report on *Recruitment to the Civil Service* which hinted at certain deficiencies in the

service. It recommended an inquiry into the structure, recruitment, and management of the civil service, and in 1966 a departmental committee under the chairmanship of Lord Fulton, Vice-Chancellor of the University of Sussex, was appointed. Its other members were Dr Norman Hunt, later Lord Crowther-Hunt, of the University of Oxford, four senior civil servants, two MPs, one Conservative and one Labour, and four other 'independent' members, drawn from business, the trade union movement, and the universities. The Committee published its report in 1968 and it has since been revealed that the greatest influence on it, and its main author, was Lord Crowther-Hunt.

The main points in the Report may be summarized as follows:

- The civil service was still largely a product of the nineteenth century and its attitude was to support the 'gifted, generalist amateur';
- What was needed was to 'look at the job first' and to bring a more professional approach to working procedures;
- A new Civil Service Department should be created to take over the establishment work of the Treasury and to oversee the Civil Service Commission;
- The system of Treasury classes should be abolished and replaced by one unified grading structure;
- A Civil Service College should be established;
- Principles of 'accountable management' should be applied throughout the service.
- Management service units should be set up in all major departments;
- In most Departments, there should be a senior policy adviser, in addition to the Permanent Secretary, to advise the minister;
- Ministers should be allowed to employ temporary experts to advise them; and
- There should be more 'openness' so that the outside world could see more readily who was taking the decisions.

The Report was strongly influenced by the experience of successful business in the private sector and by civil service methods in other countries. The recommendations

for accountable management and management service units were obviously intended to copy business practices. The proposals for a Civil Service College and the introduction of policy advisers drew from experience of the French civil service, whose recruitment and training policies for its top civil servants are world-renowned and where the use of 'ministerial cabinets', to which we have already referred, is widely quoted.

1.4.3 The Post-Fulton civil service

The government accepted most of the recommendations of the Fulton Committee and most have been progressively implemented. The Civil Service Department was created in November 1968, taking over the personnel functions of the Treasury, and the Civil Service College opened soon afterwards at Sunningdale, Berkshire. A decision, in principle, to abolish Treasury classes and merge them with the professional and specialist grades was taken immediately, and over a period of years this merger has taken place. Genuine steps have been taken to create units to which could be applied what Fulton called 'accountable management' and this has included a deliberate process of 'hiving-off' which we have already discussed in an earlier chapter. The use of special advisers has grown, albeit slowly.

The Civil Service Department must be considered to have been a relative failure in view of the high hopes which its creation had generated. Although its chief became head of the entire service, it was not successful in matching, let alone eclipsing, the long-established dominance of the Treasury. In the end, it was the man who paid the piper who called the tune. In announcing its abolition in November 1981, Prime Minister Thatcher said the government had arrived at its decision because the existence of the Department divorced central responsibility for the control of manpower from responsibility for the control of expenditure.

The new Management and Personnel Office (MPO), established within the Cabinet Office, is essentially what would be called, in management terms, a 'staff' department, supplying advice and assistance to the service as a whole. The Treasury is again the 'line management' department, with a clearly stated responsibility for the control of civil service manpower, pay, superannuation, and allowances: in fact the very things which the Fulton Committee thought could be better performed by a new, separate department.

The Civil Service Department could probably have worked successfully if it had been allowed to. The same might well be said of the other department to challenge the power of the Treasury, the Department of Economic Affairs. It too was, of course, eventually abolished. It would not be beyond the bounds of possibility if, at some point in the future, the Civil Service Department, or something like it, returned.

The Civil Service College, although generally approved as a necessary development, has not really lived up to its expectations. Some observers have compared it, unfavourably, with its French equivalent, *L'Ecole Nationale d'Administration*, in Paris, and have said that it does not provide a sufficiently relevant and rigorous training for the very top administrators in the civil service.

It is now more than fifteen years since the Fulton Report was published: apart from the organizational changes, what effects has the Report had on the composition and character of the civil service? Little that is obvious. Promotion for the vast majority is still very slow, although there is a 'fast' route to the top for a few. A new grade of administration trainee was introduced in 1971 for graduates able to pass the rigorous selection tests. An opportunity for people already within the service to move upwards more quickly was provided by creating the post of Higher Executive Officer (Administration) HEOA, later to be termed Higher Executive Officer (Development) HEOD. The results have not been dramatic.

Oxbridge candidates still constitute the majority of people coming into the fast route via the Administration Trainee Competition, despite attempts to attract graduates from other universities and colleges. Indeed, the selection is so discriminating that, in recent years, it has not been found possible to fill all the vacancies available without some lowering of standards. In 1982, for example, 2174 external and 169 internal applications were received to fill 44 vacancies, yet only 24 appointments were eventually made.

1.4.4 Local government today

Local government employs nearly four times as many people as central government. The total labour force of about 2.5 million is as big as most of Britain's manufacturing industries combined. The reason for this labour intensity is not hard to find: local authorities are essentially providers of services, many of them personal, and few of them can be automated or, in other ways, depersonalized.

Individual local authorities are usually very significant employers. In many county towns, the county hall or shire hall provides work for more people than any other single undertaking. On average, and the extremes will differ greatly, a local authority will probably employ about 3000 people, with larger bodies, such as the Greater London Council, having 20 times that number on their payrolls.

It is misleading to talk about a 'local government service' as if it were an exact, or even near, equivalent of the civil service. It is not. Although there are national grades for salary purposes, individual occupations vary enormously.

Apart from the diversity of activities, the other main contrast with the civil service is in the backgrounds of local government officers. Whereas the non-industrial civil service consists mainly of 'generalists', the local government service is still dominated by professionals: teachers, engineers, architects, planners, accountants, and so on.

Although the structure is not nearly so clearly defined as in the civil service, local government employees fall into one or other of the following four main groups:

- | | |
|--|------------|
| 1. chief officers- | 0.2%; |
| 2. administrative, professional, technical, and clerical staff | 19.8%; |
| 3. teachers, police, and firemen- | 30.0%; and |
| 4. manual workers- | 50.0%. |

If we are to speak of a local government service, as a civil service equivalent, then it is the 20 per cent group of chief officers and administrative, professional, technical, and clerical employees which really constitutes it.

1.5 Recruitment and Training for the Public Service

The standard way of entering the civil service is still on the basis of open competition. The Civil Service Commission operates an elaborate system of written examinations and interviews, which over the years, has been improved and refined. For clerical posts, GCE 'O' levels are normally required; for executive officer grades, 'A' levels or a degree; and for direct entry into administrative posts, through the administration trainee scheme, an honours degree. In all cases there are written examinations and interviews. The high levels of unemployment in the 1980s, and the consequential competition for jobs, have had their effect on the civil service so that it has become not uncommon to find 'A' level, and even degree, candidates for clerical officer vacancies, and the executive officer grade is becoming increasingly a graduate route.

Administration trainees undergo what was developed in the last war as the 'Method 2' selection process, which involves a series of written tests followed by extensive and intensive interviews by the Civil Service Selection Board. Method 1 which preceded, and then for a time operated alongside, Method 2 put its main emphasis on written examinations.

It is possible to criticize the composition of the present-day civil service but it is difficult to fault the thoroughness and objectivity of the Civil Service Commission's recruitment methods. They are generally more advanced and more rigorously designed than anything operating in local government or in many organizations in the private sector.

Recruitment to local government is not a national function and there is no equivalent of the Civil Service Commission. Each local authority recruits its own staff in its own way. In general, it is by open competition, as in the civil service, but usually in a much less structured and developed form. In contrast with the civil service, selection for posts above a certain level involves both permanent officers and elected representatives. The normal pattern of recruitment consists of an open advertisement, written application, and face-to-face interview. Written tests are rarely

given and the interview is usually much less elaborate and scientifically designed than its civil service counterpart.

Recruits, who may be school leavers and, increasingly, graduates, will expect to enter one of the professional departments and, if they do not possess an appropriate qualification already, will be required to train in the appropriate profession in order to obtain promotion. The highest levels are normally attained by moving jobs from one authority to another with the ultimate aim of becoming a chief officer of a department.

But the local government service is not run exclusively by the professions. There are general administrators although their role and career chances are relatively limited. They are normally responsible for running administrative and clerical services within departments. They are typically older and have served longer than those in the professional mainstream of a department who are at the same salary level, and the highest position they will normally achieve is that of office manager.

There is also a special kind of administrator in local government, the committee clerk, who normally works in the department of the chief secretary or administrator. His/her role of servicing the committee can be of key importance in that s/he will be responsible for assembling the agenda, taking the minutes of the meeting and ensuring that those responsible for taking the action are notified of the committee's decisions.

Training in the civil service is partly 'on the job' and partly external. Since the publication of the Fulton Report, there has been an increased emphasis on management training and much of this has been done at the Civil Service College or by use of external agencies. On-the-job training has long been a feature of the service and has varied from, at its worst, 'sitting next to and learning from Nelly' to well-designed development programmes. There is evidence that internal training has improved considerably in recent years. The use of the Job Appraisal Review (JAR) system has helped to identify training needs and make training more systematic. The system involves an annual interview between a civil servant and an immediate superior in which the interviewee's job and the way s/he has performed it during the preceding twelve months or so are jointly evaluated. Most central departments

operate the system for Executive Officer up to Principal grades. In some cases, it has been used with lower grades.

Qualifications are an important factor in obtaining an appointment and for promotion in local government, and a concern that local authority staff should be properly trained for the job has been regularly expressed by the National Joint Council of the white collar trade unions and employers since its inception in 1943. However, despite this expressed concern and the fact that local government employs a large number of manual workers, much of the responsibility for training has been left to the professional associations and individual officers, and little emphasis has been placed on training for manual workers. It is also true that much of the training effort has been primarily concerned with the acquisition of professional and other qualifications by examination, perhaps to the extent that they are sometimes seen as ends in themselves rather than as means to the better running of a service. This contrasts with training in industry which was concerned until the 1960s, when management training grew rapidly, with craft apprenticeships aimed at improving work performance; training in industry has also traditionally been at the instigation and expense of the employer. It is surprising that since local authorities control further education, they do not make more use of its resources; a few undoubtedly do but, in most cases, it is the private sector which is the greatest user of further education.

Nevertheless, the Local Government Training Board, set up in 1967 to ensure that training for local government was financed and carried out, has done something to advance training, especially in those areas not covered by the professional institutes, such as manual work, management development, personnel management, and general administration. It has also stimulated a concern for training within local authorities by encouraging the appointment of training officers and regular surveys by local authorities to check that manpower of the right kind and in the right numbers is available.

It must, in honesty, be said that governments since 1979 have done little to improve this public image. Indeed, public service has been denigrated more frequently than it has been praised, resulting in an appreciable fall in morale in both the civil and local government services. This lack of morale is an aspect we shall examine further in the next chapter.



SELF ASSESSMENT ACTIVITY

The term 'Bureaucracy' conjures meanings that sometimes appear to present negative images of the public service.

Critically analyse this statement within the context of a government department or a government of your choice.

1.6 The Public Sector , The Private Sector and Government

1.6.1 The public sector

The **public sector** is the part of economic and administrative life that deals with the delivery of goods and services by and for the government, whether national, regional or local/municipal.

Examples of public sector activity range from delivering social security, administering urban planning and organizing national defences.

The organization of the public sector (public ownership) can take several forms, including:

Direct administration funded through taxation; the delivering organization generally has no specific requirement to meet commercial success criteria, and production decisions are determined by government.

Publicly owned corporations (in some contexts, especially manufacturing, "State-owned enterprises"): which differ from direct administration in that they have greater commercial freedoms and are expected to operate according to commercial criteria, and production decisions are not generally taken by government (although goals may be set for them by government).

Partial outsourcing (of the scale many businesses do, e.g. for IT services) is considered a public sector model.

A borderline form is

Complete outsourcing or contracting out, with a privately owned corporation delivering the entire service on behalf of government. This form may be considered a mixture of private sector operations with public ownership of assets, although in some forms the private sector's control and/or risk is so great that the service may no longer be considered part of the public sector.

In spite of their name, public companies are not part of the public sector: they are a particular kind of private sector company that can offer their shares for sale to the general public.

The decision about what are proper matters for the public sector as opposed to the private sector is probably the single most important dividing line among socialist, liberal, conservative, and libertarian political philosophy, with (broadly) socialists preferring greater state involvement, libertarians favouring minimal state involvement, and conservatives and liberals favouring state involvement in some aspects of the society but not others.

1.6.2 The private sector

The **private sector** is fundamentally part of the economy that is both run for profit and is not controlled by the state. By contrast, enterprises that are part of the state are part of the public sector: in addition- non-profit organizations are regarded as part of the voluntary sector.

A variety of legal structures exist for private sector business organizations, the most common of which is the limited company. However, there are many other structures available, such as partnerships and limited partnerships. A significant part of the private sector consists of individuals who trade directly, without being part of a company: these are known as sole traders.

Capitalism revolves primarily around the private sector controlling industry. The private sector is generally largest in capitalist and mixed economics.

The private sector employs the majority of the workforce in some countries. In some countries such as the People's Republic of China, the public sector employs most of the workers.

Even in countries where the private sector is regulated or even forbidden, some types of private business continue to operate within the Black Market.

The private sector is also integrated into the workings of the public sector, with the use of outsourcing or government contracts.

1.6.3 The public service

Public service is a term used to mean services provided by government to its citizens, either directly (through the public sector) or by financing private provision of services. The term is associated with a social consensus (usually expressed through democratic elections) that certain services should be available to all, regardless of income. Even where public services are neither publicly provided nor publicly financed, for social and political reasons they are usually subject to regulation going beyond that applying to most economic sectors. Public service is also a course that can be studied at college and or university. This course can lead entry into the police, ambulance and fire services.

It is also an alternative term for civil service.

Sectors

Public services tend to be those considered so essential to modern life that for moral reasons their universal provision should be guaranteed, and they may be associated with fundamental human rights (such as the right to water). An example of a service which is not generally considered an essential public service is hairdressing.

In modern developed countries, the term public service often includes:

- Broadcasting;
- Education;
- Health services;
- Military;

- Police services;
- Transport;
- Housing; and
- Telecommunications, etc.

Characteristics

A public service may sometimes have the characteristics of a public good (being non-rivalrous and non-excludable), but most are merit goods, that is, services which may (according to prevailing social norms) be under-provided by the market. In most cases, public services are services, i.e. they do not involve manufacturing of goods such as nuts and bolts. They may be provided by local or national monopolies, especially in sectors which are natural monopolies.

They may involve outputs that are hard to attribute to specific individual effort and or hard to measure in terms of key characteristics such as quality. They often require high levels of training and education. They may attract people with a public service ethos who wish to give something to the wider public or community through their work and are prepared to work harder for less pay as a result. (John Kenneth Galbraith has looked at the role of such "public virtue" in economic growth.)

History

Historically, the widespread provision of public services in developed countries usually began in the late nineteenth century, often with the municipal development of gas and water services. Later, other services such as electricity and healthcare began to be provided by governments. (in most developed countries such services are still provided by local or national government, the biggest exceptions being the U.S. and the UK, where private provision is more significant). Nonetheless, such privately-provided public services are often strongly regulated, for example, (in the US) by Public Utility Commissions).

In developing countries public services tend to be much less well developed. Water services, for example, may only be available to the wealthy middle class. For political reason, the service is often subsidised, which reduces the finance available for expansion to poorer communities.

Nationalisation

Nationalisation really took off following the World Wars of the first half of the twentieth century. Across Europe, because of the extreme demands on industries and the economy, central planning was required to ensure the maximum degree of efficient production was obtained. Many public services, especially electricity, gas and public transport were products of this era. Following the second world war, many countries also began to implement universal health care and expanded education under the funding and guidance of the state.

Privatisation

There are several ways to privatize public services. A free-market corporation may be established and sold to private investors, relinquishing government control altogether. This essentially ends the public service and makes it a private service. Another option, used in the Nordic countries, is to establish a corporation but keep ownership or voting power essentially in the hands of the government. For example, the Finnish State owns 49% of Kamira, the rest being owned by private investors. A 49% share does not make it a "government enterprise", but it means that all other investors together would have to oppose the state's opinion in order to overturn the state's decisions in the shareholder's meeting. Regulated corporation can also acquire permits on the agreement that they fulfil certain public service duties. When a private corporation runs a natural monopoly, then the corporation is typically heavily regulated, to prevent abuse of monopoly power. Lastly, the government can buy the services on the free market. In many countries, medication is provided in this manner: the government reimburses part of the price of the medication. Also, bus traffic, electricity, health care and waste management are privatized in this way. One recent innovation, used in the UK increasingly as well as in Australia and Canada, is public-private partnerships. This innovation involves giving a long lease to private consortia in return for partly funding infrastructure.

1.6.4 Government

A **government** is a body that has the power to make and the authority to enforce rules and laws within a civil, corporate, religious, academic, or other organization or group.

The government consists of different levels: local government, regional governments and national governments, depending on closeness to those who are governed and their responsibilities. The governments can be classified in various ways: The classical way of classification is according to the number of people who hold the power (one, a few, or a majority). The more recent classification bases itself on the institutional organization (parliamentary or presidential systems) or the distribution and the degree of control exercised over the society.

Governments are often classified according to the number of people who hold political power.

- In autocracies, one individual holds all the power. This category includes absolute monarchies, as well as dictatorships.
- In oligarchies, political power is held by a small group of people who share the same interests.
- Democracies are governments where the people as a whole hold the power. It may be exercised by them (direct democracy), or through representatives chosen by them (representative democracy).
- Anarchy is a lack of government or imposed rule.

The boundaries between the above forms of government are not absolute. For example, during the 19th century, many proclaimed "democracies" restricted voting rights to a minority of the population (e.g. property-owning males). This restriction could qualify them as oligarchies, rather than as democracies. On the other hand, the non-voting minority was often quite large (20-30% of the population) and its members did not form a voting group with common interests. This feature is seen as the hallmark of most oligarchies. Thus, this form of government occupied a space between democracy and oligarchy as they are understood today.

1.6.4.1 The origins of government

There are a wide range of theories about the reasons for establishing governments. The four major ones are briefly described below. Note that they do not always fully oppose each other - it is possible for a person to subscribe to a combination of ideas from two or more of these theories.

a) Force theory

Many political philosophies that are opposed to the existence of a government (such as anarchism, nihilism and, to a lesser extent, Marxism, as well as others), emphasize the historical roots of governments - the fact that governments, along with private property, originated from the authority of warlords and despots who took, by force, land as their own (and began exercising authority over the people living on that land). Thus, it is sometimes argued that governments exist to enforce the will of the strong and oppress the weak, maintaining and protecting the privilege of a ruling class. It states that the government emerged when all the people of an area were brought under the authority of one person or group.

b) Order and tradition

The various forms of conservatism by contrast, generally see the government as a positive force that brings order out of chaos, establishes laws to end the "war of all against all", encourages moral virtue, while punishing vice and respects tradition. Sometimes, in this view, the government is seen as something ordained by a higher power, as in the divine right of kings which human beings have a duty to obey.

c) Natural rights

Natural rights are the basis for the theory of government shared by most branches of liberalism (including libertarianism). In this view, human beings are born with certain *natural rights* and governments are established strictly for the purpose of protecting those rights. What the *natural rights* actually are is a matter of dispute among liberals; indeed each branch of liberalism has its own set of rights

that it considers to be *natural* and these rights are sometimes mutually exclusive with the rights supported by other liberals. As a result, there is some debate between natural rights theorists, ranging from modern writers such as Tibor Machan to enlightenment thinkers such as Locke, Kant, or Jefferson.

d) Social contract

One of the most influential theories of government in the past two hundred years has been the social contract on which modern democracy and most forms of socialism are founded. Contemporary liberalism such as in the United States, also tends to work under a social contract theory. The social contract theory holds that governments are created by the people in order to provide for collective needs (such as safety from crime, invasion, natural disasters) that cannot be properly satisfied using purely individual means. Governments thus exist for the purpose of serving the needs and wishes of the people, and their relationship with the people is clearly stipulated in a "social contract" (a constitution and a set of laws) which both the government and the people must abide by. If a majority is unhappy, it may change the social contract. If a minority is unhappy, it may persuade the majority to change the contract, or it may opt out of it by emigration or secession.

This theory is based on the idea that all people live in a state of nature which is not ideal to perfect harmony. It is also an agreement among the members of an organized society or between the governed and the government defining and limiting the rights and duties of each. Thomas Hobbes, John Locke, and Jean-Jacques Rousseau are three of the most famous philosophers of contractarianism. Today natural rights are the basis for many issues involving the scope of governmental powers.

e) Governmental operations

Governments concern themselves with regulating and administering many areas of human activity, such as trade, education or medicine. Governments also employ different methods to maintain the established order, such as secrecy, censorship, police and military forces (particularly under despotism), making agreements with other states and maintaining support within the state. Typical

methods of maintaining support and legitimacy include providing the infrastructure for administration, justice, transport, communication, social welfare, etc.; claiming support from deities: providing benefits to elites; providing shops for important posts within the state; limiting the power of the state through laws and constitutions; and appealing to nationalism. The modern standard unit of territory is a country. In addition to the meaning used above, the word state can refer either to a government or to its territory. Within a territory, subnational entities may have local governments which do not have the full power of a national government (for example, they will generally lack the authority to declare war or carry out diplomacy).

Different political ideologies hold different ideas on what the government should or should not do. One political spectrum related to the role of government is that of personal freedom, from authoritarianism to liberalism to libertarianism. Economic policy can range from a command economy to laissez-faire, with most countries using some form of mixed economy with various degrees of government involvement.

1.6.4.2 History of government

Governments arose with the increasing complexity of human society during the history of recorded civilization - the promulgation of the Code of Hammurabi and Athenian democracy, along with the Roman Republic and Empire, and the formation of states in medieval Europe, are signal events from which understanding of government and politics arose. The early modern era in the West saw the rise of monarchy, revolutions, democracy, and nationalism. Ideologies such as fascism and later communism during the Cold War in the 20th Century influenced government operations. For other parts of the world, particularly the Middle East and Africa, tribal and clan-based governments interacted with religious and colonial forces.

1.6.4.2.1 World governments

A world government is the concept of a political body that would make, interpret and enforce international law. Its ambition has existed in human history since the ancient times among various kings but it has never been realized.

Inherent to the concept of a world government is the idea that nations would be required to pool or surrender (depending on point of view) sovereignty over some areas. In effect a world government would add another level of administration above the existing national governments or provide coordination over areas national governments are not capable of adequately addressing as independent policies.

Currently, there has not been a nation to officially put forward plans for a world government, although some people do see international institutions (such as the International Criminal Court, United Nations, and International Monetary Fund) as the beginning of a world government system. An organization comprised of legislators from various nations known as Parliamentarians for Global Action have promoted ideas of democratic global governance, though such promotion has varied in its scope and intensity during the organisation's history.

1.6.4.2.2 Governors

A governor is a governing official, usually the executive (at least nominally, to different degrees also politically and administratively) of a non- sovereign level of government, ranking under the Head of state; furthermore, the title applies to officials with a similar mandate as representatives of a chartered company which has been granted exercise of sovereignty, even with its own armed forces in a colonial area, often both colonising and exploiting, sometimes a major state within the state.

In federations, a governor can be the title of each appointed or (as in the US) elected politician who governs a constitutive state. Most countries in the world have some sort of official known or rendered as "governor," though in some countries the heads of the constitutive states, provinces, communities and regions may have a different title. This is particularly common in European nations and many of their former colonies with titles such as *President of the Regional Council* in France and *minister-president* in

Germany. Other countries using different titles for sub-national units include Spain, Italy and Switzerland.

There can also be non-political governors: high ranking officials in private or similar governance such as commercial and non-profit management, styled governor(s), who simply *govern* an institution, such as a corporation or a bank. For example, in the United Kingdom and other Commonwealth countries, there are prison governors ("warden" in the United States), school governors and bank governors.

1.6.4.2.3 Role of Governors in other states

Byzantium

This system survived with few significant changes until the collapse of the empire in the West, and, in the East the breakdown of order with the Persian and Arab invasions of the 17th Century. At that stage, a new kind of governor emerged, the Strategos, a role leading the themes which replaced provinces at this point, and involving a return to the amalgamation of civil and military office, which had been the practice under the Republic and the early Empire.

Turkish rule

In the Ottoman empire, various Pashas (generals) administered a province of the Great Sultan's vast empire, with specific titles (such as Mutessaryf; Vali = Wali) was often maintained or even revived in oriental successor states; eg. Beilerbei, rendered as Governor General, as he is appointed above several provinces under individual governors.

British Empire and Commonwealth

In the British Empire a governor was originally an official appointed by the British monarch (or, in fact, the cabinet) to oversee one of his colonies and was the (sometimes notional) head of the colonial administration. A governor's power could diminish as the colony gained more responsible government vested in such institutions as an Executive Council to help with the colony's administration, and

in a further stage of self-government, a Legislative Council and/or Assemblies in which the Governor often had a role.

Today crown colonies of the United Kingdom continue to be administered by a governor, who holds varying degrees of power. Due to the different constitutional histories of the former colonies of the United Kingdom, the term "Governor" now refers to officials with differing amounts of power.

Administrators, Commissioners and High Commissioners exercise similar powers to Governors. (Note: such High Commissioners are not to be confused with the High Commissioners who are the equivalent of Ambassadors between Commonwealth states). Frequently, the name 'Government House' is given to Governors' residences.

Representing the British sovereign

United Kingdom overseas territories

In the United Kingdom's remaining overseas territories, the governor is normally a direct appointee of the British Government and plays an active role in governing and lawmaking (though usually with the advice of elected local representatives). The Governor's chief responsibility is for the Defence and External Affairs of the colony.

In some minor overseas territories, instead of a Governor, there is an Administrator or Commissioner or the job is ex officio done by a High Commissioner.

Australia: In Australia, each state has a Governor as its formal representative of the Queen as head of the state government. Each State Governor is appointed by the Sovereign on the advice of the Premier (politically responsible head of state government) and play a largely ceremonial role. State Governors have emergency reserve powers but these are rarely used. The Territories of Australia have Administrators instead of Governors, who are appointed formally by the Governor-General. The Governor-General is the representative of Australia's head of state (i.e.

the British and Australian Sovereign) at a federal level appointed by the crown on the advice given by the Australian (federal) Prime Minister. Although the constitution grants the Governor-General some powers, these are rarely used and the position is based mostly on formality and ceremonial functions.

When the office of the Governor-General is vacant or the occupant is unable to discharge his/her duties (on holidays or travelling overseas, for example) – frequently, the most Senior State Governor acts in their position. If this is not practicable a Justice of the High Court is appointed as administrator for the Commonwealth and exercises those powers of the Governor General in his/her absence.

The difference in terminology between the Australian State Governors and the Canadian provincial Lieutenant-Governors is significant. In the Australian case, the Governor normally derives power directly from the monarch and is, in practice, nominated by the Premier of a state. In the Canadian case, the Lieutenant-Governor nominally is appointed by the Governor-General and, in practice, is named by the federal Prime Minister.

New Zealand: The Governor-General of New Zealand is always Governor of the Ross Dependency, an Antarctic sector which is claimed by the Realm of New Zealand.

Northern Ireland: There was a position of Governor of Northern Ireland from 1922 until the suspension of Stormont in 1973.

Elsewhere in the Commonwealth

India

In India each state has a ceremonial Governor appointed by the President of India. These Governors are different to the Governor which controlled the British-controlled portions of the Indian Empire (as opposed to the princely states) prior to 1949.

Malaysia

In Malaysia, the four non-monarchical states -Penang, Malacca, and the two on Borneo: Sabah and Sarawak- each have a ceremonial Governor styled *Yang di-Pertua Negeri*, appointed by the federal King Yang di-Pertuan Agong of Malaysia, with a seat, but no vote, in the federal *majlis Raja-raja* (council of rulers). These states have a separate head of government which is the Chief Minister or *Ketua Menteri*.

All other states have royalty as head of state, no governor: a raja in Perlis, a Yang di-pertuan besar (elected from local rulers) in Negeri Sembilan, or a Sultan in the states of Selangor, Pahang, Johore, Perak, Kelantan and Kedah.

Nigeria

In Nigeria (once a colony governed by a single British Governor before independence), the leaders of the regions, which in 1967 were divided into states, have been known as governors since 1954. Following a military coup in November 1993, President Sani Abacha suspended all the governors, and appointed administrators. When democracy was restored in 1999, the office of governor was revived and new governors were elected. The President of Nigeria can suspend state governors in a state of emergency and replace them with administrators. They are elected by popular vote.

New Guinea

In New Guinea, the leaders of the provinces have been known as governors since August 1995. Previously they had been known as premiers.

Sri Lanka

The provinces of Sri Lanka (previously known as Ceylon - a colony governed by a single British Governor before independence) are led by governors as representatives of

the President. These Governors are different to the Governor of Ceylon who controlled the British Ceylon prior to 1948.

Russia and former Soviet Union

Currently, some of the administrative divisions of Russia are headed by Governors while others are headed by Presidents or heads of administration. From 1991 to 2005, they were elected by popular vote, but, since 2005, they have been appointed by the federal president and confirmed by the province's legislature.

Other Colonial empires

Other European naval powers than the UK with colonies in Asia, Africa and other areas, which sometimes chartered companies to rule the colonies instead, gave or still give some, but not always all, of the top representatives of (or rather in) their colonies the title of governor.

Other modern Asian countries

Japan

In Japan, the title "Governor" (chiji) refers to the highest ranking executive of a Prefectural Government. The Governor is elected by a direct vote from the people and had a fixed term of four years. S/he can be subjected by a recall referendum. In case of death, disability, resignation, a government official known as Vice Governor would replace the Governor or acting Governor.

People's Republic of China

In the People's Republic of China, the title "Governor" refers to the highest ranking executive of a provincial Government. The Governor is usually placed second in the provincial power hierarchy, below the Secretary of the provincial Communist Party of China (CPC) committee who serves as the highest ranking Party official in the Province. A Governor can be also used when referring to a County Governor.

Philippines

In the Republic of the Philippines, the title "Governor" refers to the highest ranking executive of a Provincial Government. The Governor is elected by a direct

vote from the people and had a fixed term of three years. An incumbent Governor can serve only up to three consecutive terms. S/he may however be suspended by either the Ombudsman or President (through the Secretary of Interior and Local Government). S/he may be removed by the President if he was found guilty of an administrative case or a criminal act during his/her incumbency. S/he can be subjected by a recall vote, but unlike a referendum, people would elect the governor of their choice. If in case of death, disability, resignation, forced removal or suspension, a government official known as Vice Governor would replace as Governor or acting Governor.

Other modern countries in North America

United States

In the United States, the title governor refers to the Chief Executive of each State, not directly subordinate to the Federal authorities, but the political and ceremonial Head of the State. The Governor may also assume additional roles such as the Commander-in-Chief of the National Guard (when not federalised), and the ability to commute or pardon a criminal sentence. US. Governors serve four-year terms except those in New Hampshire and Vermont, who serve two-year terms.

In all states, the Governor is directly elected and in most cases has considerable practical powers (notable exceptions with very weak governorships include Texas), though these powers may be moderated by the State Legislature and in some cases by other elected executive officials. The State Legislature can veto state bills. In some cases Legislatures can override a gubernatorial veto by a two-thirds vote, in others by three-fifths. In Tennessee and Kentucky, the Governor's veto can be overridden by a simple majority vote, making it virtually useless, though they both have a line-item veto. The Governor of North Carolina had no veto power until a 1996 referendum. In most states, whenever there is a sudden vacancy of one of the state's US Senate seats, that State's Governor appoints someone to fill the vacancy until a special election is held, although the Governors of Oregon, Massachusetts and Alaska no longer have this power.

A state governor may give an annual State of the State Address in order to satisfy a constitutional stipulation that a governor must report annually, or in older constitutions described as being "from time to time." on the state or condition of a U.S. state. Governors of states may also perform ceremonial roles, such as greeting dignitaries or attending the state fair. The governor may also have an official residence.

In colonial America, when the Governor was the representative of the monarch who exercised executive power, many colonies originally elected their governors, but in the years leading up to the American Revolutionary War, the king began to appoint them directly. During the American Revolution, all royal governors were expelled (except one Jonathan Trumbull) but the name was retained to denote the new elected official.

Mexico

In the United Mexican States, *Governor* refers to the elected chief and head of each of the nation's thirty one Free and Sovereign States, and their official title in Spanish is *Gobernador*. Mexican governors are directly elected by the citizens of each state for six-year terms.

Other modern countries in South America

Many of the South American republics (such as Chile and Argentina) have provinces or states run by elected governors, with offices similar in nature to U.S. state governors.

Brazil

Until the 1930 Revolution, the heads of the Brazilian Provinces, then States, were styled Presidents (*Presidente*), later governors (*governadores*) and interventors (*interventores*, appointed by the federal government) and finally in 1945 only governors.

Other European countries and empires

Benelux monarchies

- In the Netherlands, the government-appointed heads of the provinces were known as *Gouverneur* from 1814 until 1850, when their title was changed to *King's (or Queen's) Commissioner..* In the southern province of Limburg, however, the commissioner is still informally called Governor.
- In the Dutch Crown's Caribbean Overseas territories, the term Governor is still used (alongside the political head of government) in the Netherlands Antilles as well as since 1986 on the neighbouring island of Aruba (separated from the former).
- In Belgium, each of the ten provinces has a Governor appointed by the regional government. S/he represents the central and regional governments in the province. S/he controls the local governments and is responsible for law and order, security and emergency action. The national capital of Brussels, which is not part of a province, also has a Governor with nearly the same competencies.

France

During the Ancien Regime in France, the representative of the King in his provinces and cities was the "gouverneur". Royal officers, chosen from the highest nobility, provincial and city Governors, were predominantly military positions in charge of defence and policing. Provincial Governors - also called "lieutenants generaux" - also had the ability of convoking provincial parlements, provincial estates and municipal bodies. The title "**gouverneur**" first appeared under Charles VI. The ordinance of Blois of 1579 reduced their number to 12, but an ordinance of 1779 increased their number to 39 (18 first-class governors, 21 second-class governors). Although in principle, they were the king's representatives and their charges could be revoked at the king's will, some Governors had installed themselves and their

heirs as a provincial dynasty. The Governors were at the height of their power from the middle of the 16th to the middle of the 17th century, but their role in provincial unrest during the civil wars led Cardinal Richelieu to create the more tractable positions of intendants of finance, policing and justice, and in the 18th Century the role of provincial governors was greatly curtailed.

Italy

- The essentially maritime empire of the Venetian Republic, comprising Terra Ferma, other Adriatic (mainly Istria and Dalmatia) and further Mediterranean (mainly Greek) possessions, used different gubernatorial styles.
- Since 2000, when a constitutional reform decided the direct election of the president by the people, it's usual to call him *governatore (governor)*. In today's Italy, the official name of a head of a Regione (the Italian subnational entity) is *Presidente della Giunta regionale* (President of the regional executive council).

Other modern African countries

As a generic term, Governor is used for various 'equivalent' officers governing part of a state or empire, rendering other official titles such as:

- colonial High Commissioner (not the Ambassadors exchanged within the Commonwealth), which also applies to non-western and or antique cultures.

Other meanings of the word

The word Governor can also refer to an administrator and/or supervisor (individually or collectively) in the socio-economic spheres of life; the single Governor of a national emission bank often holds ministerial rank.

Eg. Governor of the Bank of Canada

Governor of the National Bank of Romania

1.6.4.3 Government interventions

1.6.4.3.1 Privatisation

Privatisation (alternately "denationalisation" or "disinvestment") is the transfer of ownership from the public sector (government) to the private sector (business). A transfer in the opposite direction could be referred to as nationalisation or municipalisation of some property or responsibility.

The term is also sometimes used to refer to government subcontracting a service or function to a private firm. "Privatisation" also has been used to describe an unrelated, non-governmental interaction involving the buyout, by the majority owner, of all shares of a holding company's stock - privatising a publicly traded stock.

Types of privatisation

There are three main methods of privatisation:

- Share issue privatisation (SIP) - selling shares on the stock market;
- Asset sale privatisation - selling the entire firm or part of it to a strategic investor, usually by auction or other means; and
- Voucher privatisation - shares of ownership are distributed to all citizens, usually for free or at a very low price.

Share issue privatisation is the most common type.

Share issue can broaden and deepen domestic capital markets, boosting liquidity and potentially economic growth, but if the capital markets are insufficiently developed it may be difficult to find enough buyers, and transaction costs (e.g. underpricing required) may be higher. For this reason, many governments elect for listings in the more developed and liquid markets. Euronext, the London, the New York and the Hong Kong Stock Exchange are popular because they are highly developed and sophisticated.

As a result of higher political and currency risk deterring foreign investors, asset sales are more common in developing countries.

Voucher privatisation has mainly been used in the transition economies of Central and Eastern Europe, such as Russia, Poland, the Czech Republic, and Slovakia.

A very substantial benefit to share or asset sale privatisations is that bidders compete to offer the state the highest price, creating revenues for the state to redistribute, in addition to new tax revenue. Voucher privatisations, on the other hand, would be a genuine return of the assets into the hands of the general population, and create a real sense of participation and inclusion. Vouchers, like all other private property, could then be sold, if preferred.

Pro-privatisation and anti-privatisation arguments

Pro-privatisation

Proponents of privatisation believe that private market actors can more efficiently deliver many goods or services than government due to free market competition. In general, over time, this competition will lead to lower prices, improved quality, more choices, less corruption, less red tape, and quicker delivery. Many proponents do not argue that everything should be privatized; the existence of problems such as market failures and natural monopolies may be limiting factors. However, a small minority thinks that everything can be privatised, including the state itself.

The basic economic argument given for privatisation is that governments have few incentives to ensure that the enterprises they own are well run. One problem is the lack of comparison in state monopolies. It is difficult to know if an enterprise is efficient or not without competitors to compare against. Another is that the central government administration and the voters, who elect them, have difficulty evaluating the efficiency of numerous and very different enterprises. A private owner, often specialising and gaining great knowledge about a certain industrial sector, can evaluate and then reward or punish the management in much fewer enterprises much more efficiently. Also, governments can raise money by taxation or simply printing money should revenues be insufficient, unlike a private owner.

If there are both private and state owned enterprises competing against each other, then the state owned enterprises may borrow money more cheaply from the debt markets than private enterprises, since the state owned enterprises are ultimately backed by the taxation and printing press power of the state, gaining an unfair advantage.

Privatising a non-profitable company, which was state-owned, may force the company to raise prices in order to become profitable. However, this additional income would remove the need for the state to provide tax money in order to cover the losses.

- **Performance.** State-run industries tend to be bureaucratic. A political government may only be motivated to improve a function when its poor performance becomes politically sensitive and such an improvement can be reversed easily by another regime.
- **Improvements.** Conversely, the government may put off improvements due to political sensitivity and special interests - even in cases of companies that are run well and better serve their customers' needs.
- **Corruption.** A monopolised function is prone to corruption: decisions are made primarily for political reasons, personal gain of the decision-maker (i.e. "graft"), rather than economic ones. Corruption (or principal-agent issues) during the privatization process - however - can result in significant underpricing of the asset. This underpricing allows for more immediate and efficient corrupt transfer of value - not just from ongoing cash flow, but from the entire lifetime of the asset stream. Often such transfers are difficult to reverse.
- **Accountability.** Managers of privately owned companies are accountable to their owners, shareholders and to the consumer and can only exist and thrive where needs are met. Managers of publicly owned companies are required to be more accountable to the broader community and to the political "stakeholder." This accountability can reduce their ability to

directly and specifically serve the needs of their customers, and can bias investment decisions away from otherwise profitable areas.

- **Civil-liberty concerns.** A company controlled by the state may have access to information or assets which may be used against dissidents or any individuals who disagree with their policies.
- **Goals.** A political government tends to run an industry or company for political goals rather than economic ones.
- **Capital.** Privately held companies can sometimes more easily raise investment capital in the financial markets when such local markets exist and are suitably liquid. Higher interest rates for private companies than for government debt can serve as a useful constraint to promote efficient investments by private companies, instead of cross-subsidising them with the overall credit-risk of the country. Investment decisions are then governed by market interest rates.

1.6.4.3.2 Nationalisation

Nationalisation is the act of transferring assets into public ownership. It usually refers to the transfer of private assets, but may also mean assets owned by other levels of government such as municipalities. The opposite of nationalisation is usually privatization, but may also be municipalisation. A renationalisation occurs when assets are nationalised after a previous privatisation. Nationalisations are distinguished from property redistribution, in that in the former case, the government retains control of the property after acquisition.

Some nationalisations take place when a government seizes criminal property. For example, the French government seized Renault because its owners had collaborated with Nazi Germany.

Compensation

A key issue in nationalisation is whether the private owner is properly compensated for the value of the institution. The most controversial nationalisations are those where no compensation or an amount unreasonably below the likely market value of the nationalised assets is paid, and are known as expropriations. Many nationalizations, through expropriation, have come after revolutions.

The traditional Western stance on compensation was expressed by United States, Secretary of State Condell Hull, during the 1938 Mexican nationalisation of the petroleum industry, that compensation should be "prompt, effective and adequate". According to this view, the nationalising state is obligated under international law to pay the deprived party the full value of the property taken. The opposing position has been taken mainly by developing countries, claiming that the question of compensation should be left entirely up to the sovereign state, in line with the Calvo Doctrine. Socialist states have held that no compensation is due, based on socialist notions of private property.

In 1962, the United Nations General Assembly adopted Resolution 1803, "Permanent Sovereignty over National Resources", which states that in the event of nationalisation, the owner "shall be paid appropriate compensation in accordance with international law". In doing so, the UN rejected both the traditional Calvo-doctrinist view and the Communist view. The term "appropriate compensation" represents a compromise between the traditional views, taking into account the need of developing countries to pursue reform even without the ability to pay full compensation, and the Western concern for protection of private property.



SELF ASSESSMENT ACTIVITY

Investigate the concept of the Calvo Doctrine and its impact on Nationalisation

When nationalising a large business, the cost of compensation is so great that many legal nationalisations have happened when firms of national importance run close to bankruptcy and can be acquired by the government for little or no money. A classic example is the UK nationalisation of the British Leyland Motor Corporation. At other times, governments have considered it important to gain control of institutions of strategic economic importance, such as banks or railways, or of important industries struggling economically. The case of Rolls-Royce plc, nationalised in 1971, is an interesting blend of these two arguments. This policy was sometimes known as ensuring government control of the "commanding heights" of the economy, to enable it to manage the economy better in terms of long-term development and medium-term stability. The extent of this policy declined in the 1980s and 1990s as governments increasingly privatized industries that had been nationalized, replacing their strategic economic influence with use of the tax system and of interest rates.

Nonetheless, national and local governments have seen the advantage of keeping key strategic assets in institutions that are not strongly profit-driven and can raise funds outside the public-sector constraints, but still retain some public accountability. Examples from the last five years in the United Kingdom include the vesting of the British railway infrastructure firm Railtrack in the not-for-profit company Network Rail, and the divestment of much council housing stock to "arms-length management companies," often with mutual status.

1.6.4.3.3 Notable nationalisations by country

Canada

- **1918** Canadian National Railways, created from several systems nationwide to following their bankruptcy during and after World War 1, and since privatised.
- **1944** Hydro-Quebec, nationalised electricity concerns in Quebec by the Lesage government.

India

1 Jan. 1949: Reserve Bank of India nationalized. The Reserve Bank of India was state-owned at the time of Indian independence.

1953: Air India under the Air Corporations Act 1953

1969: Nationalisation of 14 Indian banks

Russia and the Soviet Union

Soviet Russian and Soviet Union (1918-1992)

- *1918, 1948* All manufacturing enterprises in the Soviet Union, in 1918, as well as in other countries of the Eastern Bloc (for example, Czechoslovakia in 1948)
- **1918** Many retailing enterprises nationalized.

Russia

1998: State began seizing Gazprom assets, claiming that the company owed back taxes, from 2004 reversal of privatisation of Gazprom which had been reduced to 38.37% in the mid 1990's with the intention having been full privatisation, the stake has since been increased to 50% with Vladimir Putin's plan being to increase the stake to 100%. Gazprom is also buying up both Russian and other international utility companies.

United Kingdom

The following companies were created following the nationalization of one or more companies in the given year:

1875 Suez Canal Company - The Egyptian share in the company was bought out by the British Government.

1916: Liquor Trade - The nationalisation of pubs and breweries in Carlisle, Gretna, Cromarty and Enfield under the State Management Scheme; mainly an attempt to restricting alcohol consumption by armaments factory workers. The scheme was privatised by asset transfer in 1973.

1926: Central Electricity Board introduced under The Electricity (Supply) Act **1926** - founded National Grid UK and set up in the UK. National standard for electricity supply in the UK.

1927: British Broadcasting Company (a privately owned company) became British Broadcasting Corporation (BBC), a public corporation operating under a Royal Charter.

1933: London Transport

1938: Nationalisation of UK Coal Royalties

1939: BOAC later to become British Airways (BA) - combining the private British Airways Ltd. and the state owned Imperial Airways.

1946: British Coal, Bank of England - had private shareholders who were bought out by the state.

1947: Central Electricity Generating Board, Cable & Wireless was nationalised and became part of the GPO

1948: National rail, water transport, some road haulage, passenger transport and Thomas Cook & Son under the British Transport Commission. Separate elements operated as British Railways, British Road Services, and British Waterways, also National Health Service taking over a mixture of previously Local Authority, private commercial and charitable organizations.

1949 British Gas.

1951: Iron and Steel Industry (denationalised by the following Conservative Government).

1967: British Steel.

1971: Rolls-Royce (1971) Ltd - The strategically-important aero-engine part of the recently-bankrupt Rolls Royce Limited. **1973** Water companies of England

and Wales.

1976: British Leyland Motor Corporation - became British Leyland upon nationalisation. Privatized in 1986 to British Aerospace.

1977: British Aerospace - combining the major aircraft Companies British Aircraft Corporation, Hawker Siddeley and others. British Shipbuilders - combining the major shipbuilding companies including Cammell Laird, Govan Shipbuilders, Swan Hunter, Yarrow Shipbuilders.

1997: Ducklands Light Railway - John Prescott while trying to deflect demands that Railtrack be renationalised boasted to the 1997 Labour Party Conference that he had nationalised this (it was broadcast at the time in BBC TV coverage so there must be a citable reference to it somewhere).

2001: Railtrack although not nationalised as such, the takeover by Network Rail of the railway infrastructure in 2002 following the liquidation of Railtrack, which, although not a state owned company, has no shareholders and is underwritten by the State. In addition, prior to this, the government began to make use of a residual shareholding of 0.2% (including voting rights) in Railtrack Group Plc leftover from the original sale.

British Assets nationalised by other countries

1950s: British Petroleum's Iranian assets by their government (actually a nationalisation of part of a part-nationalised company), in addition, the Egyptian Government nationalised the Suez Canal in 1956 which was owned by the Suez Canal Company which was part owned by the British State.

United States

All United States railroads were nationalized as the United States Railroad Administration during World War 1 as a wartime measure but were returned to their private owners almost immediately after the war. The National Railroad Passenger Corporation (Amtrak) was a government-owned corporation created in 1971 for the express purpose of relieving American railroads of their legal obligation to provide inter-city rail service. They were trying to get out of this obligation anyway, but by taking over their passenger rail assets, Amtrak was

able to keep the passenger trains running. In 1976, the Consolidated Rail Corporation (Conrail), another government corporation, was created to take over the operations of six bankrupt rail lines operating primarily in the Northeastern United States; Conrail was privatised in 1987. Initial plans for Conrail would have made it a truly nationalized system like that during World War I, but an alternate proposal by the Association of American Railroads won out.

Organization of the Tennessee Valley Authority entailed the nationalisation of the facilities of the former Tennessee Electric Power Company in 1939.

In 2001, in response to the September 11th attacks, the then private airport security industry was nationalised and put under the authority of the Transportation Security Administration.

Other countries

Philippines - During the administration of Ferdinand Marcos, important companies such as PLDT, Philippine Airlines, Meralco and the Manila Hotel were nationalised. Other companies were sometimes absorbed into these government-owned corporations, as well as other companies, such as Napocor and the Philippine National Railways, which in their own right are monopolies (exception, are Meralco and the Manila Hotel). Today, these companies have been reprivatised and some, such as PLDT and Philippine Airlines, have been de-monopolised. Others, like government-formed and owned Napocor, are in the process of privatisation.

Nationalization of the oil industry in numerous countries. including Libya, Kuwait, Mexico, Nigeria, Saudi Arabia, and Venezuela.

Cuba - The Castro government gradually expropriated all foreign-owned private companies after the Cuban Revolution of 1959. Most of these companies were owned by US corporations and individuals. Bonds, at 4.5% interest over twenty years, were offered to U.S. companies, but the offer was rejected by U.S. ambassador Philip Bonsal, who requested the compensation up front. Only a minor amount, \$1.3 million, was paid to U.S. interests before deteriorating

relations ended all cooperation between the two governments. The United States established a registry of claims against the Cuban government, ultimately developing files on 591 specific companies. The Cuban government has refused to discuss the effective and adequate compensation of U.S. claims. The United States government continues to insist on compensation for U.S. companies. In 1966-68, the Castro government nationalised all remaining privately owned business entities in Cuba, down to the level of street vendors.

1944: Renault seized from Louis Renault after World War II for his collaboration with Nazi Germany). Renault was successful, whilst nationalized, and remains successful today, after having been privatised in 1996.

1946: USAMGIK nationalised all South Korean private railroad companies and made Department of Transportation. This now becomes Korail.

1947: Nationalisation of Qantas, the leading airline of Australia.

1948: With the Decree 119 of June 1948, the new Romanian communist regime nationalised all the existing private companies and their assets in Romania leading to the transformation of the Romanian economy from a market economy to a planned economy.

1948: The Australian government attempted to nationalise the banks, but the act was declared unconstitutional by the High Court of Australia.

1953: Iranian Prime Minister Mohammed Mossadegh nationalised the Anglo-Persian Oil Company in Iran.

1956: On July 26, 1956 Egyptian President Gamal Abdel Nasser nationalised the Suez Canal provoking the United Kingdom, France and Israel to launch a combined attack on Egypt that was stopped by US and the former Soviet Union.

1972: Nationalisation of Olympic Airlines, main airline of Greece. The company was bought out by its founder, Aristotle Onassis.

1972: Chilean nationalisation of copper mining industry by the government of Salvador Allende. A very important step for a small country which happens to be the biggest copper producer in the world.

Bank of Vallenta is founded following nationalization of the National Bank of Malta.

1982: The nationalization of the Mexican Banking system made by President Jose Lopez Portillo, later in the Carlos Salinas de Gortari presidency (1988-1994) a large number of banks were privatized.

1983: Nationalisation without compensation of the Spanish Rumasa. Separate businesses were later privatized.

1983: Nationalisation of major Israeli banks: Bank Hupoalim, Bank Leumi, Discount Bank, Meizrachi Bank due to the Bank stock crisis in 1981.

2003: The Labour government of New Zealand took an 80% stake in national air Carrier Air New Zealand in exchange for a large financial infusion.

2006: On May 1, 2006, newly elected Bolivian leader Evo Morales announces plans to nationalise the country's natural gas industry. Foreign-based companies are given six months to renegotiate their existing contracts.

2007 : On 1 May, 2007, Venezuela stripped the world's biggest oil companies of operational control over massive Orinoco Belt crude projects, a vital move in President Hugo Chavez's nationalisation drive.



SELF ASSESSMENT ACTIVITY

Investigate the concept of the Calvo Doctrine and its impact on Nationalisation

1.6.4.3.4 Corporations

A corporation is a legal entity (technically, a juristic person) which has a separate legal personality from its members.

The defining legal rights and obligations of the corporation are:

- (i) the ability to sue and be sued;
- (ii) the ability to hold assets in its own name;
- (iii) the ability to hire agents;
- (iv) the ability to sign contracts; and
- (v) the ability to make by-laws, which govern its internal affairs.

Other legal rights and obligations may be assigned to the corporation by governments or courts. These are often controversial.

Stewart Kyd (1950:13) the author of the first treatise on corporate law in English, defined a corporation as “a collection of many individuals united into one body, under a special denomination, having perpetual succession under an artificial form, and vested by the policy of the law with the capacity of acting in several respects as an individual”.

Currently, the modern business corporation is the dominant type of corporation. In addition to its legal personality, the modern business corporation has at least three other legal characteristics:

- (i) transferable shares (shareholders can change without affecting its legal entity existence),
- (ii) perpetual succession capacity (its possible continued existence despite shareholders' death or withdrawal), and
- (iii) limited liability (including, but not limited to: the shareholders' limited responsibility for corporate debt, insulation from judgments against the corporation, shareholders' amnesty from criminal actions of the corporation, and,

in some jurisdictions, limited liability for corporate officers and directors from criminal acts by the corporation.

The modern business corporation's prevalence often obscures the fact that for years other corporate business entities existed, before the emergence of the modern business corporation. Investors and entrepreneurs often form joint stock companies and then incorporate them to facilitate conducting business: as this business entity now is prevalent, the term corporation often is used to specifically refer to such business corporations. Corporations may also be formed for local government (municipal corporation), political, religious, and charitable purposes (not-for-profit corporation), or for government programmes (government-owned corporation). As a generic legal term, 'corporation' means any group of person, with a legal personality. Historically, the modern business corporation emerged from the blending of the traditional corporation with the joint-stock company.

1.6.5 Public value

Public value is the equivalent of shareholder value in public management. Public value can be instituted as an organising principle in a public sector organisation, providing a focus in the context of which individual employees are free to pursue and propose new ideas about how to improve the working of the organisation, in terms of efficiency of services. Public organisations seeking to use public value as a principle need to create a corporate culture in which the pursuit of public value by employees is rewarded just as pursuing shareholder value is rewarded in private corporations.

The term and concept were invented by Harvard Professor Mark H. Moore, who published a book on the subject, "Creating public value Strategic management in government", in 1995. Since then, the concept has been taken up initially by academics, think tanks and NGOs, and later by a number of public sector organisations in the United Kingdom. In 2004, it was used by the BBC as the cornerstone of its manifesto for the renewal of its charter. In 2006, Accenture launched the Institute for Public Service Value to explore how public value is created in government organisations.

In 2006, the Centre for Technology in Government (CTG), in partnership with SAP AG, conducted research on the topic of public value in the context of government's investments in Information Technology (IT). The results of this research found that governments' ability to realize the full value of IT investments is not completely measurable in terms of financial results. More specifically, the five U.S. and international governments studied, looked for the full value of government IT investments in both the internal value to government operations and the broader political and social returns to the public at large.

From this point of view, there are two sources of public value:

1. Value that results from improving the government itself as an asset to society and
2. Value that results from the delivery of specific benefits directly to persons or groups.

1.7 PUBLIC INTERACTION IN PUBLIC ADMINISTRATION

The public interacts with public administration in several roles: as client, customer, contractor, regulatee, participant, and litigant as well as in street-level encounters. Public administration penetrates the economy and society. The public's evaluation of public administration, explored in this chapter, is complex. As citizens, people tend to find government wasteful, untrustworthy, and unresponsive. As clients and customers, they find it satisfactory; as regulatees, they are less favourable. The managerial, political, and legal perspectives offer different views of the public. Participation is emphasized by the political perspective and offers some possibilities for strengthening the "public" in public administration. The new public management, by contrast, views the public primarily as customers. The perspectives can be synthesized to a certain extent by applying them to different areas of public administration, such as service and therapy. There is also broad agreement that paperwork reduction, plain language, and e-government can improve the relationship between public administration and the public. The development and growth of the contemporary administrative state have myriad ramifications for the public. Certainly, the public has benefited greatly from public administration. Public administrators are

concerned with the provision of public goods and quasi-public goods, such as defence of the political community, roads, and recreational and cultural facilities. They are also actively involved in providing justice, safety, economic security, health, education, and other benefits to the public or segments of it. But the provision of these benefits has not been without important social, political, and economic costs. Too often in the past, public administration texts failed to address the place of the "public" in the public administrative state. Today, by contrast, the new public management (NPM) puts relationships with the public at the forefront of public administrative practice.

Every person in a country is affected by some public administrative actions all the time. For example, whether we are awake or asleep, in an urban metropolis or on a remote mountain peak, protecting each of our lives is in some sense the responsibility of public administrators in some public administration department. We are all generally affected by the activities of the Environmental Protection Agency, the Food and Drug Administration, and the L.T.S. Department of Agriculture's inspection and crop-related programmes. If we listen to the radio or watch TV, the FCC is involved; wherever we are, some police department has formal responsibility for our safety and conduct. The list could go on and on. It would be an interesting exercise to keep track of how many of one's daily activities are in some way affected by a public administrative agency. However, such a review of the extent to which public administrators affect our well-being and have an impact on the structure of our daily lives does not begin to tell the full story of the relationship between the public and public administrators.

The public interacts directly with public administrators in several contexts. For the sake of analysis, these can be placed into six main overlapping categories.

a) Clients and Customers

The public interacts with public administrators as clients or customers. The range of possibilities in this context is extensive. In the US in the 1970s, one study found that over half (57.5 percent) of a sample of the general population had at least one direct recent contact with an administrative agency dealing with one of the following

areas: employment, job training, worker's compensation, unemployment compensation, public assistance, hospital/medical care, or retirement benefits. If public education, postal service, recreation, and other functions such as contact with agencies dealing with consumer fraud and the like were added to the list, the amount of contact would escalate considerably. The essence of the client or customer role is that the individual seeks to obtain a benefit or service from an administrative agency.

Although the rapid growth of e-government (e-gov) makes it increasingly possible to complete applications and other transactions over the Internet, in many cases, the individual client still needs to meet face to face with a public administrator.

b) Regulatees

The public interacts with public administrators as regulatees. For instance, four of the more common situations in which members of the public meet public administrators in the role of being regulated are vehicular licences, traffic violations, income taxes, and police matters. The full extent of interactions in these four categories is unknown, but it certainly does not fully indicate all the possible situations in which the citizen is a regulatee of an administrative agency. Often, public services and constraints are combined. The client or customer may also be a regulatee, as in the case of individuals seeking public housing, public assistance, and even public education. Moreover, millions of members of society are housed in prisons and public mental health facilities. Such people are not merely *regulated* or *constrained*; they are *controlled* and/or *restrained*. Additionally, many people are subject to legal constraints in the role of employee or employer, especially in terms of regulation of occupational health and safety, equal opportunity, and labour relations.

c) Participants

The public interacts with public administrators as participants in public administration. Many public administrative programmes, especially in the realm of agriculture and education, provide for direct public participation. Public utility commissions, housing agencies, and other public agencies often hold public hearings as well. Members of the public respond to agencies' rule-making pro-

posals. Overall, it appears that the level of public use of opportunities to participate is low (as it is in politics usually), but nonetheless the opportunity is there. In some cases, groups are so effective in using participation to make public administrators responsive to them that they are considered an agency's "constituency".

d) Litigants

The public interacts with public administrators as litigants. A limited segment of the population seeks to litigate claims or complaints against public administrators. Litigation, in this context, may mean nothing more than a direct response to an agency's notice that it proposes to do something that will harm the individual, such as cutting off public assistance benefits. It may involve an appeal through administrative hierarchies, a hearing before an administrative law judge, or a suit in a state or federal court. Although the proportion of the public that engages in litigation is small, their cases are often numerous enough to place substantial burdens on the agencies' and courts' ability to hear them. For instance, the Federal Equal Employment Opportunity Commission has almost always struggled with a substantial backlog of cases. Moreover, the ramifications of a few court decisions on public administration can be extensive. Supreme Court decisions, requiring procedural due process in many administrative actions, have forced welfare agencies, in particular, to change their processes and modify their structures extensively. The Court's equal protection decisions have had a major impact on public sector human resources management.

e) Street-Level Encounters

The public interacts with public administrators through street-level encounters. Street-level encounters are often a feature of the individual role of the regulatee. However, sometimes they do not involve regulation *per se*, but rather an effort by a street-level bureaucrat to determine whether constraints should be applied or whether assistance should be rendered. Police are, perhaps, the best example. Their role involves the application of constraints and the provision of assistance. Street-level interaction with them can be touched off in any number of ways, including asking them for directions, injuring oneself in an accident, and engaging in suspicious or prohibited conduct.

f) Contractors

The number of people employed on contracts by the governments is generally unknown, as is the total monetary value of their contracts. Government's contracts extend for a very broad array of goods and services, ranging from purchasing paper clips, to developing proposed rules, to handling space shuttle launches. Contracting is so pervasive, it is fair to say, "But for a handful of functions dealing with national security and criminal justice, it is not clear that there is a pure and inherently governmental function left today". In the US, eg. by one systematic estimate, the federal government averages three contract workers for each of its civilian, military, and postal employees, for a total of about 12.7 million. State and local governments undoubtedly employ several million more. Overall, contracts involve several hundred billion dollars. Contractors are involved in voluntary quid pro quo relationships with agencies that may subject them to considerable governmental oversight and require them to meet specific standards for performance, working conditions, and, sometimes, transparency.

In sum, there is little doubt that the public is deeply affected by public administration and is frequently involved in direct interactions with public administrators. These interactions are part and parcel of the evolution of the contemporary administrative state. They help define contemporary political, economic and social life.

1.8 THE INDIVIDUAL IN THE ADMINISTRATIVE STATE**1.8.1 The individual in society**

Public administration thoroughly permeates a society. Many matters, once left to families, communities, and religious organizations, are now the subject of administrative activity. Examples are education, child abuse prevention, provision for one's economic security and health in old age, welfare benefits (formerly charity), and housing. Although there is currently a tendency for government to rely on private and not-for-profit organizations to carry out its functions, historically, administrative services have replaced many privately

provided social services and administrative controls have augmented more traditional social controls exercised by families, communities, and religious organizations.

Equally important, public administration has tended to be bureaucratically organized despite the NPM's successes in changing this to some extent. Bureaucracy, in particular, is often in tension with traditional social values. Consequently, individuals may have to be socialised to interact well with bureaucracy, and, in the process, their values and those of society may be modified. Hummel (1977: 440) explains that bureaucracy is at odds with society because it relies on rationally organised "bureaucratic action", rather than "social action". He defines the differences between bureaucratic action and social action in practical terms:

Social action is normally initiated by a human being who has certain intentions or purposes. The action is intended to convey such goals or purposes and is addressed to a social partner whose understanding of the action is a key part of the purpose. Social action, then, consists of a human initiator, the action itself, and a human recipient, or co-actor.

*Bureaucratic action is reduced to the action itself. It does not have a human originator in the sense of expressing the private **will** or intentions of a human being; it originates-and this is a key characteristic of bureaucracy as a system-in an office whether or not a specific human being fills the role of officeholder. (In automated bureaucracies, the action may originate in a computer. Next there is the operation or function itself. What makes it an operation or function, however, is not primarily related to the logical end point which was the original purpose of the action. What makes it an operation or function is determined by whether or not the action meets the values and standards of higher offices charged with control.*

Hummel's last point about rationally organised action is important. It gets at the "one-directional" aspects of bureaucracy and public administration organised according to traditional managerial principles. Commands flow downward through the hierarchy; information flows upward. The client or

regulatee supplies information but cannot give commands. This means the client or regulatee cannot sensibly ask the bureaucrat to modify his or her administrative behaviour and routines. These can be modified only by direction from above in the bureaucracy. In essence, rationally organized action at the level of the client or regulatee tends to be a problem-processing activity rather than a problem-solving activity. This action is something the NPM is changing by empowering front-line employees to develop and implement solutions for their customers. Problem solving (and NPM administration) demands two-way communication. The difference is as follows: "Let's discuss it" implies social action; "We (the agency) will need the following information from you (the client or regulatee)" suggests rationally organized bureaucratic action.

Hummel carries this line of thought at least two steps further. On the level of the individual who works in a bureaucratic setting, he notes that emotional feelings are transformed. In his view, intended to portray the impact of bureaucratisation at its outermost limits, the individual in bureaucratic life is taught:

- a. not to attach affect (positive emotional feelings) directly to persons;
- b. to attach affect to their administrative functions; and
- c. to attach affect to the exercise of power or authority.

Note how far this teaching diverges from ordinary social values. Society, in the normal sense of the term, cannot exist where people feel no affect toward one another, where they care primarily about the performance of their functions, and when they exercise their power to the exclusion of empathising with other people or identifying with groups and individuals outside their workplace. In such a society, there would be no sympathy, trust, love, or other emotional feelings between people. This may sound far-fetched, but the impersonality that characterizes bureaucracy can reduce sympathy, trust, and emotional engagement.

Hummel also maintains that as bureaucracy permeates public life, it creates a tension between its values and those of society. Inevitably, the values of *both*

are modified in the process, but those of bureaucracy tend to make greater inroads.

THINK POINT

Ask yourself what you think bureaucracy values most and then what you personally think is of most importance in life?

Prepare a table with two columns and list each of the following under "bureaucracy" or "society"

Justice	Discipline
Freedom	Oppression
Precision	Happiness
Stability	Formal rationality
Violence	Reliability

In sum, he finds that "the cultural conflict between bureaucracy and society is between systems needs and human needs".

One does not have to agree with Hummel entirely to get the picture: public administration, bureaucratically organized, tends to be in tension or conflict with society in terms of styles of action, emotional feelings, and over-riding concerns. The differences between societal and bureaucratic values, in short, are social interaction versus administrative action; feeling versus doing; and belief, randomness, and emotionalism versus specialized expertise, systemization, and impersonality. These ideas are abstract. Perhaps if you think about some of your experiences with bureaucratically organized administrative agencies, they will become more concrete. They will also become clearer if you consider how the tension between public administration and society affects the individual in the role of client of such administrative agencies.

The juxtaposition between social action, with its values, and rationally organized action, with its own values, is often clearest when the individual is in the role of

client. Clients approach the public administrator with an understanding of the society's culture. However, the culture of bureaucracy can require behaviour with which they are unfamiliar or ill at ease.

As Thompson (1961:170) once pointed out,

The bureaucratic culture makes certain demands upon the clients as well as upon organization employees. There are many people in our society who have not been able to adjust to these demands. To them bureaucracy is a curse. They see no good in it whatsoever, but view the demands of modern organization as "red tape".

Such people do not possess "the aptitudes and attitudes needed to obtain reasoned consideration" of their cases by public administrators. Their "low powers of abstraction" and "need to personalise the world" seem to be the most important barriers to their ability to deal effectively with public administrators. Functional illiteracy is also a problem for some clients. Inability to comprehend bureaucratic language ("bureaucratese") is a problem for many more. The entire client-public administrator interaction may be distasteful and threatening to many. In some cases, "a claim which s/he (the client) believes, legitimate is not taken 'at face value.' S/he must either supply proof or allow it to be investigated. . . . The individual enters the situation on 'official,' 'technical,' or 'public' business, and feels that s/he ends up by being investigated as a person".

The National Performance Review (NPR) was highly critical of these aspects of traditional public administration. One of its fundamental purposes was to build trust between administrators and customers.

The client role can be difficult for anyone. However, lower-class populations have been identified as having particular difficulty in dealing with public bureaucracies. In part, this is because the agencies they deal with often provide a mixture of service and constraint, as in welfare and public housing programmes. Members of the lower class may typically be heavily dependent on public agencies and consequently feel at their "mercy". It has even been argued that "bureaucratic

systems are the key medium through which the middle class maintains its advantaged position vis-a-vis the lower class". Public educational systems and some aspects of social welfare administration are examples.

1.8.2 The individual in a political system

The individual's role in the political system also undergoes major transformations with the rise of the administrative state. First, voters' impact on government is accenuated because they have inadequate mechanisms for controlling administrative agencies and holding them accountable. Today the delivery of so many government services by "third parties," through privatisation and devolution, removes the electorate even further from exercising direct control over public administration.

The ideal of popular sovereignty is compromised by the tendency of the public to become subjects of the bureaucratically organised administrative state. The first characteristic of citizens in the administrative state is that they are dormant regarding most of the decisions being made with respect to them. Their participation cannot in any manner equal their subjection. Even the growing body of research that shows that the legislature, political executives, and the courts can steer administrative agencies does not resolve the question. The link between the public and the elected is too ambiguous to ensure a high degree of political representation or responsiveness on most policy issues. Voter participation in presidential elections has hovered around 50% for decades in most countries.

Democracy and bureaucratically organised public administration clash in regard to structure and values. This clash indicates that when one moves from being a democratic citizen to being a bureaucratic subject, one is crossing into a different culture and system of rule.

It is not possible to link today's limited participation in politics definitively with the development of large-scale public administration. There is some sense that the country is being run by bureaucrats. A long-term decline in the public's faith in government coincided with a period during which the scope and general salience of regulatory administration increased. Between 1958 and the early 1990s, the public's

perception was that government became more wasteful, more oriented toward a few big interests, less trustworthy to do what was right, and less responsive to the ordinary citizen.

The public's level of trust in government is considered particularly salient. The NPR assumed that better administrative performance could promote a virtuous circle by increasing the public's trust in government. Trust, in turn, would enhance administrative flexibility and empowerment and therefore performance, by enabling government to shed some of its more heavy-handed accountability procedures (red tape) and oversight mechanisms (particularly nitpicking by inspectors). In fact, there is a statistically significant positive association between government performance and trust. For example, it is far too weak to explain much about changes in the proportion of Americans who trust the government in Washington to do what is right just about always or most of the time. In 1964, 76 % of the American public had such levels of trust in government. This trusts declined fairly steadily until the early 1980s, falling below 30 percent. It then climbed into the 40 percent range, only to fall to a low point of 20 percent in 1994. Trust spiked at 64 percent after September 11, 2001, but then sank back to 40 percent by May 2002 (Mackenzie and Labiner 2002:6).

1.8.2 The individual in the economy

The contemporary administrative state also changes the character of the individual's place in the economic system. As public administration penetrates the society and economy to a greater extent, government inevitably gains greater control over the nation's economic resources.

Public administrative control or direction of a large share of the nation's economic resources has important consequences for the individual. First, it makes the individual dependent on government for his or her economic well-being. If government controls access to resources, occupations, markets, franchises, technologies, and the right to operate such enterprises as utilities, broadcasting, and transportation, individuals cannot function in a wide variety of economic areas except on the conditions established by government. Public employees and the increasing number of those doing outsourced public administrative work on contracts are especially dependent on government. In

addition, when government takes on responsibility for individuals' economic security in seeking to guarantee full employment, minimal inflation, fair labour standards (wages and hours), healthful and safe working conditions, pensions, adequate housing, health insurance, and so forth, it is inevitable that government becomes the focus of efforts to enhance one's economic status and well-being. Much political effort is directed toward obtaining economic benefits or advancement through the adoption of specific public policies. "Loopholes" in the tax code and tax expenditures are prime examples. This development is new not in kind but rather in scope-and its scope is far larger today than it was when he first called our attention to it.

A second consequence of the accumulation of wealth in the hands of the administrative state is that the government gains greater leverage and control over the individual's life. This leverage is a feature of the contemporary role of government to which political and economic conservatives have long been vehemently opposed. Not all of the freedom lost in conjunction with the government's larger role in the economy can be categorised as "economic freedom". People have been denied jobs, contracts, permits, licences, and welfare and other benefits because of their political views, "lack of good character", and lawful sexual activity".

Economist, Friedrich Hayek, also a Nobel Prize recipient, viewed government participation in the economy as creating leverage over both the economy and society that constituted an embarkation on "The Road to Serfdom". If this is unchecked, he argued, nearly all important individual preferences will be replaced by governmental preferences and important economic and social questions will be transformed into political ones. According to this view, economic dependence on the administrative state produces a very powerful government that subsumes the roles traditionally played by families, religious organizations, private groups, communities, and private economic firms.

This argument is an extreme formulation of the transformation that has been taking place in conjunction with the rise of the administrative state in the United States. However extreme, it does pinpoint certain tendencies we can clearly recognise. For

example, would you be surprised today to find a member of the public whose prenatal welfare was aided by government funds and care, who was born in a public hospital at public expense, who was raised in public housing with the assistance of public welfare funds, whose diet was subsidized through the food stamp programme, whose education was in a public school, whose income was earned in the public sector or augmented by public benefits, whose health care was subsidised by the government, and who will be the recipient of governmental benefits in old age?

Although some oppose the contemporary governmental role in the economy on the grounds that it makes the public too dependent on government, much support for the modern womb-to-tomb welfare state is based on the belief that increased governmental power can be exercised humanely with proper regard for individual freedoms, value preferences, and liberties. In this view, government penetration of the economy is a suitable means of protecting individuals from abuse by the economic power of other individuals and private firms. Governmental encroachment on traditional economic freedoms may be considered less troublesome than the lack of protection individuals had from boom-and-bust business cycles prior to governmental efforts to mitigate them.

1.9 THE PUBLIC'S EVALUATION OF PUBLIC ADMINISTRATION

The public's evaluation of public administration is complex and, in some respects, puzzling. Public opinion surveys clearly indicate that the public has had negative attitudes toward government and administration. However, the overall negativity tells only part of the story. Surveys frequently find that substantial majorities would choose government social programmes over tax cuts. For instance, in early 1996 in the US, 69% of the public favoured smaller tax cuts and more government spending on health, education, and other social programmes. During the 2000 election campaign, the public was more favourable toward using the surplus to pay down the national debt than to finance tax cuts. In 2002, the public expressed a relatively strong preference for maintaining federal programmes. Within this overall framework, African Americans and Hispanics are more likely to support government

programmes than are non-Hispanic whites. Women, as a whole, may tend to trust government less than men.

In South Africa in 2006/7, public opinion revolves around issues of housing, education, health (especially HIV/AIDS), crime, social welfare, taxation and corruption. South Africa's neighbour, Zimbabwe, is struggling with a number of critical issues ranging from a dictatorship government to a high inflation rate, lack of food, fuel and housing, a collapsing economy, political unrest mass emigration, corruption, etc.

The public will generally evaluate their public administration in the light of the efficiency and effectiveness with which services are rendered.

1.10 THE TRADITIONAL MANAGERIAL APPROACH TO THE PUBLIC

From a traditional managerial perspective, interaction with the public should maximize the values of efficiency, economy, and effectiveness. The overwhelming tendency of this perspective is, therefore, to depersonalise the client or regulatee by turning him or her into a "case." Traditional management puts less reliance on outsourcing than does the NPM. However, when contracting out, it favours selecting the lowest priced competent bidder and seeks to avoid the appearance of favouritism that can be caused by personal relationships or partnerships with contractors.

Another managerial approach for dealing with the public is to institute ombudsman arrangements of some sort. In a traditional sense, ombudsmen are independent agents of the legislature who are empowered to investigate specific complaints by individuals alleging maladministration. Such agents can criticise, publicise, and make recommendations, but they cannot reverse the administrative action at issue. The classic ombudsmen originated in Sweden in 1808 and can be found in other Scandinavian countries and several other nations. In the United States, Alaska, Arizona, Hawaii, Iowa, and Nebraska use ombudsmen at the state level. Several cities also employ them. The IRS, the Environmental Protection Agency, and the Department of Commerce are among the federal agencies that use ombudsmen in

some programmes. In the United States, ombudsmen do not fit the traditional concept completely because they are often attached to the administrative agency or executive branch rather than the legislature. Moreover, in the United States, individual members of state legislatures and Congress are inclined to function as ombudsmen for their constituents, although here the function is referred to as constituency service or casework. The ombudsman concept is useful from a managerial perspective because it acts as a genuine check on the poor administrative and public relations practices by subordinate public administrators. Even rudeness on the part of the latter can be the basis of an individual's complaint to an ombudsman. The ombudsman is useful in dealing with complaints that would otherwise be channeled through an agency's hierarchy. Ombudsmen also help educate the public concerning agencies' missions and procedures.

The traditional managerial approach also dictates doing whatever is cost-effective to improve the quality of the public's interaction with public administrators. This improvement may involve such mundane procedures as positioning waiting lines to be as pleasant as possible. Or it may rely on higher levels of information technology to process tax returns, drivers' licenses, and a variety of other forms and applications. E-government holds the potential for great cost savings by enabling members of the public to transact administrative actions via the Internet.

Finally, those pursuing the traditional managerial approach should be wary of its tendency to shift the burdens of cost and time to individual members of the public. For instance, long lines and convoluted steps in an administrative encounter, such as being shunted from clerk to clerk, are sure to be bothersome to a sizable share of the public. So is placing the burden on individuals for supplying information that the government already has in some other office or requiring individuals to supply multiple copies of pertinent documents, as is sometimes done by consumer protection agencies. Public administration can be improved from the clients' perspective through human services integration. This approach enables individuals seeking or requiring several services, such as food stamps, public health care, and public housing, to apply to one office only. Such "one-stop shopping" for benefits is easier for clients, enables them to gain a better understanding of what programmes

are available and how they are related to one another, and may also efficiently reduce paperwork.

Appeals processes should also be as simplified as possible while still being fair. Appeals can provide managers with useful feedback regarding the accuracy of initial decisions, the clarity of eligibility or other criteria, and gaps in the coverage provided by programmes. In general, where investigations are necessary to determine eligibility for benefits of some kind, it is best to use the least intrusive methods. Interactions involving constraints present a complicated problem in this regard, because it sometimes may be less expensive, more efficient, and more effective to violate individuals' constitutional and legal rights. Consequently, public managers of policing functions must guard against overstepping legal bounds.

Dealing with the public is an area where the managerial values of economy and effectiveness may frequently be at odds with one another. Although it is often cheapest to follow the impersonal approach by treating individuals as cases, this approach may be inappropriate to the function being served. This is particularly true in therapeutic functions, such as mental health care and social work. Corrections of prisoners may also be frustrated by too much reliance on impersonality or cost cutting. It is more expensive to treat each individual on a personal basis in these areas. Yet, by now, the record is clear that failure to do so makes it nearly impossible for the administrative function to be performed effectively. In the area of mental health, the courts have sometimes required that each patient or resident of a state facility be provided with some amount of individual treatment.

In view of the tension between social values and those embodied in the traditional managerial approach to public administration, there is no doubt that public administrators should be concerned with the public in all facets of their work. Historically, public administrative theory and practice paid inadequate attention to some aspects of dealing with the public. One result has been marked underutilization of services provided by public administrative agencies. This underutilisation in itself, would tend to make the administrative state less effective in intervening in the society and economy to promote the public interest.

1.11 THE NEW PUBLIC MANAGEMENT APPROACH TO THE PUBLIC

The NPM views the public primarily as customers. The term "customer" is used to denote almost all encounters with public agencies. It includes service and regulatory relationships as well as public employment. Welfare recipients are customers of social service agencies; taxpayers are customers of the Revenue Services; applicants for government jobs are customers of the State employment agencies and/or other agencies. As customers, the public is to be served in a businesslike manner. The emphasis is on effectiveness, efficiency, and cost reduction.

Applying the customer service concept to government has clear management advantages. It focuses attention on the results the customers want. It highlights the expenditures that yield those results and, by contrast, eliminates the expenditures that don't contribute to good service.

The customers are the people who use the national parks, forests, and waterways; people who are eligible for social security and old-age benefits, people whose lives are diminished by unemployment, illiteracy, crime, pollution, and problems of our major cities. The customer service approach refocuses government on the people. It puts people first.

The NPR placed customers in the following categories: beneficiaries; business; the general public; law enforcement; natural resource management; the research and academic community; states, localities, and other partners; travellers, tourists, and outdoor enthusiasts; the U.S. government and federal employees; and veterans.

The NPM's devotion to customer service and satisfaction raises some unsettled issues. Since members of the public are not truly the customers of a wide range of agencies, what they want cannot necessarily be determined by what they purchase. To find out *how* the public wants government to serve them when it is not market-driven, the NPM relies on surveys to gain feedback from customers. It also imputes preferences to its customers by emulating the best practices in the

private sector through benchmarking. According to the NPR, based on surveys, at the broadest level, Americans "want a more efficient government, but they are desperate for a more effective government". Consequently, they want government to stop doing things that it cannot do well or that are unnecessary. They do not want to cut costs at the price of effectiveness. At the level of individual agencies, surveys indicate that the public wants faster and more convenient treatment, as well as specific channels for voicing complaints. The NPM strongly supports human services integration, or "one-stop shopping", for its combination of convenience and reduction of redundancy. Benchmarking led to some clear improvements, including the Social Security Administration's "800" telephone service being considered the best in the business.

In the NPR version of the NPM, customers should also play a strong role in determining what government does. This is clearest where agencies, such as the U.S. Postal Service, operate largely like firms in a market. Such agencies should invest in services for which there is strong customer demand and disinvest in or eliminate those without customer support. Where public administration is not market-like, the NPR relied on surveys to determine what services it should provide.

These approaches to ascertaining customer preferences downplay the utility of traditional political channels for determining what the public wants. In consequence, at least two problems potentially arise. First, the customers of specific agencies are often a limited segment of the population. Responding to them may be at odds with what a majority of the voters would prefer. For instance, the customers of social welfare agencies or public schools may have preferences for eligibility or educational requirements that differ from those of the electorate at large. Similarly, those subject to regulation may want less red tape, more flexibility, and greater responsiveness to their needs. The NPM is willing to give it to them as long as the results are satisfactory. But when it comes to safety and some environmental matters, the public may not be satisfied with holding regulatees accountable after the fact.

Second, political systems, like that of the United States, have built-in barriers to making public policy by simple majority preference. For example, providing each

state with two senators gives an equal voice to Wyoming and California, even though the latter is over sixty times bigger in population. Requirements for supermajorities for treaties and other matters also strengthen the voice of those in the minority on political issues.

Another set of issues that arises when the public is viewed as customers is which customers to satisfy when not all customers have identical or harmonious interests. In the free market, firms would presumably seek to satisfy customers based on long- and/or short-term profitability. For most public agencies, this option does not exist. Even if they were to substitute survey responses for profits, they are likely to operate under a norm or legal requirement of providing service equally to all customers. The U.S. Postal Service is not free to charge its customers the true cost of delivering first-class mail-the price for sending it across the street or across the continent is the same. Consequently, those who primarily send local mail are subsidizing those whose mail goes mostly long distance. Working under a norm of universal service, public school systems cannot write off the customers they find it most costly to serve. The National Labor Relations Board would lose its legitimacy if it were not perceived as reasonably neutral in dealing with the conflicts between its major customers, business and labour. Politics and law, not customer preferences, are usually used to resolve conflicts among the users of government services.

Finally, though not an inseparable problem, identifying customers can be a thorny one. Who are the customers of the criminal justice system? Lawyers, jurors, the victims, or perpetrators of crimes? Who are the customers of prisons, the inmates or the taxpayers who buy space to confine them? Are the Federal Aviation Administration's customers the flying public, people in neighbourhoods near airports, the airlines, pilots, air traffic controllers, companies that build passenger airplanes, or airline maintenance firms? As noted previously, because different groups served by agencies have disparate interests, answering "all of the above" is not always useful.

These problems are real, but they do not mean that considering the public to be customers is inappropriate or unfeasible. That can reinvigorate and strengthen

agencies' commitment to service. During the 1990s, more than 100 federal agencies set standards for serving customers.

1.11.1 The political approach

The political approach to public administration emphasises the values of representation, responsiveness, and accountability to the public. This emphasis often dictates that the public be afforded means for participating in public administration. Public participation of some kind is viewed as contributing to the ability of public administrators to understand and respond to the public's concerns. It also requires that the administrators explain their actions, policies, and so forth, to the public and is seen as a means of more completely incorporating the citizenry into the governing of the administrative state. Specifically, it is argued that:

1. A lack of public participation in modern governance reduces the capacity of the political system to be representative and responsive;
2. Nonparticipation also erodes the quality of citizenship in democratic nations by reducing the citizen's sense of moral and political obligation to take part in governance;
3. Nonparticipation promotes ignorance about the way government functions; participation, in contrast, promotes understanding;
4. The absence of meaningful channels for citizen participation in government leads to alienation on the part of the public. Without participation, the public feels no sense of "ownership" of or responsibility for governmental actions. On the contrary, the citizenry believes that it is acted upon (that is, subject) rather than being an actor in government. Participation also reduces alienation by providing the public with a greater sense of control over its environment;
5. Participation promotes a sense of political community and political integration. It helps individuals see the relationship between what they want from government and what others, with conflicting viewpoints, are seeking. Ideally, participation enables people to understand and respect each other's political perspectives. Rather than promoting conflict and competition, participation is viewed as promoting cooperation: and

6. Participation promotes the sense that government is legitimate and fosters compliance with its decisions. It is important to remember in this context that bureaucracy has been viewed as a means of inducing citizen compliance with "rational-legal" regulatory functions. Its expertise, specialisation, and impersonality have been considered particularly important in this regard. However, as noted previously, impersonality in particular may not be well suited to some administrative functions involving service and therapy. In these areas, individuals are thought to be more apt to comply with administrative decisions, procedures, and directives if they are allowed to participate in their formulation and implementation.

There is a large body of literature and thought behind each of these propositions concerning the desirability of public participation in public administration. Each proposition remains debatable, but for the most part, the political approach to public administration is committed to finding means of expanding public participation to improve civic-mindedness and administration.

1.11.2 Direct participation

There are some outstanding examples of long-term citizen participation in public administration. Public school governance is one example. Historically, it strongly emphasised the need for local control, and accordingly, there has been great diversity in teacher qualifications, curriculum, extracurricular activities, class size, school calendar, extent of collective bargaining, and grouping of pupils in schools by age and ability. The growing federal role in public education is reducing the efficacy of such grassroots public participation. The participation of farmers and ranchers is a long-standing feature of agricultural administration. New York State's citizen-participation specialists have been effective in facilitating public participation in dealing with environmental problems such as toxic waste sites and water pollution. Participation, through organized interest groups, is also prevalent, and has been institutionalised at the federal level by the Federal Advisory Committee Act of 1972.

These examples of workable citizen participation in public administration notwithstanding, there have also been some remarkable failures.

In the USA, for example, both the Economic Opportunity Act of 1964 and the Model Cities Act of 1966 sought to incorporate citizen participation in federal programmes dealing with the needs of the poor, especially the urban poor. The Economic Opportunity Act was the basis for the poverty programme. It sought to incorporate citizen participation through representation on the governing boards of community action programmes. These boards also included public officials and representatives of private social service agencies. The representatives of the poor were to be elected by the poor. Participatory community action agencies (CAA's) were also relied on by the Model Cities Program. In both cases, the drive for citizen participation was frustrated.

These low turnouts indicated that participation is a middle-class value of little interest to the lower class. The poor, needed money, jobs, housing, and many other things, much more than they needed "identity", "a sense of community", and "control over their destiny". Others have argued that representation of the poor was further compromised by the tendency of their elected representatives to be co-opted and to have sometimes docilely allowed the middle-class representatives on community action agencies to direct funds toward the real clientele-not the poor but the city's businesses.



SELF ASSESSMENT ACTIVITY

Determine the type/s of citizen participation activities undertaken by government in your country of origin.

1.11.3 Client-centered administration

On balance, it is reasonable to conclude that participation can work in some programmes and among some groups of the population, as in the case of public school governance, farmers, and a considerable range of advisory committees representing economic and social interests. However, it clearly does not work among all programmes and groups, as experience with poverty and model cities programmes indicate. Advocates of greater public participation in public administration have argued that, consequently, administrative agencies dealing with clients who for one reason or another are unable to represent themselves effectively should be client-centred. Being client-centred is like being customer-oriented except that the "customers" are unable to play their role well. Prime candidates for becoming client-centred include agencies dealing with children; the mentally ill or disabled; illiterates and, in some cases, the chronically poor.

Client-centred agencies would be advocates for their clientele. They would also promote human services integration where specialisation frustrates the ability of clients, such as the poor, to receive all the assistance they need. Combining housing benefits, health programmes, and nutritional programmes would provide an illustration. Where programmes dealing with these areas are placed in different agencies and not integrated even though they are directed toward many of the same clients, the client is apt to face redundancies in filling out forms, to encounter public administrators in three agencies rather than just one, and possibly to face different eligibility standards that frustrate gaining assistance. Equally important, because no single agency has full responsibility for the client, each is likely to be responsive to other interests that may be in conflict with what the client is seeking. Housing agencies may be more responsive to construction, banking, building maintenance, and business interests; health agencies may be more responsive to medical and pharmaceutical interests; and nutritional programmes may be placed in agricultural agencies, as is true of the federal food stamp programme. Yet it would be hard to argue that health and nutrition are not related or that housing is not relevant to programmes seeking to promote clients' health and nutrition.

If all these programmes were placed in the same agency, the argument goes, it could not help but see the client as the center of things and the other interests as peripheral. A more mundane benefit of client-centred organization is that it helps eliminate catch-22's and may make service delivery easier.

1.11.3 Coproduction

In some ways, coproduction is the opposite of client-centred public administration. Client-centred administration seeks to create organizational structures and programmatic arrangements that focus on clients' interests, because the clients are believed to be unable to assert these interests adequately. Coproduction assumes that the public can understand its interests and cooperate with public administrators in performing functions. Coproduction is "the joint provision of public services by public agencies and service consumers". Everyday examples are residents carrying trash out to the curb for collection, sorting it for recycling, and participating voluntarily in organizing recreation programmes that use public facilities. Other possibilities include community-based crime prevention groups; a statewide "green-up" (that is, clean up litter) day, and groups such as "friends" of the library, parks, or symphony.

The simplicity of some aspects of coproduction should not obscure the political importance of this approach to public administration. Coproduction puts forward a different model of administrative service delivery. In this type of joint venture, the citizen is a participant, not merely a consumer, customer, or subject. Citizens are jointly responsible for productivity and the quality of services. Consequently, they may learn about how a public administrative function is organized and operated. A citizen-based crime prevention organization cannot fail to learn more about the problems faced by the police and how they cope with them. Moreover, some believe that coproduction can help "to build in citizens a loyalty to place, neighbors, and their community. This loyalty results from face-to-face contact and an investment of energy- in the improvement of neighborhoods and communities."

1.11.4 Public Interest Groups

Public interest groups are another vehicle for increasing the public's voice in public administration, albeit somewhat amorphously. Public interest groups seek collective goods that do not selectively and materially benefit their membership. While the distinction between this type of group and a traditional interest group may at times be blurred, there is a difference in emphasis. Public interest groups seem concerned with "representing the people against the special interests".

These groups often interact with public administrators in an effort to promote the groups' views of the public's interest. In the US, they make considerable use of the opportunity afforded by the Administrative Procedure Act of 1946, to participate in administrative rule making by submitting information, presenting their views, and/or testifying before agencies. They also use the National Environmental Policy Act of 1969 in this regard. Such groups provide an important counterbalance to traditional interest groups in the realm of bureaucratic politics. The average citizen has neither time nor inclination to monitor what agencies are doing, challenge their proposed rules, or present his or her perspective to agencies. However, the public interest group does, and through constant attention to agency proposals in the Federal Register and equivalent volumes in the states, these groups can have an important cumulative impact. The main issue is less whether they have an impact than whether they represent their members in any meaningful sense. There is no way of ascertaining this, but to the extent that such groups represent the public, it is broad middle-class interests on which they focus.



SELF ASSESSMENT ACTIVITY

Determine the role of public interest groups in your country quoting examples of such groups and their activities.

1.11.5 The Legal Approach to the Public

The legal approach to the interaction of the public with public administration seeks to assure that individuals' constitutional and statutory rights are protected. This concern has been reflected in a number of changes in constitutional doctrine and administrative law practices over the years. Together, these changes led to the judicialisation of many public administrative practices and greater judicial review of public administrators by the courts. Administrative hearings before administrative law judges or similar functionaries are now a standard feature of public administration in the United States. In most instances, the individual member of the public is entitled to be represented by counsel, provided at his or her expense, at such a hearing. A considerable body of constitutional rights for clients, regulatees, and litigants now exists. Street-level encounters are also regulated by constitutional law. The opportunities and rights of individuals to participate in public administrative activities are defined by statute, but once established by law they cannot usually be denied to a specific individual without due process of the law. The individual's ability to initiate litigation has been enhanced by a number of developments.

Overall, the legal approach creates a network of rights to protect the public against arbitrary, capricious, invidious, illegal, or unconstitutional administrative action. It provides individuals with avenues to contest administrative actions before judges or other neutral decision makers. As discussed in the next chapter, it establishes an important check on administrative values, such as efficiency and economy, that can adversely affect individual rights.

CHAPTER 2

PUBLIC SECTOR ECONOMICS

OUTCOMES:**After studying this chapter you should be able to:**

Understand the role of government in the economy,
Differentiate between public and private goods,
Determine the relationship between public expenditure and growth,
Understand why markets fail,
Analyse fiscal and social policy

2.1 INTRODUCTION

In economics we study the way in which society chooses to allocate its resources in order to satisfy a multitude of needs and wants. As these resources are both scarce and have alternative uses, it is necessary for society to prioritise its needs and ensure that they are met in a declining order of importance. The income or budget constraint necessitates these choices. In the process, needs are converted into effective demand and resources are allocated and used accordingly. We are therefore interested in the allocation of resources and in the distribution of the benefits derived from resource use. In public economics we study the impact of the public (government) sector on resource allocation and distribution.

In the mixed economy the balance between the supply of and demand for resources is pursued either through the market system or the political system. In the market system, prices are the equilibrating mechanism in the interplay between supply and demand which, in turn, are determined by such factors as the preferences and income of consumers, the costs of production factors, and the prevailing technology. Needs which cannot be or are not satisfied in the market system are channeled through the political process. The equilibrating mechanism between supply and demand in the political system is the ballot box, and the price is the tax which people pay.

Most Southern African countries have a parliamentary democracy with an executive president elected by parliament. In South Africa a constitutional change requires a two-thirds parliamentary majority (or a 75 per cent majority in respect of the supremacy of the constitution and the rule of law).

2.2 Fiscal challenges

The constitutional change in South Africa occurred at a time when the acquired role and functions of governments were being reviewed across the globe. A growing consensus was emerging that the efficient management of developed and developing economies required smaller rather than bigger budget deficits as well as lower rather than higher levels of public debt. There was also general agreement that fiscal constraints required a thorough revision of the basic functions for which government should be responsible. Along with the international shift towards market-based economies that followed the demise of communism and the command economies of Eastern Europe during the late 1980s and early 1990s, key ingredients of economic restructuring included the privatisation of various activities hitherto undertaken by the state, a total revision of the role and functions of the state, and a concomitant reprioritisation of government expenditure. It is important to note that the emphasis was on how the public sector could be restructured so as to free more resources for the development function of government, without jeopardising macroeconomic stability or increasing the share of government in the economy - preferably even reducing it. (Black, Calitz, Steenkamp and Associates 2008: 5)

These global developments influenced, within South Africa, the public debate on the future role of government, as they also did in many other African countries. They featured prominently in the process that led to the formulation of the new South African constitution. What kind of economic system was to develop in South Africa? What should be the basic rules of the game (or principles) regarding rights to the acquisition, use, improvement, and ownership of the country's economic resources? What protection would there be for private property rights? What constituted basic government services and would citizens enjoy a right to be provided with such services? Would such rights have to be qualified by what the government could afford and how was such affordability to be determined? How should the tax system

be designed in order to be efficient and just? Should the new government accept responsibility for the public debt that accumulated under the previous constitutional dispensation, including the foreign debt? Should all decision-making be centralised in the national government or would a decentralised system of governance be more conducive to improving efficiency of resource use and equity of resource distribution in the country? What powers should be given to provinces and local governments? How should the processes of budgeting and decision-making about public resources be undertaken by governments at all levels? How should the preferences of the public be determined and reflected in acts of parliament and in decision-making in the various departments of the national, provincial, and local governments? These and many related questions characterised the constitutional debate as well as the subsequent restructuring of the public sector, which is still taking place.

Countries seldom have the opportunity to thoroughly revamp all their institutions and policies at once, yet this has been one of the main features of the South African experience since the 1990s. Similar institutional changes are also taking place in Angola, Namibia, Mozambique, and many other African countries. The restructuring of the public sector, such as was effected in South Africa after 1994, affected all groups in society. It affected the way in which business is conducted in the domestic private sector, as well as the nature of our trade and investment relations with the rest of the world. It affected the nature of public goods and services to be provided by the different tiers of government. It affected the individuals and groups of individuals who benefit from public goods and services as well as the way in which the tax or financing burden is distributed among individuals and firms. It changed the way in which consultation takes place between politicians and the electorate and between politicians and various sectional interest groups in society, be it interest groups in business, organised labour, or civil society. Finally, it affected the basis on which employees are appointed and managed in the public sector as well as the nature of interaction between politicians and bureaucrats, and between bureaucrats and the clients of government.

Many role players are involved in decisions on the above issues. Although politicians, in conjunction with government officials (bureaucrats), are ultimately accountable for these decisions, public choices are the domain of the public in general, which

includes the electorate (voters), trade unionists, business people, and a host of other interest groups. The behaviour and interaction of all these interest groups with respect to the allocation and use of economic resources thus constitute an important part of the study of public economics.

After ten years of full democracy, the South African government has carved out a particularly good fiscal track record, at least at the macro level. In tandem with monetary policy, macroeconomic stability and fiscal sustainability were achieved. Although not spectacular by international standards, the economy had recorded 12 consecutive years of positive economic growth, averaging about 2.9 per cent per year, at the time of writing. The economic upswing which started in September 1999 was the longest since World War II. Inflation was down to an average of 1.4 per cent in 2004 and the prime rate of interest was the lowest in 24 years. The country's performance with regard to economic growth, job creation, and the combating of poverty is improving compared to the performance during the 10-15 years before the constitutional change, even if it still falls far short of the country's economic needs. But for those who argue that macroeconomic stability is a necessary condition for sustainable development and growth, the first ten years after 1994 provided a quite solid platform. Many of the fiscal reforms that formed part of the economic policy package will be highlighted in this book, often with reference to theoretical issues. (Black et al. 2008:6)

2.3 The study focus of public economics

Public economics studies the nature, principles, and economic consequences of the expenditure, taxation, financing, and regulatory actions undertaken in the non-profit making government sector of the economy.

Let's examine the elements of this definition. Note firstly the main areas of decision-making: expenditure, taxation, financing, and regulation. These are also called the instruments of fiscal policy. In public economics we study the nature and impact of these instruments. The first three entail the procurement by the state of private funds and the spending of these funds. In economic terms the use of these instruments constitutes the direct mobilisation and allocation of scarce resources. Examples would

be the spending of tax income on primary health care and borrowing funds to build an irrigation dam or a highway. Regulation, by contrast, entails enacting a law or administratively proclaiming an enforceable instruction that leads to a different allocation of private resources than would apply in the absence of such government intervention. The allocation of resources is now influenced indirectly. An example is a regulation by government which forces the manufacturers of motor vehicles to install platinum catalysts in the exhaust pipes of vehicles to reduce the emission of carbon monoxide.

Different types of expenditure, taxation, government borrowing, and government debt can be distinguished. In taxation, for example, we distinguish between taxes on income, wealth, and goods and services. The various categories of taxation or expenditure have different economic consequences. For instance, a tax on wealth (e.g. a property tax) will affect different people in society than a value added tax on red meat would. In other words, the distributional effects differ. The choice of a particular tax therefore depends on how the government wants to change the distribution of income or wealth in the economy, or on how an efficient allocation of resources is pursued. Economists have developed several important fiscal criteria on which economic decisions in the public sector are based and which may be applied when recommendations on taxes or expenditure allocations are formulated. These governing criteria are derived from the two concepts of efficiency and equity which are paramount and distinguishing features of economics.

The study of the nature and economic consequences of decisions falls in the realm of positive economics, posing questions such as: if I take step a (e.g. raise income tax), what will happen to b (e.g. the supply of labour in the economy)? The development of criteria, on the other hand, has to do with normative economics, focusing on what ought to be. For example, if I want d (e.g. a more even distribution of income), what should step c be (e.g. what type and level of taxation should be introduced)? Public economics forms part of normative economics and considers such diverse questions as the rationale for government involvement in the economy and how political decisions should be taken (i.e. what kind of voting system should be used) to ensure efficiency and equity in the allocation of resources.

The term "non-profit making" signifies the absence of profit maximisation as the leading motive, or one of the leading motives, in decision-making on the mobilisation

and allocation of resources. The absence of the profit motive means that other criteria for decision-making have to be employed. We will see that the nature of public goods is such that their supply does not allow for decentralised price determination in a competitive market economy. Note that the government is not the only non-profit making sector in the economy. Many welfare, church, and service organisations exist as non-profit organisations. These institutions are often referred to as non-governmental organisations (NGOs).

Does our definition of public economics include a study of government business enterprises (such as the National Road Fund in South Africa) and public corporations (such as Eskom)? If these entities were driven strictly by the profit motive, they would not fit our definition. However, as long as political appointees serve on or control the board of such entities, as long as these entities render certain socio-economic services on behalf of the government and rely on government financial support, and/or as long as they behave in a monopolistic manner, they are not pure private institutions. These enterprises then operate in the vague area between the government and the private sector. In countries that have embarked on privatisation, such as South Africa, public enterprises often find themselves in transit between a public entity and a private company. Consequently, it is not easy to pinpoint their exact position on the spectrum between public and private, and the criteria in terms of which to study their behaviour are not that clear. In our study of public economics we do not include a separate section on these kinds of activities. We do, however, analyse aspects of their functioning when we discuss topics such as imperfect competition, user charges, privatisation, public-private partnerships, and macro-economic stabilisation.

(Black et al. 2008:6)



ACTIVITY

From the discussion in the preceding pages, it is clear that public economics encompasses a wide range of diverse activities. In order to structure our thoughts, let us examine the composition and size of the public sector within our own countries. To this end, investigate the organizational structure of the public sector in a country of your choice. It is imperative that you provide a comprehensive organogram of the structure.

2.4 Composition of the public sector in South Africa

The South African constitution specifies three levels or spheres of government. The central (or national) government consists of all the national government departments, as well as various extra-budgetary institutions, such as the Council for Scientific and Industrial Research (CSIR), the Human Sciences Research Council (HSRC), and institutions of higher education (universities). These entities are distinguished from general government departments on account of their access to additional funds over and above those appropriated through the national budget. (Note that in the national accounts the universities are in fact classified as part of the public sector. The additional funds stem from user charges, levies, and other non-tax income.)

The second and third tiers of government in South Africa constitute nine provincial governments and 284 local authorities. Together with the central government, the general departments of provinces and local authorities are constituent components of the general government. For the most part, general government thus represents the non-profit activities of the public sector. The allocation of resources is determined by political considerations and is financed through the tax system (or loans which have to be repaid out of taxes at a later stage). The final component of the general government comprises business enterprises such as the National Road Fund at the national government level or the trade departments (for electricity, water, transport, etc.) in the local government sphere.

The next category of public entities consists of public corporations such as Eskom, Mossgas, the South African Broadcasting Corporation (SABC), Telkom, and Transnet. These activities are managed much more along business lines and, in the case of corporations like Eskom and Telkom, decisions are often taken on the same basis as in the private sector. Since, and for as long as, these corporations are subject to government control, however, either in the form of shareholding or the appointment of directors, they are classified as part of the public sector. Conversely, should any public-sector activity or body (or a part of it) be privatised, it will thereafter be classified as part of the private sector.

To summarise: we refer to the three tiers of government (i.e. the general services and business enterprises of national, provincial, and local government) as the general government, and to the combination of general government and public corporations as the public sector. (South African Reserve Bank Quarterly)

2.4.1 Size of the public sector

The size of the public sector differs according to the indicator used. If we are interested in the size of the burden which the government imposes on current taxpayers, we may use the total tax income of the general government as indicator and express it as a percentage of the gross domestic product (or national income). By this criterion the government's average share in the South African economy during the period 2000-2005 was 25.5 per cent. We know, however, that government expenditure is not only financed through tax revenue, but by means of non-tax income (such as dividend and property income, mining leases, and administrative fees) as well as borrowing (loans). We will thus obtain a more accurate picture of the total amount of resource use by government (i.e. the final demand by, or exhaustive expenditure of government) in any year if we measure its size from the expenditure side. It is interesting to note that the total resource use by the public sector (i.e. consumption and investment spending - or capital formation - valued at market prices) has increased from an average of 20.5 per cent of gross domestic product over the period 1960-1969 to an average of 27.3 per cent during the 1980s. It then decreased to 24.5 per cent in the 1990s and 23.1 per cent for the period 2000-2004.

Even this is not the complete picture. Not all of government expenditure is in the form of final demand for goods and services (i.e. exhaustive expenditure). The government also makes transfer payments (subsidies, current transfers, interest on public debt) to targeted beneficiaries or entities. These are called non-exhaustive government expenditure. The government mobilises the resources, but they are used by the recipients who exercise the final demand. If we add interest payments and transfers to the household, business, and foreign sector, we can obtain an accurate picture of the extent of resource mobilisation by the government. During 2000-2004 the South African public sector was instrumental in mobilising 32.7 per cent of the national resources; this figure is lower than the figure for the previous decade.

Due to the diverse nature of government activities and the corresponding differences in the factors that determine the allocation and distribution processes in the public sector, we are not only interested in the aggregate size of the public sector, but also in its constituent components. Note in particular the opposite trends of general government consumption expenditure and public investment, as well as the rising share of transfer payments (especially interest on public debt) as a percentage of GDP. (Black et al. 2008:10)

2.4.2 The relationship between the public and the private sectors

A number of important aspects of the relationship between the public sector and the rest of the economy may be identified with reference to the familiar circular flow of income, expenditure, and goods and services.

Government is a supplier of public goods and services. Households and businesses pay for these goods and services through taxes. Government then uses these taxes to acquire factors of production and to purchase private goods and services (as intermediate inputs), all of which are used in order to produce public goods and services. Government departments, of course, use outputs of other departments as intermediate inputs as well. Government activities are relatively labour intensive and, as a result, salaries and wages constitute the largest input cost.

The size of government in the mixed economy is such that its purchase of goods and services exerts important influences on the economy. At the sectoral level, for instance, government spending is often decisive for the construction and engineering sectors. Privatisation entails goods or services formerly supplied by government as part of the flow of public goods and services, appearing as goods and services supplied by private firms. In the case of public-private partnerships, one may actually find linked goods - some are part of the flow of public goods and services and some are private products. Often private investment cannot be undertaken unless the necessary public infrastructure is in place (e.g. roads and electricity networks). At the macroeconomic level, changes in the aggregate level and composition of government expenditure are important factors in determining economic stability and growth. Excessive expenditure growth can, for example, be inflationary or crowd out private investment, thus retarding economic growth.

The way in which government finances its expenditure also has important economic consequences. The kind of taxes used and the rates levied influence the well-being (utility) of individuals and the decisions by private businesses regarding the allocation of resources in the private sector. The tax system can promote or obstruct efficiency and equity.

While the government can influence the course of the economy, it is also extensively affected by what happens in the economy. In an economic recession, for instance, government revenue falls or grows at a slower rate. This may impair its ability to provide public services, especially if its debt or budget deficit is already relatively high. Government also bears the brunt of its own decisions via their adverse effect on the economy, such as when high budget deficits result in higher interest rates, thereby increasing the government's interest bill. (Black et al. 2008:12)



THINK POINT

Contemplate an overview of the various dimensions of the relationship between the public sector and the rest of the economy.

2.5 Public goods

Efficient production under competitive conditions requires that consumers reveal their preferences (or demand) for goods and services. By doing so, they signal to producers what types and quantities of goods they prefer. On the basis of these signals, producers then decide what and how much to produce. Competition among producers ensures that they do so at minimum cost. Provided that consumer preferences are fully revealed, the market performs like a huge auction that meets the third or top-level condition for allocative efficiency: simultaneous achievement of equilibrium by producers and consumers.

Conversely, competitive markets will fail if there are no satisfactory mechanisms through which consumers can reveal their preferences. Whether or not such mechanisms exist depends on the nature or characteristics of goods and services.

They certainly exist in the case of private goods, which we can define in terms of the following two characteristics:

- Rivalry in consumption: private goods are wholly divisible amongst individuals; this means that one person's consumption of the good reduces its availability to other potential consumers. For example, if Thandi wears a particular dress, it is not possible for Christine to wear it simultaneously; similarly, the consumption of an apple by Christine reduces the quantity of apples available for consumption to Thandi by one.
- Excludability: the consumption of a private good can be restricted to given individuals, typically those who pay the indicated or negotiated price. Once private goods have been paid for, ownership (or the assignment of property rights) is certain and uniquely determined. For example, if Charles pays for a drink in a restaurant, he gains the sole right to consume that specific drink and has legally excluded Thabo from enjoying it.

The benefits of consuming private goods are therefore restricted to those individuals who reveal their preferences for such goods. The rivalry and excludability of private goods force potential consumers to reveal their preferences, thereby setting in motion the competitive processes resulting in allocative efficiency. (Black et al. 2008:29)

2.5.1 Pure public goods: definition

The fact that private goods have two defining characteristics implies that there are three classes of "non-private" goods. Two of these classes each share one characteristic with private goods - these **are known as mixed goods and form** the subject of Sections 3.5 and 3.6. In this section we discuss goods to which neither of the characteristics of private goods applies. Such goods are called **pure public goods or pure social goods**.

Pure public goods such as street lighting and national defence are indivisible - that is, they cannot be divided into saleable units - and are therefore non-rival in consumption.

For a given level of production of a public good, one person's consumption does not reduce the quantity available for consumption by another person.

If Thandi uses a street light to guide her during her walk to a postbox, Roger can use that same street light to establish whether he has found the street in which a distant relative of his lives. Similarly, the protection provided by the South African National Defence Force (SANDF) to the inhabitants of Tshwane does not reduce the "quantity" of protection available to the inhabitants of Johannesburg or Polokwane.

Non-rivalry in consumption has two important implications:

Firstly, the fact that one person's consumption does not reduce the quantity available to other consumers implies that the marginal cost (i.e. the cost of admitting an additional user) is zero. The second implication follows from the first, namely that excluding anyone from consuming a non-rival good, even if it was feasible to do so, is Pareto-inefficient. The reason is straightforward: allowing Ibrahim to use the above street light at zero marginal cost will clearly make him better off than before; yet it will not detract from the enjoyment that Thandi and Roger derive from that same street light. We will return to these implications in the next section.

In addition to being non-rival in consumption, pure public goods are also non-excludable, that is, it is impossible to exclude particular individuals from consuming such goods. Put differently, it is not possible to assign specific property rights to public goods or to enforce them. Let us again consider national defence and street lighting as examples. The inhabitants of the Free State Province cannot be excluded from the protective services provided by the SANDF; and neither can any of the evening strollers along Cape Town's Sea Point promenade be excluded from sharing in the benefits of street lights.

The two criteria for pure public good status are quite stringent and in practice it would seem that there are very few goods that qualify as pure public goods. For example, the protection offered by an army becomes less effective as more people or bigger areas have to be protected and it is therefore debatable whether national defence is fully non-rival at all levels of provision.

Similarly, very few goods are non-excludable in the true or "technical" sense of the word. The development of new technologies continuously expands the scope for the application of the exclusion principle to more goods. Consider the standard case of the lighthouse. For many years the lighthouse was the favourite example of a non-excludable public good. However, the service offered by a lighthouse is not so much a beam of light as a navigational aid. Nowadays it is technologically feasible and cost-effective to provide this service in the form of an electronic signal made available only to those willing to pay for it.

Non-excludability on cost grounds is perhaps more common. It is clearly very costly to place a policeman at every street light in Harare and expect him to chase away those Zimbabweans who are unwilling to pay for the benefits received, or for the South African Government to "exclude" citizens who are unwilling to contribute to the maintenance of the SANDF. However, in such cases it is possible that technologies may yet be developed that make exclusion viable in financial terms.

In spite of its limited applicability to real-life situations, the pure public good case remains an important analytical benchmark – much like the model of perfect competition. For our present purposes it is an extremely useful introduction to the sections that follow. (Black et al. 2008:33)

**ACTIVITY**

Investigate the market for public goods and services and explain who should supply this.

2.6 Market power and competition policy

After many years of intense debate and negotiations between government, the business sector, and organised labour -- under the auspices of the National Economic Development and Labour Council (NEDLAC) - a new Competition Act was promulgated in 1998. The Act made provision for the establishment of a new Competition commission, which consists of the following: a governing body called the Competition Management Board; a new Competition Inspectorate, responsible for investigating alleged contraventions of the Act; and a new Competition Tribunal whose

functions include the assessment of alleged contraventions, the provisional authorization or prohibition of existing or proposed mergers, and making recommendations to the Minister of Trade and Industry.

The main features of the new Competition Act can be summarised as follows:

Reason: The main reason for the new policy stems from Government's view that South African markets are dominated by a few large firms and that ownership and control of the economy are unusually centralised.

Abuse in the form of non-competitive conduct (for example monopoly pricing) could result from the following: horizontal mergers, where a small number of firms or shareholders end up controlling the market and selling the same or similar products, vertical mergers, where one or a few firms own and control not only the same or a similar, product, but also its suppliers and distributors, all within the same industry; conglomerate mergers, where one or a few firms have both horizontal and vertical control of production, and distribution across several unrelated industries.

The overriding objective of the new policy is to eradicate or avoid abusive behaviour and promote competition where feasible, in order to encourage efficiency and international competitiveness, provide easy access to small and medium-sized enterprises, diversify ownership in favour of historically disadvantaged people, and create new job opportunities in the economy.

Modus operandi: The focus is not on dominance as such - said to exist where market share is at least 35% - but, rather on the abuse of a dominant position. The later includes a number of potentially restrictive practices such as the fixing of purchase and selling prices, establishment of production quotas, exclusivity agreements, restriction of technical innovations and collusive tendering. New mergers and takeovers must be authorized by the new competition authority, with the burden of proof resting with the companies involved.

Before deciding on a competition policy it is surely appropriate to ask whether there is a need for such a policy in the first place. Does dominance of a market necessarily result in abusive behaviour? Do high profit levels or "non-competitive" conduct necessarily imply abusive behaviour?

The answer to these questions is "no" according to the efficiency hypothesis proposed by Harold Demsetz (1973). He argued that the high degree of market power and ownership concentration in many markets across the world is merely the outcome of a competitive process in which superior low cost firms have managed to outperform their less efficient counterparts. Prices in these markets are lower than they would have been otherwise, and any attempt to break down the power of dominant firms will undermine efficiency and put pressure on prices, thus harming the interests of consumers. He turned the conventional SCP hypothesis on its head: efficient low-cost production ("Performance") goes hand in hand with competition ("Conduct") which inevitably gives rise to dominance of the industry ("Structure"). He was able successfully to test for the direction of causation, and found that the profitability of dominant firms was positively related to their ability to produce at low cost. In a more recent study Leach (1997) found that Demsetz's "efficiency hypothesis" also applied to the manufacturing sector in South Africa.

It can be reasonably asked why dominant firms should use their profits to improve the quality of their products or to cut production costs and hence prices. One reason is that dominant (even monopolistic) industries are often "contestable", in the sense that the incumbent firms are subject to potential competition rather than actual competition. Provided that there are no barriers to entry and that exit from the market is relatively costless, the mere threat of competition may be sufficient to keep incumbent firms on their proverbial toes. The Southern African beer market is a case in point. Even though the South African beer market is dominated by a large conglomerate - SAB Miller - nothing prevents overseas or other local brewers from entering the market. They might well consider doing so if local beer prices were too high, either because production costs were too high or because the profits of the incumbent brewer were deemed relatively attractive. It is therefore in the best interests of incumbent firms not to misuse their positions of power.

Contestable market theorists (eg. Baumol, 1982) also argue that market structure depends on the relationship between the market demand and the nature of the product or service in question. If economies of scale featured prominently in the production process, for example, then it can be expected that the market will be dominated by one or a few large firms. Furthermore, if the market was also globally contestable, these firms will avail themselves of the latest technologies in order to

remain competitive vis-a-vis imported substitutes and to stay ahead of potential entrants. The optimal size of a firm depends largely on the nature of the product or service it produces and on the nature of the technology used in production.

Of course, the above arguments do not rule out the possibility that dominant firms in may at times abuse their positions of power, for example by engaging in some of the "restrictive practices" mentioned above. There are many factors that may give rise to such an abuse of power - "structure" being one of them - but it is imperative that policy-makers consider all the relevant facts. We have shown here that "big can be beautiful", especially if it allows one to utilise the latest technologies in order to improve quality and cut production costs. Populist intervention in the corporate structure of a country - merely on the grounds of size - could undermine efficiency, damage investor confidence and, above all, harm the interests of ordinary consumers.

It is also worth pointing out that growing global competition has already forced several dominant firms to restructure their operations with some unbundling into smaller entities and others - especially in the financial services sector - merging into bigger ones. These dramatic changes illustrate that inefficient corporate structures are simply not viable over time - they tend to disappear of their own accord. (Black et al. 2008:53)

2.7 Government failures in public economics: politicians and bureaucrats

Politicians can be viewed as entrepreneurs who engage in vote maximization strategies in order to secure and retain political office. It is important to consider the implications for resource allocation resulting from such behaviour. The likely consequences can be more readily determined given two further characteristics of the majority-vote rule:

- Voters are rationally ignorant of much of what politicians stand for, since they usually do not have sufficient incentive to acquire this information,
- Politicians are elected on the basis of a package of policies and therefore do not have to please the majority of voters on each separate policy issue.

The most common social choice rule is the "ordinary" majority rule. Every individual is given one vote and the issue or policy receiving the most votes wins the day. Under a direct democratic dispensation where each voter reveals his or her preferences directly via a referendum, the majority-voting rule requires that a proposal receives "50 per cent plus one vote" support before it can be imposed on the community. If South Africa had a direct democracy and the public were asked in a referendum to vote for or against an increase in the rate of value added tax (VAT), the rate would not be increased if 4 000 001 voters out of a total of eight million voted against such an increase.

In a representative democracy individual voters elect representatives who make decisions on their behalf. A representative democracy is generally less costly to administer than a direct democracy, and it is largely for this reason that the former is most widely used in the world today. Some countries like Switzerland, however, do combine the two systems, utilising the direct method when important national decisions have to be made.

Voters' interests in a representative democracy are represented by several influential actors including elected politicians, bureaucrats, and private and public interest groups. The role of politicians is paramount and one can reasonably ask. What are they in the "market" for? What do they want to maximise? Politicians act like any other utility-maximising consumer or profit-maximising entrepreneur; the only difference is that they are in the business of maximising the number of votes they collect in an election. In an ideal world, the vote-maximising behaviour of politicians is an important means of transforming individual preferences into a logically consistent set of social preferences.

What is required to maximise votes in a representative democracy? To answer this question we must examine the median voter theorem. We begin our explanation of this theorem by defining the median voter as the voter whose set of preferences divides the voting community exactly into two. Let's assume we have a community of five people: Ndlovo, Mary, Thandi, Johan, and Ibrahim. We assume furthermore that we know their precise preferences concerning the size of the national health budget.

Table 2.1 sets out the budgets for which each of them will vote.

Voter	Amount (R million)
Ndlovo	050
Mary	200
Thandi	400
Johan	600
Ibrahim	800

Let us adopt a step-by-step approach towards discovering the majority decision on the size of the budget, beginning with a zero budget. Assuming that there are no extreme preferences (see below), all five voters will prefer a R50 million budget instead of a zero budget. It will, however, be the preferred option of Ndlovo only. A movement from R50 million to R200 million will win the support of everyone except Ndlovo; that is, everyone except Ndlovo prefers a budget bigger than R50 million. A movement from R200 million to R400 million will be approved by Thandi, Johan, and Ibrahim, while only two voters will support an increase from R400 million to R600 million, and so on.

It is clear from Table 2.1 that three of the five options will enjoy majority support: all five voters (or 100 per cent) will support a budget of R50 million, four voters (80 per cent) a budget of R200 million, and three voters (60 per cent) a budget of R400 million. But which is the optimal one? Which one will make our voting population happiest, or cause the least harm?

The answer is provided by the median voter theorem: the best option is that of Thandi's - our median voter - whose preference divides the voters exactly into two. The reason is that both Johan and Ibrahim would prefer Thandi's option to that of Ndlovo and Mary; Ndlovo and Mary will likewise have a relative preference for Thandi's option vis-a-vis those of Johan and Ibrahim. It follows that our largerbudget supporters, Johan and Ibrahim, will rather give their support to a politician campaigning for the median voter's choice than to a politician promoting any other potential majority choice.

We can now formulate the median voter theorem: under a majority voting system in which preferences are not extreme, it is the median voter's preferred option that will win the day, since that is the option that will produce minimum welfare loss for the whole group.

The median voter model provides a simplified explanation of the rational behaviour of politicians under ideal conditions. The model suggests that politicians interact with voters to determine their relative preferences. By doing so, they are able to identify the median voter, act upon his or her preferences, and in the process fulfil the wishes of the majority at minimum cost.

Of course, the real world of politics is a bit different from what the median voter theory would have us believe. Not all politicians are vote maximisers responding passively to individuals' demands. Some might pursue the "public interest" rather than vote-maximising strategies, while others may appeal to voters because of their vision and personality, rather than any tangible benefits they might promise. The model also presumes that the median voter can be identified. This is not easy, especially since different political issues may have different median voters. The model furthermore assumes that voters are rational and that everyone will vote. Politicians and voters are often far from perfectly informed, which renders rational choice unlikely, if not impossible

On the whole, the majority-voting rule does have two important advantages vis-d-vis the unanimity rule:

- reaching majority approval takes much less time and is therefore less costly than achieving unanimous support; and
- under majority rule it is much less likely that a minority will be able to prevent the majority from getting their proposals accepted. On the other hand, majority rule can be criticised for its "winner-takes-all" consequences and for its potential to ignore minority interests and even "tyrannise" minorities.

(Black et al. 2008:72)

Politicians maximize votes and secure parliamentary seats through processes called **logrolling** and **Rent-seeking**.

Logrolling also known as vote-trading, takes place when parties may be persuaded to forfeit something they want in exchange for something about which they feel particularly strongly. The characteristics of majority voter rule, that:

- they are rationally ignorant of much of what politicians stand for, since they usually do not have sufficient incentive to acquire this information,
- politicians are elected on the basis of a package of policies and therefore do not have to please the majority of voters on each separate policy issue,

can give rise to implicit logrolling favouring special interest legislation. This may be illustrated by a simple example.

Imagine a politician standing for election in the electoral district of Pretoria East. She explicitly supports three special interest programmes, namely the relocation of Parliament to Pretoria, a rugby development programme, and a subsidised loan scheme for students in the area. Each of these special interest programmes is likely to attract strong support from a particular group within the voting population - civil servants will strongly support the relocation of Parliament, rugby lovers will likewise support the proposed development programme, and students will lend strong support to the proposed subsidy scheme. But none of the programmes will directly benefit a majority of voters in Pretoria East: the subsidy scheme will not benefit civil servants or rugby lovers directly, or at least not attract their strong support; when faced with a choice between the three programmes, they may have a relatively weak opposition to it. They may therefore rationally decide to remain ignorant about the full cost of the subsidy scheme.

Meanwhile, the politician in question who supports all three programmes has an incentive to make the benefits of these policies clear to the three unrelated recipient interest groups, in order to form a coalition through implicit logrolling. S/he knows that the strong preference that civil servants have for relocating Parliament to Pretoria probably outweighs their mild opposition to the student loan scheme and the rugby development programme: they would rather have all three programmes than none. And s/he can make sure of this by disguising or understating the cost of each of the

programmes to the Pretoria East electorate as a whole - that is, by creating fiscal illusion. Table 2.2 illustrates the nature of this implicit logrolling.

Table 2.2: Coalition-forming and implicit logrolling

POLICY	Strongly favoured by	Weakly favoured by
Relocation of Parliament	Civil servants (33.3%)	Rest of Electorate(66.7%)
Rugby development	Rugby lovers (33.3%)	Rest of electorate (66.7%)
Student loan scheme	Students (33.3%)	Rest of electorate (66.7%)

Source: (Black et al. 2008:72)

It is evident that the politician supporting all three minority programmes will defeat an opponent who opposes them, or who supports only one or two of them, by mobilising the strong preferences of civil servants, rugby lovers, and students by means of implicit logrolling.

- Two important consequences for resource allocation flow from this example: we can anticipate a preponderance of special interest legislation producing a variety of relatively unpopular public goods;
- we can expect an aggregate oversupply of public goods in society.

It is clear that vote-maximising behaviour on the part of politicians can lead to outcomes inimitable to the wishes of the majority of voters. Some writers, most notably Buchanan and Tullock (1962), argue that this phenomenon is a consequence of constitutional failure and can only be dealt with by constitutional reform, for example, by limiting the proportion of scarce resources expended on public goods to some fixed percentage of national income and specifying the distribution of these resources between alternative kinds of public goods.

A second source of government failure stems from the maximising behaviour of government employees and bureaucrats. In essence, bureaucratic failure results from rational responses on the part of utility-maximising civil servants to the incentives presented to them by bureaucratic structures. Thomas Borcherding

(1977: xi) notes *that individuals in the bureaucracy, like the rest of us, do react to different incentive schemes; they do have various preferences, and have the capacity, will and desire to fulfil these preferences. They prefer more rather than less income, power, prestige, pleasant surroundings, and congenial employees.*

The rational behaviour of bureaucrats can be analysed in terms of the demand for and supply of public goods. The demand for public goods in a representative democracy is generated by the decisions of vote-maximising politicians, while the supply of public goods is usually the responsibility of the state bureaucracy. Unlike private firms, however, bureaucracies do not maximise profit. Instead, they receive annual lump sum payments from the legislature based on estimates - prepared by bureaucrats - of the costs of providing specified (and usually monopolised) public goods. Consequently, bureaucracies do not face any market test. William Niskanen (1971) argued persuasively that since higher salaries, more power, greater prestige, and other favourable attributes are positively related to bureau size and hence to bureau budgets, bureaucrats have an incentive to maximise their budgets.

Rent-seeking: James Buchanan, Tollison, and Tullock (1980) and others have observed that government intervention in a market economy may itself create distortions which lead to income and wealth transfers to private individuals and interest groups. These transfers constitute an additional source of economic inefficiency attendant upon government intervention.

The concept of economic rent is usually defined as that part of the reward accruing to resource owners over and above the payment that the resource would receive in any alternative employment. Rent is similar to monopoly profit: it cannot be competed away. In a perfectly competitive world market forces would ensure the dissipation of rent in a manner that produces socially desirable outcomes. The existence of positive rent in a competitive market will attract resources in the same way as the existence of potential profits, and consequently result in the erosion of such rent through an efficient re-allocation of resources. However, once we adjust the mechanisms through which this process occurs, the consequence of rent-seeking behaviour can be harmful to society at large.

The theory of rent-seeking deals with the origins of, and competition for, artificially created rent. The latter usually results from government protected monopoly power and in Southern Africa numerous examples abound, ranging from quantitative restrictions on licences for hawkers, liquor outlets, and taxi drivers, to qualitative restrictions on purveyors of food, and on people wishing to enter occupations like real estate sales, law, and medicine. (Black et al. 2008:80)

2.8 Public expenditure and growth

The South African Constitution contains many provisions that directly or indirectly impact upon the extent and composition of government expenditure. At a very general level these provisions depend on how the government sector and its primary functions are defined in the Constitution. Government functions are derived from, and structured according to, the constitutional distinction between the legislative, executive, and judicial branches of government; the national, provincial, and local levels of government; the security services and certain constitutional entitlements (discussed below); and statutory bodies such as the Public Protector, the Human Rights Commission, the Auditor-General, and the Independent Electoral Commission. By granting powers and assigning functions to such institutions, the Constitution implicitly charges government with the task of maintaining them and providing for the necessary public funding. Failing to do so would indeed be unconstitutional.

In addition, the government of the day is constitutionally obliged to provide or extend the provision of specified basic goods and services. 'The clearest examples of such provisions are found in the Bill of Rights, which entrenches the right of each citizen to adequate housing, health care, food, water, social security, and education. The Constitution is explicit on this issue: "...the state should take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right" (Section 26 (2)).

It is worth noting that these rights generally pertain to mixed and merit goods, rather than only to pure public goods which partly confirms our earlier point that pure public goods are extremely rare in practice. But it is also indicative of modern thinking, about the relative importance of the public sector in promoting sustained economic growth. The rights to certain goods and services conferred by the Constitution could be regarded as constitutional entitlements. What are the practical implications of such entitlements for the way governments manage their own budgets? The wording of

these entitlements in the Constitution acknowledges that governments are subject to budgetary constraints, but many economists feel uneasy about the vagueness of phrases such as "reasonable measures" and "within its available resources". They believe that such wording gives the government too much discretionary power that could threaten the macroeconomic sustainability of fiscal policy. Experts in human rights law also differ in their opinions on how enforceable these rights are in practice. To what extent can the government of a developing country like South Africa be held responsible for the provision of housing, social security, and other basic services to all its citizens? Which of these rights should be accorded priority when trade-offs arise?

It is most likely that the Constitutional Court may at some stage be called upon to answer some of these very difficult questions. In an early case of this nature the Court ruled in November 1997 that a South African kidney patient was not entitled to receiving expensive treatment at the state's expense. Two constitutional principles were involved in this case, namely the right to live and the right to have access to health care services. One of the grounds for the ruling was that the latter right is subject to the "availability of resources".

From a fiscal point of view, a strong case can be made for a ruling that the governments obligations to its citizens should be extended to include future generations. This means that any current attempt at fulfilling these obligations should take full account of the impact it is likely to have on the future growth of GDP, and hence on the growth of government revenue, since the latter is clearly a necessary condition for maintaining the supply of public services over time. At the same time, however, it can be argued that the future growth of GDP depends on the current provision of services such as education and health care. The matter is therefore far from simple. A steady and consistent supply of these services whereby backlogs and future demands are met within reasonable time frames may help to resolve the conflict between constitutional entitlements and macroeconomic affordability. In this regard, medium-term expenditure frameworks may fulfil an important role. (Black et al. 2008: 86)

2.9 Tax implications and reforms

Since the late 1960s South Africa has witnessed three government-appointed commissions of inquiry reporting on aspects of the tax structure: the Pranzsen Commission (1968), the Margo Commission (1987), and the Katz Commission (1994 to 1999). The work of these commissions resulted in comprehensive reforms of the South African tax system. In addition to these comprehensive tax reforms, several major ad hoc tax reforms have also been introduced. Instrumental in these initiatives were the Standing Commission of Inquiry with regard to Taxation Policy of the Republic (Standing Tax Commission) and its successor, the Tax Advisory Committee (TAC), which is a permanent advisory body to the Minister of Finance. As a detailed discussion of their terms of references, findings, recommendations, and government's response is not possible here, we will highlight only the main tax recommendations and reforms. The Franzsen Commission concluded in 1968 that the tax structure at that time was increasingly inhibiting economic growth. The focus of taxation was shifting from indirect to direct taxes and from direct taxes on companies to direct taxes on individuals. The Commission therefore believed that structural changes were required in the form of:

- reduced progression in direct taxes;
- a shift towards indirect taxes by broadening the base; and
- a broadening of the fiscal concept of income by including capital gains.

In its first report, the Commission consequently recommended that the maximum marginal income tax rate on individuals be reduced from 66 per cent to 60 per cent; that selective sales duties on a number of items (to be collected from manufacturers and importers) be introduced; and that capital gains tax of 20 per cent on net realised gains be introduced. With the exception of the recommendation in respect of capital gains tax, all the other proposals were accepted by government and duly implemented.

The next major tax reform occurred in 1978 when the sales duties were replaced by a general sales tax (GST) at a rate of 4 per cent. The sales duties had inherent disadvantages (e.g. narrow base and high rates) and the major aim was to broaden the tax base and eliminate tax non-neutralities by introducing GST. GST was followed by the introduction of regional services councils levies in 1985. These

levies, one on remuneration paid to employees (0,25 per cent) and the other on turnover of enterprises (0,1 per cent), commenced in 1987.

The report of the Margo Commission (1987) was released in 1987. The Commission reported at a time when inflation was rampant, the business cycle was in an upswing, and foreign disinvestment was a threatening factor. The Commission took the view that tax reform should not be driven by short-term economic problems but rather by aspects of the existing tax structure that could hinder economic development. The Commission's general approach (1987: par 1.28) was founded in a base-broadening philosophy:

The ideal, both for direct and indirect imposts, is a broad-base, widely distributed, low-rate, high-yield tax, conforming to these other requirements (equity, neutrality, simplicity, certainty etc.) as far as possible.

Such a tax system would reduce the "brain drain"; encourage immigration, improve standards of tax morality and compliance, promote entrepreneurship and capital formation and create job opportunities. The following are some of the major recommendations of the Commission which were accepted by government:

- the taxation of fringe benefits;
- lower personal income tax rates with fewer brackets;
- accepting the individual as the unit of taxation and phasing in marriage neutrality and the equal treatment of men and women;
- the rejection of capital gains tax;
- the scrapping of certain tax expenditures and allowances;
- the modification of GST and the reduction of the rate; if the recommendation was not accepted, GST would be replaced by an invoice VAT system; and
- the imposition of a capital transfer tax to replace estate duty and donations tax.

Between 1987 and 1994 two of the most important tax reforms were the introduction of value added tax (VAT) and the lowering of the company tax rate (along with the introduction of the secondary tax on companies (STC). Value added tax (VAT) was

introduced in 1991 to eliminate the distorting effects of tax cascading inherent in GST and to reduce tax evasion. Initially the VAT rate was to be 12 per cent with very few exemptions and zero-rates. After much political lobbying by the trade union movement in particular, VAT was eventually introduced at 10 per cent with allowance for a number of zero rated items. Secondary tax on companies (STC) was introduced in 1993 and is a tax on distributed profits, levied on firms. the aim was to encourage firms to reinvest their profits and thereby promote economic development. In a sense STC was also an astute way of reintroducing tax on dividends, since, in 1990, Government had exempted the taxation of dividends.

In 1994 the first interim report of the Katz Commission (1994) was released. It was supplemented by another nine reports between 1994 and 1999. The Commission conducted its investigations at a time when South Africa had just entered a new political and constitutional era. The major thrust of the first and third interim reports was to improve tax administration and collection and to reappraise equity aspects of certain taxes. The following are some of the more important tax reforms introduced between 1994 and 2005:

- The status and independence of the revenue authorities was enhanced by the establishment of SARS as a separate department
- A general tax amnesty was introduced with a view to attract people into the tax system such as the previously disenfranchised who challenged the equity of the tax system.
- A single rate structure with six brackets for personal income tax was introduced.
- All gambling and fee-based financial services were subjected to VAT.
- Interest, rental, and other trading income of the retirement fund industry became taxable.
- Capital gains became taxable.
- The source of income base was replaced by a residence-based income tax.

- The company tax rate was lowered for small businesses with turnover below a certain threshold.
- Accelerated depreciation allowances for investment in underdeveloped designated Urban areas were introduced.
- A foreign exchange control and accompanying tax treatment was introduced to encourage repatriation of illegally held assets abroad and to broaden the tax base. (Black et al. 2008: 153)

(The various types of taxation will be discussed in the section under Public Finance)

2.10 Fiscal policy

The decisions of government concerning the allocation and distribution of resources are embodied in its fiscal policies and reflected in its budgets. The term fiscal policy is normally used in relation to macro-economic policy. Our focus, however, is broader and encompasses the micro aspects of the economy as well. Fiscal policy is used to pursue a range of macroeconomic objectives, but is seldom sustainable unless it considers or maps out the implications for resource allocation at the sectoral and micro levels as well. For example, if aggregate government expenditure has to be reduced to combat inflation and all spending programmes are simply cut in equal measure, the efficiency and equity consequences at the programme and project level of government can be profound. On the other hand, if the government yields to pressures for more government expenditure at the programme and project level without taking the consequences for the macroeconomy and the allocation of resources into account, it could have serious implications for inflation, balance of payments stability, and even long-term economic growth (which might jeopardise the perceived sustainability of fiscal policy). Fiscal policy-making and budgeting is therefore a juggling act of balancing "unlimited" demands with limited resources. That is, after all, what economics is all about.

This section firstly, explores the nature of fiscal policy, emphasising the South African experience and institutions which are in various respects similar to those in the rest of Africa. Secondly, we discuss the effectiveness of fiscal policy, with special attention to different and changing views on the role of government and fiscal policy.

2.10.1 The nature of fiscal policy

2.10.1.1 Definition

Fiscal policy may be defined as decisions by national government regarding the nature, level, and composition of government expenditure, taxation, and borrowing, aimed at pursuing particular goals. Like all forms of economic policy, fiscal policy has both an active element (when a deliberate step is implemented to do something, e.g. to increase the budget deficit) and a passive element (when there is a deliberate decision to do nothing or to refrain from doing something, e.g. when no tax increases are announced in a particular budget).

2.10.1.2 Goals of fiscal policy

We can distinguish between the following macro goals of fiscal policy:

- economic growth;
- job creation;
- price stability;
- balance of payments stability;
- a socially acceptable distribution of income; and
- poverty alleviation.

Note that this list contains none of the elements of the annual budget of the government, such as government functions, programmes, and taxes. The reason for this is that these elements are not goals - they are the instruments that the government uses to pursue the above goals. Note also that price stability, balance-of-payments stability, and cyclical economic growth are short-term goals; the others (including long-term economic growth) are of a longer-term or structural nature.

The sectoral goals of fiscal policy include the following:

- the development of particular economic sectors, such as agriculture, tourism, mining, manufacturing or the financial markets; and
- the pursuance of social goals pertaining to sectors such as housing, education, health, and welfare. Policies of this nature are often referred to as social policies.

It is also possible to specify micro goals of fiscal policy. Such goals relate to fiscal action aimed at a single economic participant group of participants. Normally they can be seen as subdivisions of sectoral goals. The following are examples of micro goals:

- Improving efficiency by addressing negative externalities in respect of a particular product (e.g. tobacco) or activity (e.g. toxic waste disposal by a chemical plant).
- Combating poverty (the equity consideration) by intervening in the market for a particular product (e.g. a bread subsidy).
- Pursuing goals with regard to a particular geographical area (suburban or rural), for example where government-financed infrastructure and housing subsidies for low-income earners are incorporated in a residential development project.

Fiscal policy is not the only tool for pursuing each of these sets of goals. Monetary policy, trade and industrial policy, competition policy, and labour policy are important allies in the endeavour to achieve these goals. Quite often it is necessary to prioritise the goals and also to recognise that they are often in conflict. For example, it may not always be advisable to stimulate economic growth further as doing so may fuel inflation. The government must then decide whether economic growth or price stability should receive the highest priority. In such circumstances we say that there is a trade-off between economic growth and inflation (a related example is the well-known Philips curve trade-off between inflation and unemployment). Fiscal policy differs, depending on whether the growth objective or price stability receives the highest priority.

Certain policies or policy instruments are more effective in pursuing some goals than others. An increase in interest rates (a monetary policy measure) may, for example, achieve quicker results than a tax increase (a fiscal policy measure) if private spending is to be reduced to combat inflation. The policy authorities must, therefore, not only decide on the priority of policy goals, but also choose the most effective policy instruments for the job at hand.

2.10.1.3 Instruments of fiscal policy

As in the case of goals, we also distinguish between macro and micro instruments of fiscal policy. The macro instruments include total government expenditure, the economic categories of consumption and capital expenditure (i.e. the composition of government expenditure), the total tax amount, the budget deficit, as well as the way in which the deficit is financed. The sectoral or micro instruments include the various expenditure votes and programmes (e.g. education, health, and defence) and the concomitant criteria for the mobilisation and allocation of public and private resources; the different types of taxes and their rates; and the different dimensions of the public debt (such as maturity, ownership structure, etc.).

To form an idea of the many government activities that affect the allocation of resources in the economy, note that in 2004/05 no fewer than 185 government programmes were specified in the 34 votes in terms of which budgetary allocations were made in South Africa. These programmes cover a wide and divergent set of activities, ranging from farmer support to air defence; from legal services to pollution control; from higher education to the promotion of mine safety and health; and from social security to land reform. A total of 23 taxes or groups of taxes were identified. The economic impact of some of them is largely limited to a particular sector or a limited number of sectors of the economy (e.g. in the case of the excise tax on tobacco or the levy on plastic bags). Others, such as value added tax, the fuel tax, and income tax on individuals and companies, exert their influence throughout the economy, and changes in these taxes may therefore affect the macroeconomic performance of the country.

2.10.1.4 The fiscal authorities in South Africa

The key figure in fiscal policy-making is the Minister of Finance who is given certain statutory powers by acts of parliament. He or she has the authority to levy taxes, allocate state income (tax and non-tax revenue), and borrow funds domestically and internationally. No state guarantees can be given to borrow money without the approval of the Minister of Finance. He or she is also responsible for the protection of the country's gold and foreign exchange reserves. On some matters the Minister has the authority to take and immediately implement decisions; these include changing

the rates of value added tax, excise duties or the fuel levy during the course of the government's financial year, or providing guarantees for foreign borrowing by parastatals such as Eskom and Transnet. On other matters, such as changing income tax rates or implementing the appropriation of state monies in the annual budget, parliamentary approval in the form of specific acts of parliament is required before any changes can be made. The Minister of Finance does not take important decisions without consulting and/or obtaining the approval of Cabinet. He or she is accountable to Parliament for all decisions made.

The Minister's statutory functions translate into a responsibility for macroeconomic policy, even though this is not specifically spelled out as such in an act of parliament. His or her statutory powers cover all the fiscal policy instruments of government expenditure, taxation, and borrowing. The Constitution furthermore requires consultation between the Minister of Finance and the South African Reserve Bank' regarding the implementation of monetary policy, the Bank's generic policy function. In practice, therefore, the Finance Minister is responsible for macroeconomic policy formulation and coordination, lays down the basic framework for monetary and exchange rate policy, and manages fiscal policy.

The two key institutions that bear the responsibility for macroeconomic policy-making are the National Treasury (macroeconomic and fiscal policy; expenditure allocation and control) and the South African Reserve Bank (monetary and exchange rate policy). Another very important fiscal institution is the South African Revenue Service (SARS). The responsibilities of SARS not only include tax collection and the enforcement of tax law, as SARS also plays an important supportive and advisory role in the determination of tax policy. Close coordination between all these institutions is essential for effective economic policy-making.

There is an old saying that monetary policy begins in the Treasury. This signifies much more than the fact that public debt is financed by issuing government bonds, which constitute the main instrument of open-market policies by the central bank. It is a statement about the close links between fiscal and monetary policy in the pursuit of macroeconomic goals. The economic impact of fiscal and monetary policies is such that the fiscal and monetary authorities have to systematically study

and regularly monitor the combined impact of these measures on economic behaviour. The fiscal policy menu that a particular country selects has to be framed in the context of a coherent macroeconomic policy strategy that includes monetary policy and a number of other policies (e.g. trade and competition policy). The implementation of such a strategy requires regular consultation and active coordination between the Minister of Finance and the Governor of the Reserve Bank and their respective staff.

Another important form of coordination pertains to the formulation of tax policy, where close cooperation between the National Treasury and SARS is essential.

2.11 Public debt management

Public debt management 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 (sometimes called the principal) and to pay interest (sometimes called debt servicing). Most of the time, especially when considering the macroeconomic implications, the term public debt is used to refer to the debt of the national government only. We use this narrower definition in this section.

Public debt arises primarily from the government's annual budget deficits. The government borrows mainly by issuing bonds or treasury bills, collectively known as government securities. The treasury bill is a short-term debt obligation of the national government, representing a charge on the revenues and assets of the Republic of South Africa. A Treasury bill is normally issued for a 91 day period. Treasury bills form part of the liquid asset base of the private banking sector.

The majority of public debt is incurred through the sale of government bonds (also called stock) with a maturity of more than three years. Most of the time these are fixed-interest bearing securities issued by the national government and they represent a charge on the revenues and assets of the Republic. Other varieties of government bonds are variable-interest bonds (of which inflation indexed bonds are an example) and zero-coupon bonds. Zero-coupon bonds are bonds that do not pay interest during the life of the bonds. Instead, investors buy zero coupon bonds at a

deep discount from their face value, which is the amount a bond will be worth when it "matures" or comes due. When a zero-coupon bond matures, the investor will receive one lump sum equal to the initial investment plus interest that has accrued. As financial markets develop and investor sophistication increases, the variety of bonds increases. All government bonds, irrespective of their maturities, are regarded as liquid assets in the hands of banks.

Occasionally debt is incurred outside the budget (off-budget debt) and not reflected in the budget deficit. For example, in the early 1990s the Government transferred bonds directly to the public employees' pension funds to improve their funding levels, instead of budgeting for the expense in the normal fashion.

The debt of the national government is published in the Quarterly Bulletin of the South African Reserve Bank. This excludes the debt of extra-budgetary institutions (such as universities), provincial and local governments, and the non-financial public enterprises (such as Eskom and Transnet). Of course, if the national government were to take over the debt of any of these institutions, the legal responsibility to service and repay the debt is transferred to the national government. From that moment the debt will be countered as part of the public (i.e. national government) debt. Our definition of public debt also excludes contingent liabilities that is, the outstanding financial liabilities of public entities (such as public enterprises) and private entities whose debt carries an explicit guarantee by the national government. Only when such a guarantee is called up, will the payment obligation be transferred to the national government (as guarantor) and the amount involved be added to the national debt.

2.11.1 Size and composition of the public debt

On 31 December 2004 the total debt of the South African Government (public debt for short) amounted to R520.4 billion - this was 37.9 per cent of the GDP, or roughly R11 000 per head of the population. This tells us that, if all the public debt were to be repaid immediately, the Government would on average have to impose a tax of R11 000 on each citizen. Those citizens that are government bond holders as well will, of course, also be on the receiving side when the debt is repaid.

The size of public debt as a percentage of GDP rose substantially during the first half of the 1990s (see Table 2.3), after which it stabilised in the 48-51 per cent range. The surge led various economists to warn against the dangers of a debt trap, a term used to signify an inability of a government to repay and service its debt. From the beginning of the next decade government debt as a percentage of GDP fell quite dramatically in two steps first averaging 44.9 per cent in 2001-2002 and then reaching an even lower average of 38.9 per cent (2002-2004). The lower debt-GDP ratio was mainly the result of the systematic reduction of the annual budget deficit as a percentage of GDP and the use of privatisation income to reduce government debt.

Table 2.3: The size of public debt as a percentage of GDP

PERIOD	Average public debt as % of GDP
1969-1972	43.1
1973-1979	38.3
1980-1988	31.9
1989-1993	38.5
1994-1999	49.1
2000-2001	44.9
2002-2004	38.9

Source: South African Reserve Bank, Quarterly Bulletin.

The South African Government has traditionally made relatively little use of foreign financing, so that most of the public debt is domestic debt. During the period 1970 to 2000 foreign public debt as a percentage of total public debt fluctuated between 10.9 per cent (1976) and 1.6 per cent (1992). During this period foreign debt never exceeded 4.3 per cent of GDP. In 1985, 1986, and 1987 foreign loans were used to counter private capital outflows, but access to the international financial markets subsequently became increasingly difficult due to international financial sanctions. Access to international Financial markets was normalised in 1994. Although this has, together with the gradual phasing out of exchange control, provided the fiscal authorities with an increased array of foreign financing options, the rise in the share of foreign debt in recent years has remained modest. A substantial rise occurred in 2001 resulting in an average of 14.7 per cent of total debt for 2001 to 2004.

An analysis of the ownership distribution of public debt shows that the majority of public debt is in the form of long-term bonds held by pension funds (including the Public Investment Commissioners (PIC) and long-term insurance. At the end of 2004 the PIC alone owned almost 41% of the long-term domestic marketable bonds of the National Government. The biggest investor remains the government Employees' Pension Fund. This fund investment in government bonds is channeled, along with investable funds of other government pension funds and other public bodies, via the PIC. At the end of 2004 government bonds constituted 46.3 per cent of the PIC's assets.

Until 1989 insurance companies and private pension funds were compelled by law to hold 53 per cent of their untaxed liabilities and 33 per cent of their tax liabilities in fixed-interest bearing public sector securities (Abedian and Biggs, 1998: 261). This provided the Government with a captive loans market. To the extent that the interest on such bonds was lower than would have applied if government had to compete for these funds in a competitive market, these prescribed investments constituted a hidden tax on the relevant institutions. For the Government, the cost of debt was therefore, below the market rate. This implicit tax, which impacted negatively on savings, was criticised for its unfairness and adverse influence on investment performance and was abolished in 1989.

For some time the PIC continued to be subject to strict investment requirements; however, this has also changed and during the 1990s the PIC was increasingly allowed to make market-related investment decisions. This was due to the fact that the PIC, as the investment arm of the Government's pension funds, was responsible for the investment yield of these funds. Public employees contribute to a defined benefit fund. It means that the weaker the investment performance of the PIC is, the higher the Government's future obligation to improve the solvability of these funds will be. For this reason the Government transferred bonds to the pension funds at various occasions in the early 1990s - to ensure future solvability it reduced its contingent liability by increasing its actual debt.

An intriguing question is whether, and on what basis, public debt is justified. When attempting to understand the nature and causes of public debt, an important issue that has to be considered revolves around the purpose for which debt is incurred. For example, are the borrowed funds to be used to finance current or capital

expenditure? Spending on goods and services that are used up within a specified, usually short, period is called current expenditure or consumption expenditure (see Bannock, Baxter & Rees, 1971: 82). In fiscal terms these goods and services are normally associated with tax rather than debt financing. Capital expenditure refers to expenditure on durable items that yield services or revenue over a long period, such as roads, irrigation dams, and electricity networks (Bannock et al., 1971:2). This kind of expenditure is normally financed through loans (public debt).

The inverse of the question about the justification for debt is whether public debt is something that should be repaid. Most people would argue that a government is not like a business, the health of which is determined by factors such as the value of its shares, its profit, its debt-equity ratio, and measures of liquidity and solvency. These criteria are important determinants of whether a business is bankrupt or thriving. If the business is to be sold, one needs to know its value or net worth to determine the price. Net worth may be defined as the difference between the value of all assets and liabilities, that is, the "shareholders (or, in the case of government, the taxpayers') interest". (in the case of government, the mirror image is the net indebtedness, which is the difference between the value of all liabilities and assets. Many would argue that this kind of information is irrelevant when analysing the financial state of a government, because a government allegedly cannot become bankrupt or is unlikely to be put up for sale. In fact, one type of government bond, known as a consol, is a perpetual bond, that is, a bond with an indefinite maturity - never to be repaid. This is well-known in the UK, but no such bond has thus far been issued in South Africa.

In recent times these ideas have been challenged. The government is not only the supplier of public goods and services. It is also the custodian of public assets owned collectively by the citizens (taxpayers) of the country. Informed and enquiring citizens have tended to become interested in the way in which the government is managing their (public) assets and liabilities. The net worth of government has become important, not as an indication of the potential selling price of the government, but as a measure of the quality of fiscal management. Attention to the balance sheet of government is becoming a feature of public economics. Privatisation, for example, has raised questions like: is society becoming poorer if public assets are sold, and should the revenue from privatisation be used to repay public debt or to acquire new assets?

Incidentally, the balance-sheet accounting implied above, is also required to answer many of the questions raised by public auditors who have, over the past two to three decades, advocated the importance of value for money in a number of countries such as Canada and New Zealand. In South Africa we increasingly focus on commercially oriented questions such as the value of public assets, the (opportunity) cost of non-earning or badly managed assets, and the cost of excessive stockpiling - such as occurred in the defence force in the past.

2.12 Conclusion

This chapter provides the reader with an overview to the study of public economics within South Africa. The main focus has been on the theoretical issues pertaining to the role of government in a mixed economy. One may well conclude from the above exposition that the government of any country plays a critical role in the development, monitoring and sustainability of the country's economy.

CHAPTER 3

PUBLIC FINANCIAL MANAGEMENT

OUTCOMES:

After studying this chapter you should be able to:

Differentiate between public and private sector financing,
Understand how the State finances its services delivery functions,
Determine South Africa's tax base and identify the various sources of revenue for the State, and
Identify budgeting processes and procedures at the various levels of government.

3.1 Introduction

The administration and management of public finance are governed by two elements, namely the specific nature and extent of public finance on the one hand, and the vital importance of effective government spending on the other. As a result, the staff who are directly involved in public finance carry out specific activities so as to satisfy the requirement of public accountability, among other things. However, we must remember that even though staff who are directly involved in public finance perform an extensive range of functional activities, this does not diminish the importance of other staff in the public sector, since administrative functions also have indirect financial implications.

Although we distinguish between financial staff *per se* and other line and staff officials, we should always be guided by the two elements mentioned above, since staff are specifically recruited, trained and utilised according to certain guidelines supported by these elements. Because of the extent and complexity of public finance, specialist staff are required to achieve objectives through effective work performance, and in this context the objectives refer to the effective employment of public capital. In this chapter we shall identify the guidelines in terms of which the financial staff carry out their activities. We shall also describe financial staff and their functional activities, and investigate the role of the budget in this regard.

Public financial management deals primarily with the procurement, custody, distribution and control of public finances. The term procurement is used to describe how public funds are obtained; custody refers to the safekeeping and banking of these funds;

distribution is generally the way in which monies are budgeted for and utilized for services delivery; and control deals with monitoring, auditing and accounting of all public monies.

3.2 Procurement of Revenue.

Governments are empowered, in terms of appropriate legislation, to collect revenues from communities in order to provide goods and services for their benefit. The dominant source of finance for public expenditure is taxation. According to the South African Reserve Bank's Review (2004:S78) in 2003/4 tax revenue constituted approximately 81.9% of total cash receipts from the operating activities of the consolidated general government. Government expenditure may also be financed from alternative sources. In addition to taxation, there are four other important sources of finance, viz., user charges, administrative fees, borrowing and inflation taxation.

User charges (also referred to as benefit taxes) are prices charged for the delivery of certain public goods and services. The role these charges play in the allocation and distribution of resources is analogous to the role of prices in the market mechanism. The important difference is that user charges are set in the "political market". User charges can only be levied if exclusion is possible. In other words, it should be possible to exclude those who do not pay for the consumption of the public good or service in question. Examples of user charges include toll roads, public swimming pools, ambulance services, and university education.

Administrative fees are similar to user charges, but differ in the sense that the service (or benefit) received in return for the fee is defined rather broadly and imprecisely. Such fees include business licences, television licences, diamond export rights, fishing licences, and motor vehicle licences. The dreaded parking ticket and speeding fine can also be added to the list. Administrative fees and fines are insignificant sources of revenue.

Government can borrow from its own citizens and from abroad. Borrowing is often used to finance capital expenditure. Borrowed funds must be repaid at some point and therefore amount to deferred taxes. Because lenders have to be adequately

compensated for current consumption forgone, it is imperative that borrowed money should be spent on productive activities. Sometimes government uses borrowed funds to finance current consumption, a practice that cannot always be defended on economic grounds.

Government-induced inflation can also be regarded as a source of revenue. If public expenditure is financed in such a way that increases in the money supply occur, such financing may eventually raise the price level. Inflation changes the real value of public debt. If government borrows R2 000 from a taxpayer (e.g. if government imposes a loan levy on all taxpayers with incomes in excess of R100 000) and inflation is 10 per cent, then in a year's time the real value of the loan is only R1 800 ($R2\ 000 - [10/100 \times 2000]$). If the value of the loan is not linked to a price index, the real value of government debt decreases. In this case it may also be said that government finances its expenditure with an "**inflation tax**".

3.2.1 Taxation

Taxes are transfers of resources from persons or economic units to government and are compulsory (or legally enforceable). There is not necessarily a direct connection between the resources transferred to government and the goods and services it supplies. In fact, government can compel one group of individuals to make payments that are used to finance activities to the benefit of another group. Taxes are compulsory due to the free rider problem. As no one will pay taxes voluntarily, people have to be compelled to do so. The fact that Government has legally been granted the power to tax distinguishes government's confiscation of resources through taxation from other involuntary transfers of resources (e.g. theft).

Government, however, does not have unlimited powers as far as taxation is concerned. The Constitution of the Republic of South Africa (1996) provides for money Bills, that is, Bills that provide government with the legal right to appropriate amounts of money or impose taxes, levies, or duties. All money Bills must be considered in accordance with the procedure established by Section 75 of the Constitution, and an Act of Parliament must provide for a procedure to amend money Bills before Parliament. For purposes of this discussion, taxes will be categorized into direct and indirect taxes.

3.2.1.1 Direct Taxation

Direct taxes are imposed directly on individuals and companies (e.g. personal income tax and company tax). Indirect taxes are imposed on commodities (e.g. excise taxes and VAT). This distinction fundamentally revolves around the issue of tax incidence (i.e. the question of who really pays the tax). It would suffice to say that we simply cannot tell with certainty in advance what the outcome is going to be.

From the perspective of tax shifting, direct taxes are defined as taxes that cannot be shifted readily. They are collected from individuals, households, or firms and allow for the possibility of adjusting the tax according to the personal circumstances of the taxpayer (e.g. the marital status, gender, size of household, wealth status). These taxpayers are the intended bearers of the tax burden and it is assumed that they pay the tax over to SARS. Personal income tax is nowadays mostly deducted from employees' salaries and paid over by employers. Nonetheless, the employer does not have complete information on non-salary income (donations, interest, rent, capital gains) and the individual is therefore still responsible for the completeness and correctness of the tax assessment.

Indirect taxes are taxes which are likely to be shifted and are imposed on commodities or market transactions. Examples are excise duties and fuel levies. It is also more difficult to adjust the tax rate to the personal circumstances of the consumer. In the case of indirect taxes it is often possible to shift the burden of the tax to someone else. VAT is collected from merchants who, in turn, can pass on the tax to Consumers by way of a price increase. The consumer then indirectly bears the burden.

Although there are differences of opinion on the exact distinction between direct and indirect taxes, this classification is widely used. The relative importance of direct versus indirect taxes is much debated, also in South Africa.

3.2.1.1.1 Income Tax or personal tax

Income tax can be defined from both the sources side and the uses side of the budget. From the uses side, income is the monetary value of consumption plus any change in the net worth over a year. Net worth (or the net value of assets) is obtained by subtracting liabilities from assets.

Put differently, income is the net increase in the power to consume in a particular period (e.g. a year). It can be expressed as

$$Y = C + S$$

where **Y** is income, **C** is consumption, and **S** is saving (or the change in net worth).

From the sources side of the budget, anything that makes consumption possible (i.e. anything that is available to finance consumption) is considered as income. Income thus includes salaries, wages, interest, capital gains, rent, profits, royalties, dividends, gifts, employer contributions to pension funds, unemployment benefits, and income in kind. This comprehensive definition of income is referred to as the Haig-Simons definition, named after two early twentieth-century economists who advocated its use. Haig and Simons believed that such a definition of income most accurately reflects the ability to pay (one of the criteria of fairness) or purchasing power.

For administrative and other reasons, governments tax some of the sources of income separately. In South Africa and most other countries, income received by individuals is subject to personal income tax. The income of incorporated businesses (i.e. profits) is subject to company tax. In some countries net capital gains from increases in the value of assets are subject to capital gains tax. These three income tax bases are discussed separately in this chapter. Gifts, which can also be treated as additions to wealth.

Another dimension of the comprehensive definition of income is that income is recorded as it accrues and not only when it is realised. For example, if an asset increases in value during the course of the year, the capital gain is an addition to net worth. The asset need not be sold (i.e. realised) for the increased value to be regarded as income. The reason is that an increase in the value of an asset represents an increase in the owner's purchasing power (i.e. ability to pay). In practice, the accrual principle causes considerable administrative complications (e.g. Valuation problems) and it may also result in cash flow problems for those who have to pay tax on accrued amounts not actually received in cash.

From an international perspective income is generated within countries but also across national borders. In recent years the economies of countries have become

increasingly internationalised and this has impacted on a tax jurisdiction's ability to tax individuals and companies. In an integrated and open economy the returns of factors of production (e.g. salaries, dividends, profits, royalties, interest) flow much more freely within a country and across national borders. When rates of return differ between countries due to taxation, these tax-induced differentials can be exploited by capital and highly skilled individuals causing distortions within countries and across countries. Over the years tax authorities have dealt with the international taxation of income using two general principles: the residence of taxpayer principle and the source of income Principle.

The residence principle (or worldwide basis) is based on the view that the country of residence of the person or business that receives the income determines the tax liability and collects the tax. Thus a person residing in South Africa would be liable for taxes on his or her total (worldwide) income in South Africa if a residence system was applied. For example, if the person earns R300 000 from a source in South Africa and R120 000 from a source in Zimbabwe, the combined income of R420 000 is taxable in South Africa. For a legal person (e.g. a company), residence is determined where the business is registered or has a permanent presence. Only income that can be allocated to the activities (at home and abroad) of the business would be taxable.

According to the source of income principle, income is taxed by the country where the income is generated. Using the example above, only the R300 000 which originated in South Africa would be taxable in South Africa if the source principle was applied.

In practice most countries apply a combination of both systems. This hybrid form of taxing cross-border flows of income could result in double taxation of such income. If South Africa applies the residence principle and Zimbabwe the source principle, then, in our example above, a person residing in South Africa would be taxed on his or her worldwide income of R420 000 in South Africa. In addition, the Zimbabwean tax authorities would tax the person on the R120 000 generated in Zimbabwe. To eliminate or reduce the extent of double taxation, countries using the worldwide basis unilaterally grant tax relief in the form of an income deduction for the income earned in the source country or a tax credit for the tax paid in the

source country. Alternatively, countries enter into bilateral tax treaties or attempt to harmonise the tax treatment of cross-border income.

On a multilateral basis, however, it is difficult to harmonise tax systems, as countries perceive the net benefits of each system differently. The debate on the merits of each system is extensive and not clear-cut at all. The issues which developing countries have to consider include the following:

- The source basis resembles the benefit principle of taxation. The entity generating the income benefits from public expenditures, for example, uses public roads and schools, and should therefore be taxable. This is not a very convincing argument since a resident who earns foreign-sourced income also benefits to some extent from public roads and schools. The residence basis, on the other hand, approximates the ability-to-pay principle and enables countries to tax the worldwide income of residents on a progressive scale. Countries with low levels of foreign income (e.g. dividends, interest, and royalties) would have to consider using the source basis on grounds of administrative expediency. On the other hand, where income from investments abroad is considerable, the residence basis has to be considered on revenue grounds.
- From a tax neutrality point of view, a tax system (e.g. tax rates) should not influence locational decisions of businesses. From the perspective of a capital-importing country, a source-based system would have the advantage of being neutral with regard to capital imports, since it does not discriminate between domestic investment and foreign investment, regardless of where the capital originates. Developing countries tend to be capital importers. On the other hand, from a capital-exporting perspective, a residence based system would be neutral with regard to capital exports. The only concern to an investor would be the tax rate in his or her country of residence.

In South Africa the taxation of income was based on the source principle of international taxation in the past. Due to the increasing globalisation of the economy and the relaxation of exchange controls, a residence-based income tax system was introduced from 1 January 2001. It was argued that by doing this, the South African income tax base would be broadened, opportunities for tax arbitrage would be

limited, and the tax system would be brought in line with accepted norms for taxing international transactions (Department of Finance, 2000: 84).

This move was contrary to the recommendations of the Katz Commission (1997b). In its Fifth Interim Report, the Katz Commission (1997b) distinguishes between active income (income derived from operational activities, such as manufacturing and rendering services) and passive income (income derived from investment, such as interest and royalties). The Commission recommended that active income should be taxed on the source basis and passive income on the worldwide basis. It argued that taxing active income on a worldwide basis and at the relative high domestic effective tax rates, would encourage South African multinational companies to relocate to low tax jurisdictions. Changing the tax system to a worldwide basis would also be administratively complex. The Commission argued that taxing passive income on a worldwide basis would be necessary to protect the tax base. Passive capital is very mobile when exchange controls are limited.

3.2.1.1.1 Personal income tax base

Gross income is the starting point in calculating personal income tax. In South Africa, gross income consists of all receipts and accruals (e.g. wages and salaries, rents, royalties, dividends, capital gains, and interest) of South African residents irrespective of where in the world it was earned. Exempt income (e.g. dividends) is deducted from gross income and the resulting amount constitutes net income. Taxable income is obtained by deducting all the amounts allowed as deductions (e.g. medical expenses) from net income. Normal tax is calculated at the applicable rate on taxable income.

3.2.1.1.2 Company taxation

Due to certain unique properties of company income, most countries tax this source of income separately. The following are the main reasons for taxing companies:

- From a legal point of view, companies are separate entities (legal persons). They function as institutions with their own identity and are independent from their shareholders who are taxed in their own right.

- Companies receive benefits from government and should be taxed for these privileges according to the benefit principle. The benefits include companies' limited legal liability to shareholders, the creation of an orderly environment by government which is necessary for conducting business, the use of infrastructure, etc.
- If companies are not taxed, it is possible for shareholders to limit their personal income tax liability by retaining profits in the company. This increases the capital value of the shareholders' investment in the company. If capital gains are also not taxed, the integrity of the whole system of income taxation is jeopardised. Tax avoidance by individuals is therefore limited by taxing company profits. Since it is generally the higher-income Group who are shareholders in companies, taxing this income is fair from an ability-to-pay perspective,
- By taxing the excess profits of imperfectly competitive firms (e.g. monopolies and oligopolies) market failures are addressed. Governments can also achieve other economic policy objectives such as promoting foreign and local investment and achieving regional development aims by manipulating company tax rates and providing tax incentives (e.g. liberal depreciation allowances, training allowances, and tax credits).
- Company taxation is administratively simple and generates significant revenue as a separate tax, particularly in LDCs
- By taxing companies, revenue is derived which would otherwise accrue to foreign investors and their home governments. Foreign investors are usually taxed on their investment income at company tax rates in their home countries. For example, when South Africa (the host country) levies company tax, the profits repatriated to the home country (e.g. the USA) will also be taxed at prevailing USA company tax rates. To avoid double taxation, countries usually enter into double taxation agreements whereby the home country credits taxpayers with taxes paid in the host country. In other words, only the difference between the home country tax liability and host country liability is payable in the home country.

Company tax is a significant but declining source of tax revenue. In 1975/76 income tax on companies amounted to R1 969 million, or about 41 per cent of total tax revenue (net collections) in South Africa. In 2004/05 company tax came to R65 450 million, or about 19.7 per cent of total tax revenue. There are various reasons for this decline, one of which concerns the nature of economic development. As a country develops economically, the consumption tax base broadens and the personal income tax base also becomes more important. Another set of possible reasons are factors that reduce company profit margins, such as rising wage costs, import costs, and debt finance charges, tax exemptions, tax evasion, and tax avoidance are further possible causes, since they lead to effective tax rates that turn out to be much lower than the nominal or statutory rates.

3.2.1.1.3 Capital gains tax

Capital gains can be defined as increases in the net value of assets over a period (e.g. an accounting period or fiscal year). According to the Haig-Simons definition of comprehensive income, anything that makes consumption possible without diminishing wealth at the beginning of a fiscal year is considered to be income. Capital gains are, accordingly, often classified as a form of income and are taxed as such. Capital gains can be taxed as they accrue (an unrealised gain) or when they are realised. An unrealised capital gain occurs when an asset increases in value in a given fiscal year and the asset is not sold, for example, an increase in the rand value of a Krugerrand when the rand depreciates against the dollar. A capital gain is realised when an asset has increased in value and is sold for cash.

Capital gains tax is currently levied in number of developed countries, such as Canada, the USA, the UK, Australia, and Japan, as well as in some developing countries, including Argentina, Brazil, India, Nigeria, and Zimbabwe. In South Africa capital gains were generally not taxable in the past. Where assets were kept as an investment and then sold, the yield on realisation of the asset was regarded as a receipt of a capital nature: one asset (capital) was simply converted into another (cash) and the yield was therefore not taxable. But where assets were sold in the course of normal business, that is, to make a profit, such profit was regarded as income and taxed as such. In many cases the courts had to rule on the application of this principle, which caused a

great deal of uncertainty about the taxability or otherwise of capital gains. On 1 October 2001 South Africa implemented a capital gains tax (CGT).

Capital gains tax comes into play when there is a change in the ownership of an asset, that is, when it is sold, given away, scrapped, swapped, lost, or destroyed. It is thus a "realisation" or transaction-based tax and, when capital gains are realised or deemed to be realised, such gains form part of the income tax base. The capital gain (or loss) is determined as the difference between the realised proceeds from the sale of the asset and the total base cost of the asset. The base cost of an affected capital asset includes the original acquisition costs and related transaction costs (e.g. legal fees and brokerage), the costs of any improvements, and VAT.

Capital losses may only be deducted against capital gains - there is no such thing as a negative CGT. Capital losses incurred on assets not used for business purposes cannot be subtracted from realised gains for tax purposes. These include assets used for personal consumption such as sailboats, second vehicles, and aircraft.

The first R10 000 of net capital gains of a natural person during a tax year is excluded from CGT. Although capital gains in excess of R10 000 are included in taxable income, some relief is granted to individuals and other legal persons. In the case of an individual, only 25% of the net capital gain is included in taxable income. A company has to include 50% of its net capital gain. This means that the effective capital gains tax rate in respect of individuals varies between 0% and 10%, depending on the marginal tax rate, and for companies it was 14.5%. The effective capital gains tax rate for small businesses ranged from 0% to 14.5%.

Any individual or legal person (e.g. a company, close corporation, or trust) resident in South Africa is liable for CGT in respect of the disposal or deemed disposal of capital assets held both inside and outside the country. Where an individual or legal person is not resident, a liability will only arise in the event of the disposal of immovable property inside South Africa or the sale of the assets of a local branch, permanent establishment, fixed base, or agency through which a trade, profession, or vocation is being carried out.

Capital assets liable for CGT are property of any kind, whether movable or immovable or tangible or intangible, and include land, mineral rights, office blocks, plant and machinery, motor vehicles, boats, caravans, trademarks, goodwill, shares, bonds, and Krugerrands. Some assets are exempted from CGT, such as trading stock and mining assets qualifying for income tax deductions as capital expenditure; and in the case of individuals, principal owner-occupied residences, private motor vehicles, and personal belongings (e.g. clothing, stamps, works of art, antiques, medallions, foreign exchange, and coins not minted in gold or silver). Small business assets (businesses with a market value of assets of less than R5 million) realised by individuals over 55 who use the proceeds for retirement purposes are also exempted from CGT provided the assets had been held for at least five years. The latter provision is limited to a once-off exemption of R500 000 per taxpayer.

In order to safeguard the reinvestment of profits, a capital gains tax liability may in certain cases be deferred until a subsequent CGT event. Deferral (rollover) relief applies to asset disposals such as certain transfers of property to establish or reorganise a business, transfers of property from a deceased estate, donations of property, and transfers between spouses.

The Franzsen Commission (1968) recommended the introduction of a separate capital gains tax. This Commission regarded profits arising from the sale of shares and fixed property (with the exception of property that the person liable for tax uses for residential purposes) as the principal components of the capital gains tax base. The Margo Commission (1987) opposed a capital gains tax primarily because of the administrative problems involved. The Katz Commission, in its Third Interim Report (1995: 49), also recommended that "... by reason of the lack of capacity on the part of the tax administration, there should not be capital gains tax in South Africa at this stage". The low revenue potential of such a tax reinforced the Katz Commission's conclusion.

Capital gains are not really taxed for the sake of the revenue they yield, but rather for other reasons. It is estimated that CGT could raise about R1 to R2 billion a year directly (i.e. around 1% of total tax revenue).

The following are the most important reasons for capital gains taxation:

- To protect the integrity of the personal income tax base. If capital gains are not taxed, taxpayers have an incentive to convert income into capital gains in order to avoid taxation. Consider the example of a sole proprietor who reinvests his or her profit instead of taking it as a salary (which is taxed at marginal income tax rates). The reinvested income increases the value of the business. When the business is sold eventually the benefits are reaped in the form of long-term capital gains (regarded as nontaxable capital income in the absence of capital gains taxation).
- To ensure horizontal equity. A capital gain represents an increase in economic power and increases the individual's ability to earn income and to be taxed. Consider two persons with the same net additions to wealth (income plus net assets): person A's net additions consist of salary income and capital gains; person B's net additions consist of salary income only. Both have the same horizontal ability to pay in terms of the comprehensive definition of income (i.e. the Haig-Simons definition). If capital gains are not taxed, person B is unfairly taxed on his or her income.
- To ensure vertical equity. Capital gains accrue mostly to higher-income taxpayers. If they are not taxed on these gains, the vertical ability-to-pay principle is jeopardised.
- To improve economic efficiency. If investments are chosen on the basis of tax considerations, the allocation of investment funds is distorted and an excess burden results.

There are also a number of arguments against capital gains tax of which the following are the most important:

- Capital gains taxation is subject to numerous administrative problems. Assets have to be valued and there is a need for accurate and up-to-date deeds registers in the case of, for example, works of art and real property. The

valuation problem is more acute in the situation where an accrual base is used (i.e. where unrealised capital gains are also taxed). The problem of valuation is less severe when a realisation base is used - in other words, when the selling price is compared to the purchase price when the asset is sold and tax payment is only due when the asset is sold.

- If nominal profits (instead of real profits) are taxed, equity is at risk. Inflation causes imaginary capital gains (i.e. increases in the nominal value of assets) and it may be unfair to tax someone just because inflation has increased the nominal value of an asset. Nominal capital gains should therefore be deflated by an appropriate price index. The choice of a suitable index is a further complication.
- Capital gains are usually once-off events and to avoid the tax, taxpayers tend to lock in rather than realise investments. This lock-in effect can affect investment negatively. Concessions are therefore usually made either in the form of lower personal income tax rates on capital gains, or by not taxing capital gains once a certain period has elapsed. To compensate for the effects of inflation and the lock-in effect, the South African tax authorities opted for low effective capital gains rates.

3.2.1.1.4 Wealth tax

Income and consumption are flow concepts since both are measured over a period of time. Income consists of wages, rental income from property, interest on savings, dividends on shares, and so on. In contrast to income, wealth is a stock concept which is measured at a particular point in time.

Wealth is the value of accumulated savings, investment, gifts, and inheritances- If a person does not save or receive inheritances or gifts, he or she will never accumulate wealth. A person's wealth consists of the net monetary value of assets owned. Another and technically more correct definition is that personal wealth is the present value of a person's expected real income. Personal wealth includes tangible things such as house, durable goods (e.g. motorcars, jewellery, valuable paintings) and land. In addition, individuals hold financial assets such as cash, deposits in bank accounts,

shares in businesses, and Government bonds. These are all assets that can be traded in the market. We can also identify other items such as insurance policies and pension rights, although these types of assets are difficult to trade in the market and thus to value. Human capital acquired through investment in education and training should also be included as (intangible) forms of personal wealth, although valuing human capital is obviously difficult. A person's wealth must also take account of any liabilities since assets are often acquired through incurring debt. By subtracting liabilities from assets we obtain the net value of assets (i.e. personal wealth), which is also called net personal worth.

The wealth tax base is not restricted to personal wealth company wealth should also be considered. Company wealth includes different forms of capital such as fixed capital (premises, plant, and machinery), floating capital (raw materials and inventories), and financial capital (stocks and shares, cash, and bank deposit;). It is not difficult to see why the term capital is often used synonymously with company wealth. To these assets we should, in principle at least, add intangibles such as goodwill, brand name, and market power. As in the case of human capital, it is difficult to value these assets. To arrive at net company wealth we must subtract liabilities from the gross value of asset.

The taxation of the wealth base has a long history dating back to a form of property tax introduced in ancient Rome. The most important types of wealth taxes today include:

- annual wealth taxes (e.g. on persons and/or companies);
- property tax (eg. tax on land and improvements); and
- capital transfer tax (eg. tax on estates and gifts)

Property tax: A primary source of wealth tax for the government is property tax.

The property tax base can be defined very broadly to include real property (realty) and personal property (e.g. furniture, motor vehicles, shares, bonds, and bank deposits). We will focus exclusively on real property partly because it is the most common one. Such a tax is an impersonal (in *rem*) tax.

Property tax can be levied at the national level and provincial government level or local authority level. In South Africa it is collected mainly by (urban) local authorities.

National government taxes on property are primarily in the form of transfer duties (payable a person who acquires a property) and tax on donations and estates. In the latter cases, the tax is levied when immovable property is alienated or acquired in terms of a donation or an inheritance. However, the property taxes levied by local authorities are by far the most important form of property tax in South Africa.

Property tax is a major source of revenue for local authorities. When other receipts (mainly sales of bulk services such as electricity and water) are excluded from the financial statistics of local authorities, property tax revenue in 2003/04 to the time of R21.6 billion was generated. This represented approximately 26% of the cash receipts from operating activities of municipalities. Important as this source may be for local governments, its relative insignificance as a national revenue source is illustrated by the fact that it would contribute only about 6.6% to the total tax revenue of the consolidated general government.

3.2.1.2 Indirect taxation

Indirect taxes are taxes that are imposed on commodities or market transactions. The burden of an indirect tax is likely to be shifted. Consider, for example, an excise tax on locally produced washing machines. Although the statutory burden is on the supplier, the consumer usually indirectly bears the burden. Indirect taxes can be imposed at different stages of the production process: the resource (mining or farming) stage, the manufacturing stage, the wholesale stage, or the retail stage. If the tax is collected at one stage only, it is called a single-stage commodity tax. If it is collected at more than one stage, it is called a multi-stage commodity tax. VAT is an example of such a multi-stage tax.

We can distinguish between selective (narrow-based) taxes (e.g. specific excise duties) and general (broad-based) indirect taxes (e.g. turnover tax, general sales tax, value added tax). Excise duties are selective taxes levied on certain goods or transactions.

Excise duties can be specific (unit) taxes or ad volarem (percentage of value) taxes. Excise taxes are collected on both domestically produced and imported goods. When levied on imported goods, they are generally known as customs duties or tariffs. The personal consumption tax is also included under indirect taxes.

VAT is by far the most important indirect tax source in South Africa (contributing more than two-thirds of the revenue from domestic taxes on goods and services), followed by the fuel levy (14.6%) which is an excise tax. Specific excise duties are levied mainly on alcoholic beverages and cigarettes (the so-called sin taxes), whereas ad volarem excise duties are levied on a number of luxury goods. Excise imposed to reduce consumption of certain goods are known as sumptuary taxes. Specific excise duties (10%) generate much more revenue than ad volarem duties (0.9%).

**ACTIVITY**

Investigate the various types of indirect taxes imposed on private individuals and companies. Your investigation should cover both local and international communities and companies.

**READING**

Read Chapters 9-13 in Black et al. (2008)

3.3 Safekeeping of revenues

In South Africa the South African Reserve Bank is the central State banking institution. The issuing of banknotes was from its inception an important function of the Bank. The right to issue banknotes was initially granted to the Bank for 25 years, but since 1944 the Bank has had the sole right to issue banknotes in South Africa.

Notes issued by the Bank were redeemable on demand in gold specie (physical gold, e.g. bars or coins) or gold certificates (i.e. a Gold Standard). However, financial problems early in the 1930s forced South Africa off this Gold Standard, and after 28 December 1932 banknotes could no longer be redeemed in gold.

In addition to the issuing of banknotes, a number of other functions were also entrusted to the Reserve Bank at or shortly after its inception:

- making loans or advances on current account to defined customers and against specified security;
- being custodian of the cash reserves of other banks (e.g. commercial banks) in South Africa;
- being lender of cash to banks in the event of a shortage of liquidity;
- performing the clearance and settling of financial claims of banks on one another, e.g. the transfer of funds between two banks owing to the deposit of a cheque of bank A at bank B; and
- being custodian of the major part of the country's gold and other foreign-exchange reserves.

The SA Reserve Bank Act provides for a Board of directors with 14 members. Among them are the Governor and three deputy governors, who are appointed by the President of the Republic for five-year terms. Three other directors are appointed by the President for a period of three years.

The remaining seven directors, of whom one represents agriculture, two industry and four commerce or finance, are elected by shareholders for a period of three years.

The Governor and deputy governors manage the daily affairs of the Bank, as they are the most senior executives with full-time responsibility for the workings of the Bank. The current Governor, Mr TT Mboweni, is only the eighth Governor of the Bank since 1921, and assumed this responsibility on 8 August 1999.

The Bank has been given an important degree of autonomy for the execution of its duties. In terms of the Constitution "the South African Reserve Bank, in pursuit of its primary object, must perform its functions independently and without fear, favour or prejudice, but there must be regular consultation between the Bank and the Cabinet member responsible for national financial matters". The independence and autonomy of the Bank are, therefore, entrenched in the Constitution.

In terms of section 32 of the SA Reserve Bank Act, the Bank publishes a monthly statement of its assets and liabilities, and submits an annual report to Parliament. The Bank is therefore accountable to Parliament as the representative body of all the people in South Africa. This also ensures that the Government cannot exercise undue influence over the Bank in furthering any party-political agenda. The Governor of the Reserve Bank holds regular discussions with the Minister of Finance, and has periodic discussions with members of the Parliamentary Standing Committee on Finance.

3.3.1 Current legislative framework

The Currency and Banking Act of 1920 was replaced in 1944 by the South African Reserve Bank Act. This Act, in turn, made way in 1989 for the South African Reserve Bank Act, No 90 of 1989. The Act of 1989, the regulations framed in terms of this Act and sections 223 to 225 of the Constitution of the Republic of South Africa (Act No 108 of 1996) currently provide the enabling framework for the Bank's operations. The Act and regulations describe the framework of the Bank, the way in which it is managed and the actions it may take. In addition, the Constitution prescribes that the aim of the Bank's operations shall be low inflation and stable financial conditions. The Bank has to endeavour to achieve these objectives without fear, favour or prejudice.

3.3.2 Monetary policy

The South African Reserve Bank conducts monetary policy within an inflation targeting framework. The current target is for CPIX inflation to be within the target range of 3 to 6 per cent on a continuous basis. The Bank has a floating exchange rate policy and there are no exchange rate targets.

3.3.3 Financial stability

Financial stability can be described as the absence of the macroeconomic costs of disturbances in the system of financial exchange between households, businesses and financial-service firms. Stability would be evidenced by, firstly, an effective regulatory infrastructure, secondly, effective financial markets and thirdly, effective and sound financial institutions

There is an increased focus by central banks internationally on the importance of stability in the financial system and the role of a central bank in ensuring financial stability as part of its overall monetary objectives. This focus has led to an increasing acceptance of the strong interrelationship between price stability (the traditional objective of central banks) and financial-system stability. It has also become clear that price stability, although a necessary condition, is not a sufficient condition for financial stability.

The South African Reserve Bank (SARB) is seeking to increase its emphasis on the macroprudential aspects of the financial system as a whole, and to formalise structures and resources devoted to this task. A Financial Stability Committee was established with the mandate to enhance financial stability by continuously assessing the stability and efficiency of the financial system, formulating and reviewing appropriate policies for intervention and crisis resolution, and strengthening the key components of the financial system. To pursue the maintenance of financially stable conditions further, the Financial Stability Department monitors and promotes the overall stability of the financial system. In September 2002, the International Monetary Fund (IMF) requested the South African Reserve Bank to be part of the Expert Group of the *Compilation Guide on Financial Soundness Indicators* (the *Guide*). The mandate of the Expert Group was to review the preliminary draft of the *Guide* and to exchange views on the draft. The primary purpose of the *Guide* is to provide guidance on the concepts, definitions, sources and techniques for the compilation and dissemination of financial soundness indicators (FSIs). It is intended to encourage the compilation of FSIs and to promote cross-country comparability of these data as well as assist compilers and users of FSI data, with the ultimate objective of supporting the national and international surveillance of financial systems.

3.3.4 Payments and settlement system

The National Payment System is one of the pillars of financial stability. The Reserve Bank oversees the safety and soundness of the national payment system and implements risk-reduction measures in the payment system to reduce systemic risk. The Reserve Bank provides an inter-bank settlement service via the real-time electronic settlement system, the South African Multiple Option Settlement (SAMOS) system. Besides single settlements between banks, SAMOS is also used for the settlement of obligations arising out of retail payment clearing and the Equity and Bond markets.

3.3.5 Bank notes

The Reserve Bank has the sole right to make, issue and destroy banknotes and coin in South Africa. The SA Mint Company, a subsidiary of the Bank, mints all the coins on behalf of the Reserve Bank. The SA Bank Note Company, another subsidiary of the Bank, prints all banknotes on behalf of the Bank.

3.3.6 Exchange controls

The Minister of Finance has delegated to the Governor and/or a deputy governor as well as to the General Manager of the Exchange Control Department (and to other officials in the department), all the powers, functions and duties assigned to and imposed on the Treasury under the Exchange Control Regulations (with certain exceptions). The Exchange Control Department is, therefore, responsible for the day-to-day administration of financial surveillance. The Minister of Finance has also appointed certain banks to act as Authorised Dealers in foreign exchange. This appointment gives these banks the right to buy and sell foreign exchange, subject to conditions and within limits prescribed by the Exchange Control Department. Authorised Dealers are not agents for the Exchange Control Department but act on behalf of their customers. Policy is determined by the Minister of Finance (or even government/cabinet in the broader sense). The South African Reserve Bank, therefore, merely acts as an adviser to the Minister of Finance.

3.3.7 The public Financial Management Act

3.3.7.1 Introduction

The Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999) (as amended by Act No. 29 of 1999) is one of the most important pieces of legislation passed by the first democratic government in South Africa. The Act promotes the objective of good financial management in order to maximise service delivery through the effective and efficient use of the limited resources.

The key objectives of the Act may be summarized as being to:

- Modernise the system of financial management in the public sector;
- Enable public sector managers to manage, but at the same time be held more accountable;
- Ensure the timely provision of quality information; and
- Eliminate the waste and corruption in the use of public assets.

The Act, which came into effect from 1 April 2000, gives effect to sections 213 and 215 to 219 of The Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) for the national and provincial spheres of government. These sections require national legislation to establish a national treasury, to introduce uniform treasury norms and standards, to prescribe measures to ensure transparency and expenditure control in all spheres of government, and to set the operational procedures for borrowing, guarantees, procurement and oversight over the various national and provincial revenue funds.

The PFMA adopts an approach to financial management, which focuses on outputs and responsibilities rather than the rule driven approach of the previous Exchequer Acts. The Act is part of a broader strategy on improving financial management in the public sector.

3.3.7.2 Background and Approach

The Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999) must be read together with the Public Finance Management Amendment Act (Act No. 29 of 1999). The two Acts do not make sense on their own - the initial consolidated bill had to be separated into two bills for technical reasons to comply with the Constitution which determines various procedures for the passage of bills through Parliament. The first Bill (now Act No. 1 of 1999) had to apply only to the national sphere, and be passed as a section 75 bill as outlined in that section of the Constitution. Almost all references to provinces were removed from this Act, resulting in missing numbering in the Act in order to protect the numbering system for the consolidated Act. A second bill (now Act No. 29 of 1999) amending Act No. 1 of 1999 was then introduced to incorporate provinces - this Bill had to be passed in terms of section 76(1) procedure in Parliament, as outlined in that section of the Constitution.

The PFMA gives effect to section 216(1) of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996). This requires national legislation to "establish a national treasury and prescribes measures to ensure transparency and expenditure control in each sphere of government, by introducing:

- a. generally recognised accounting practice;
- b. uniform expenditure classifications; and
- c. uniform treasury norms and standards.

The Act also gives effect to other sections in Chapter 13 of the Constitution. These sections are:

- a. Section 213 that limits exclusions and withdrawals from the National Revenue Fund through an Act of Parliament;
- b. Section 215 which notes that budgets and the budgetary process "must promote transparency, accountability and the effective financial management of the economy, debt and the public sector" and for national legislation to "prescribe" budget formats for all the spheres of government;

- c. Section 217 on procurement to be "in accordance with a system which is fair, equitable, transparent, competitive and cost-effective;
- d. Section 218 on the conditions for the issue of guarantees by a government in any sphere;
- e. Section 226 that limits an exclusion from a provincial revenue fund through an Act of Parliament;
- f. Sections 100 and 216 on intervention by the national government when an organ fails to perform an executive function related to financial management, and circumstances under which funds may be withheld.

The Public Finance Management Act will replace or supercede the various national and provincial Exchequer Acts and the Reporting of Public Entities Act currently in place. Financial accountability was undermined as different legislation applied for different entities. Further, legislation regulating financial management was narrowly focused on expenditure control.

3.3.7.3 Key Policy Issues

Division of responsibility This Act assumes that the political head of a department (Cabinet Minister or a provincial MEC) is responsible for policy matters and outcomes; this includes seeking Parliamentary (or provincial legislature) approval and adoption of the department's budget vote. The head official (Director-General of a national department or provincial head of department) is responsible for outputs and implementation, and is accountable to Parliament or provincial legislature for the management of the implementation of that budget. This approach is in line with the approach of the new Public Service Regulations, which relies on a performance-driven system based on measurable outputs.

3.3.7.4 Application of this Act: Departments and Public Entities

This Act gives effect to section 216 and other sections of the constitution. It will apply to the national and provincial spheres and public entities under their ownership control. Parliament, provincial legislatures and independent institutions established by the Constitution are also covered in this Act. The Municipal Finance Management Act, No. 56 of 2003, covers the local government.

An important objective of this Act is to put in place a more effective financial accountability system over public entities. All entities are required to be listed- the major public entities listed in Schedule 2 enjoy full managerial autonomy, with government only able to intervene in its capacity as a majority or sole shareholder. Other public entities are listed in Schedule 3, and enjoy lesser degrees of autonomy.

3.3.7.5 The National Treasury

The National Treasury is comprised of the Minister together with the national department or departments responsible for financial and fiscal matters. The Minister is the head of the Treasury.

3.3.7.5.1 Powers of the National Treasury

The Constitution confers extensive powers on national government to determine the financial management framework over all organs of state, in all spheres of government. National government must, through national legislation, determine uniform treasury norms and standards. The National Treasury is further expected to monitor and enforce these norms. The National Treasury, therefore, not only implements the budget of the national government, but also plays a financial over-sight role over other organs of state in all spheres of government.

3.3.7.5.2 Establishment of Provincial Treasuries- their Role and Function

This Act establishes provincial treasuries, which are responsible for preparing and managing provincial budgets, and enforcing uniform treasury norms and standards as

prescribed by the National Treasury and this Act. Note that this chapter is excluded in the first bill as it applies to provinces, but was included in the second, section 76, amendment bill.

3.3.7.6 Accounting Officers

This Act confers specific responsibilities on accounting officers. The Act vests four key responsibilities, which are:

- a. the operation of basic financial management systems, including internal controls in departments and any entities they control;
- b. to ensure that departments do not overspend their budgets;
- c. to report on a monthly and annual basis, including the submission of annual financial statements two months after the end of a financial year; and
- d. to publish annual reports in a prescribed format which will introduce performance reporting. Accounting officers who are negligent and make no effort to comply with these responsibilities will face strict disciplinary sanctions, including dismissal. Similar sanctions will apply to treasury officials failing to carry out their responsibilities. The new Public Service Act regulations and the trend towards performance contracts will complement this approach. Accounting officers are expected to appoint chief financial officers as part of their senior management to enable them to fulfill these responsibilities.

Similar fiduciary responsibilities and sanctions are also outlined for the Boards (called accounting authorities) of public entities.

3.3.7.7 Voting by main division and virement

The Act requires parliament to vote by programme ("main divisions within a vote") rather than departmental votes. This will require further information on outputs per programme, and limit the powers of accounting officers to move funds between programmes. Such movement or virement is restricted to 8% of the total allocation for a programme.

3.3.7.8 Improved information and timely submission of financial statements

The Act aims to address the problem of the late submission of financial statements within government, to comply with the constitutional obligations for generally recognised accounting practices and greater transparency, and to improve financial management and accountability through better and more timely information flows. It establishes an Accounting Standard Board to determine generally recognised accounting practices for all spheres of government, including the local sphere.

3.3.7.9 Chapter Summary of the Act

Chapter One of the Act deals with definitions, objects, application and amendment of this Act. The Act will apply to national and provincial government institutions, which include national and provincial departments, and the entities under their ownership control. Key definitions to note are those of ownership control, government enterprises, main division within a vote, unauthorised, irregular and fruitless expenditure and wasteful expenditure. A procedure to amend this Act is included and is intended to prevent other Acts of Parliament from amending or inadvertently by-passing the provisions of this Act.

Chapter Two of the Act establishes the National Treasury, and deals with its composition, functions, powers and responsibilities. The National Treasury is comprised of the Minister and the national department or departments responsible for financial and fiscal matters. The Minister is empowered to delegate the day-to-day operations of the Treasury. The National Treasury is empowered to develop the overall macroeconomic and fiscal framework, co-ordinate intergovernmental fiscal relations and the budget preparation process, manage the implementation of a budget and promote and enforce revenue, asset and liability management.

The National Treasury is also empowered to determine a banking and cash management framework, and to require banks to provide information on the accounts of national and provincial institutions. The chapter also gives effect to section 213 of the constitution on the management of the national revenue Fund, any exclusions to depositing money received, and the authorisation required before incurring any expenditure.

Chapter Three establishes provincial treasuries and deals with their composition, powers and functions, and the management of provincial revenue funds.

Chapter Four on the budget process gives effect to section 215 of the constitution on the timing and content of national and provincial budgets, and the reporting requirements that will promote greater transparency in the implementation of a budget. It outlines what adjustments budgets must deal with, and outlines the minimum content for multi-year budgets. This section also contains a clause on unfunded mandates.

Chapter Five ensures that all national and provincial institutions and entities have accounting officers, spells out their responsibilities and the disciplinary sanctions that will apply in the event of negligence in fulfilling these responsibilities. This chapter obligates accounting officers to produce monthly and annual financial reports for their political heads and accounting officers to prevent overspending on budgets. The shifting of funds between programmes (or main divisions within a vote) or virement is also dealt with in this part of the Act. Chapter Six of the Act ensures that all public entities are listed in two Schedules. Schedule 2 covers the major public entities, and confers maximum autonomy to these entities. Schedule 3 covers all the other public entities with lesser degrees of autonomy. This chapter outlines the fiduciary and other responsibilities of the governing boards of these entities, which are similar to the responsibilities of accounting officers.

Chapter Seven covers the responsibilities of Ministers and MECs, who are referred to as the executive authorities of departments and public entities.

Chapter Eight of the Act outlines general principles on borrowing and the issuing of guarantees. This chapter gives effect to section 218 of the Constitution on the issuing of guarantees. The chapter also regulates the borrowing operations of the national government and determines the person who can borrow on behalf of any national or provincial government entity. It makes illegal any other forms of borrowing or financial commitment, with strict sanctions applying.

Chapter Nine of the Act lists the areas over which the National Treasury is empowered to issue treasury regulations and instructions. It also obligates the appointment and composition of audit committees.

Chapter Ten of the Act defines financial misconduct, and deals with the procedures for disciplining those public officials guilty of financial misconduct. It also includes a provision for criminal prosecution to apply where there is gross financial misconduct.

Chapter Eleven establishes an Accounting Standards Board, which will have the power to determine generally recognised accounting practices for the public sector.

Chapter Twelve deals with transitional and other miscellaneous issues related to the implementation of this Act and when it takes effect. Some of the provisions of the Act cannot be implemented immediately, and may take up to five years to implement fully (e.g. the sections relating to consolidated financial statements). The transitional arrangements will allow the Minister to phase in such provisions.

3.4 Distribution of revenue : Budgeting

3.4.1 Definition

Budget (from french *bougette*, purse) generally refers to a list of all planned expenses and revenues. A budget is an important concept in microeconomics, which uses a budget line to illustrate the trade-offs between two or more goods. In other terms, a budget is an organizational plan stated in monetary terms.

In summary, the purpose of budgeting is to:

- provide a forecast of revenues and expenditures i.e. construct a model of how business might perform financially if certain strategies, events and plans are carried out.
- enable the actual financial operation of the business to be measured against the forecast.

A government budget is a legal document that is often passed by the legislature, and approved by the chief executive-or president. For health care, only certain types of revenue may be imposed. Property tax is frequently the basis for municipal revenues, while sales tax and/or income tax are the basis for state revenues, and income tax and corporate tax are the basis for national revenues.

The two basic elements of any budget are the revenues and expenses. In the case of the government, revenues are derived primarily from taxes. Government expenses include spending on current goods and services, which economists call government consumption; government investment expenditures such as infrastructure investment or research expenditure; and transfer payments like unemployment or retirement benefits. Budgets have an economic, political and technical basis. Unlike a pure economic budget, they are not entirely designed to allocate scarce resources for the best economic use. They also have a political basis wherein different interests push and pull in an attempt to obtain benefits and avoid burdens. The technical element is the forecast of the likely levels of revenues and expenses.

3.4.2 The Budgetary process

Guidelines to the preparation of the annual budget are intended to assist national and provincial departments in preparing their annual budgets for the Medium Term Expenditure Framework (MTEF). Departments are required to build on previous budget reforms and propose further enhancements to promote effective planning and budgeting.

Over a period of two months (July and August), departments are expected to review their medium-term plans and budgets (eg. 2006/07 to 2009/10 financial years), and decide on revisions that will give effect to policy priorities and programme objectives. In doing so, departments are guided by the Government's broad strategic objectives – growing the economy, expanding social development and achieving greater equity in society.

Revisions to the MTEF baselines should be steered by priorities identified in the Accelerated and Shared Growth Initiative (ASGISA), which may require reallocation of resources within baseline budgets. Responding to the ASGISA objectives will not necessarily result in additional funding, particularly given the already strong growth of baseline budgets.

3.4.2.1 Principles adopted in the Budget Process

Sound budgeting principles require that policy priorities are funded on the basis of affordability and trade-offs that are essential when faced with competing priorities. These principles are fundamental to the South African budget process broadly described below.

This chapter of the *Treasury Guidelines* provides an outline of the budget process. Further guidance is also provided on the content of the budget submission for the MTEF.

The budget consists of a number of legislative bills that are adopted by Parliament: the Division of Revenue Act, Appropriation Act and the Revenue Laws Amendment Act. Once Parliament has appropriated budget amounts to each of the main divisions within a vote, the Executive is tasked with implementation of the budget. The Executive relies on its administration (departments) to implement the programmes funded through the budget. Parliament in turn, exercises its oversight role, by ensuring that the administration implements the programmes approved through the budget. It can do so by assessing the performance of departments through monthly or quarterly in year reports and annual reports.

The MTEF details 3-year rolling expenditure and revenue plans for national and provincial departments. The MTEF budget process is designed to match the overall resource envelope, with the estimation of the current and medium-term cost of existing departmental plans and expenditure programmes.

The MTEF tabled annually in Parliament is guided by the following principles:

- Within limited resources, affordable changes should be used to make trade-offs between and within spending programmes

- Resources should be reprioritised from low priority programmes and activities towards higher priorities and activities
- The allocation of new resources should be driven by the existence of credible implementation plans. This provides greater certainty that services will be delivered as planned.
- An evaluation of past spending performance against measurable objectives and targets should be central to the discussion of future funding.

In summary, the purpose of the budget process is to strengthen the link between policy objectives, implementation plans and available resources. More specifically, the process allows for:

- The revision of the macroeconomic framework, fiscal and budget policy
- Departmental revisions to three year MTEF baselines, and the preparation of detailed, costed plans for possible new funding
- The allocation of available resources between the three spheres of government in line with policy priorities
- Various role-players to provide political and technical advice when faced with trade-offs
- between competing spending priorities
- The required authority to be obtained from Parliament and provincial legislatures to allocate revenue and to spend.

There are several interlinked key stages in the budget process, which include priority setting, the revision of departmental strategic plans and targets, evaluation of performance through in-year and annual reports, and where necessary, deciding on corrective action. Each of these steps is discussed in turn.

1. Reviewing policy priorities

Government's broad objectives are to grow the economy, advance social development and achieve greater equity in society. The medium-term plans of departments are informed by these broad objectives, with specific output and targets set out in programmes and sub-programmes.

2. Revision of strategic plans by national departments

Strategic plans normally cover a period of 3 to 5 years. Once tabled in Parliament, medium-term plans should only be updated with annual revisions after a departmental performance assessment has been completed and corrective measures have been identified. There should be no need to table a strategic plan in Parliament every year, unless there have been significant changes to priorities or significant revisions to targets. The revision of strategic priorities should be closely linked with the annual performance assessment through the annual report. Following the annual performance assessment it may be necessary to identify interventions to address slow delivery of services. Any changes to departmental structures should also be considered at this stage. This will ensure that the MTEF budget is linked to revised priorities and new programme structures. Performance indicators assist in monitoring and evaluating the efficacy of spending programmes and should form an important part of priority setting. Departmental measurable objectives must be informed by the strategic plan and should include appropriate performance indicators. Achieving the objectives that are set out in the strategic plan requires solid linkages between planning and budgeting and a more rigorous evaluation of budget proposals.

3. Revision of 5 year strategic plans and annual performance plans by provinces

Only one *Five-year Strategic and Performance Plan (SPP)* per provincial department is produced per election cycle and lays the foundation for the development of the *Annual Performance Plans*. The purpose of the *Annual Performance Plans (APP)* is to set out what the provincial department intends to do in the upcoming financial year towards progressively achieving the full implementation of the *Five-year Strategic and Performance Plan*. This means specifying measurable objectives and performance targets that will ensure that the provincial department realises its strategic goals and objectives set out in the *Five-year Strategic and Performance Plan*. A secondary focus area of the APP is to provide annual updates on any changes made to the strategic planning framework set out in the *Five-year Strategic and Performance Plan* – for instance changes resulting from new policy developments or changes in environmental circumstances. The APP covers the upcoming financial year and the following two years in line with the MTEF. The *Annual Performance Plans* should inform and be informed by

the *Budget* and the MTEF and should show how the provincial department's future service delivery plans link to its MTEF. The in-year implementation monitoring of the *Annual Performance Plans* is done through the *Quarterly Performance Reports*, while the end-year reporting is done in the departmental performance section of the *Annual Report*.

4. Assessing performance

The main purpose of monitoring the budget against strategic plan performance is to ensure that departments utilise the resources allocated by the Legislature optimally and in terms of the Appropriation Act. Monitoring provides an opportunity for departments and the provincial treasury to take corrective measures where necessary.

The assessment of a department's performance against its strategic plan is performed through in-year monitoring reports (monthly and quarterly). This assessment will enable the department to determine whether quarterly performance is adequate to meet the projected targets at the end of the financial year. This may translate to an achievement of at least 25 per cent of the annual target on a quarterly basis. If less than 50 per cent of programme targets have been met by September for instance, this may necessitate increased focus on a particular program. The adjustments budget process is an ideal time to consider measures to accelerate performance to achieve annual targets. The adjustments budget formats will be communicated to departments around September. The annual reports, which include financial statements, as well as non-financial indicators allow for a further evaluation of performance, which may affect the strategic priorities and MTEF targets for the two outer years.

3.4.2.2. Medium Term Expenditure Committee (MTEC)

The main function of this committee is to measure the success of spending programmes and to focus on expenditure outcomes and performance. In some instances, MTEC will adopt the form of individual discussions with departments whilst others will involve joint cluster hearings on cross cutting policy issues.

The MTEC discussions, usually scheduled for **September** will prepare the MTEF for consideration before final Cabinet approval. The MTEC infrastructure subcommittee

which is the Capital Budgets Committee will be responsible for reviewing progress on existing infrastructure projects and programmes where required, as well as assessing new infrastructure funding proposals. Chapter 5 of the guide provides a description of the various categories of infrastructure spending, and the criteria that will be applied when evaluating existing and new projects and programmes.

3.4.2.3 Finalising the 2007 MTEF

MTEC hearings culminate in the tabling of recommendations for a particular MTEF budget for consideration by the Minister's Committee on the Budget and final approval by Cabinet. The Ministers' Committee will consider MTEC's recommendations on:

- The performance of spending programmes in relation to measurable objectives and past targets
- The viability of spending plans relating to any requests for additional funding
- Any adjustment to the baseline of programmes.

Cabinet's decision on changes to programme allocations to national votes, and provincial and local government conditional grants, will be communicated through National Treasury allocation letters to departments and provincial treasuries in mid-November. Once final allocations letters have been received, departments are required to revise their plans for the 2007/08 to 2009/10 period, and to pay particular attention to priority policies and strategies and the affordability of planned outputs that are published in the

3.4.2.3.1 Estimates of National Expenditure (ENE).

Budget Submissions

The MTEF revisions focus sharply on outcomes of past spending and performance indicators to examine progress and identify interventions to accelerate service delivery. Proposals to revise the MTEF baseline must include the following information:

1. A review of progress on implementation of strategic plans and major shifts in strategic priorities i.e. revised objectives and expenditure proposals for 2007/08 to 2009/10

2. A revised estimate for a particular financial year
3. An examination of the current baseline which should include:
 - Details of revisions in line with revised strategic priorities and programmes
 - An indication of significant trends in non-recurrent expenditure
 - Possible savings to be realised
 - An assessment of actual spending against allocations and non-financial performance of spending programmes from 2004/05 to 2005/06 and the first quarter of 2006/07
 - Outputs and expenditure of new allocations from 2004/05 to 2005/06 as well as the first quarter of 2006/07
4. Proposed interventions to improve or accelerate delivery on present programmes.

Implementation of strategic plans and revised priorities

Departments need to provide details of amendments to strategic plans for the MTEF and demonstrate how these will impact on their MTEF budget when completing Annexures A, B and C as indicated in the guidelines to completion of MTEF.

Revised Estimate

Under this section departments should describe revisions to amounts published in the Appropriation Bill and Estimates of National Expenditure for the period 2006/07. Information provided should include all changes already made, as well as proposed virements that are planned for the remainder of a financial year.

Examination of current baseline

The budget preparation time is ideal for departments to consider reprioritisation of baseline allocation amounts to identify programme objectives that have not been achieved and revise implementation plans accordingly. Moreover, departments may decide to substitute low priority programmes with higher priorities to assist in meeting critical service delivery targets. The revision of baselines should be considered in the context of departmental aims and how these relate to measurable objectives, and should be shown in Annexure A. Should the baseline revisions necessitate a change in the

structure of the department, changes should be described in Annexure C. Chapter 4 of the MTEF provides further guidance on the processes to be followed and approvals required before structure changes may be implemented. Material increases or decreases to baseline allocations will only result from those proposals that are accepted by MinComBud for further consideration this year.

Non-recurrent expenditure

Many departmental programmes include projects that are once-off in nature and the associated costs will not recur once the project is concluded. In order to prepare credible MTEF budgets, these amounts should be excluded when the baseline is re-examined in order to avoid distortions and possible under-spending of departmental budgets. Budget Analysts will work closely with departments to finalise this part of the exercise.

Identification of savings

Any savings identified that result from the revision that is undertaken can be re-allocated to higher priorities in budget submissions, but the revised estimates for the next three years may not exceed the baseline allocations.

Summary of outputs against expenditure for previous years

Significant allocations have been provided in the past MTEF, which should be adequate to address stated policy objectives of departments. Actual audited expenditure per programme should be examined to determine effectiveness of spending. Moreover, budget submissions for all departments must include an analysis of actual performance against targets as stated in the ENE.

Interventions to improve or accelerate spending on existing programmes

Performance assessment and the information required above will enable departments to identify slow implementation of existing programmes and allow for strategies to address service delivery bottlenecks. It is important to ensure appropriate accountability for service delivery when evaluating performance of programmes and identifying appropriate interventions. Successful implementation of these interventions should enable departments to clearly identify programmes that significantly contribute to

government's growth strategy and accelerate service delivery. The Accelerated and Shared Growth Initiative of South Africa (ASGISA) is intended to assist in achieving government's growth target of 6 per cent by 2014. Departmental programmes contributing to this initiative should be clearly highlighted in budget submissions. The ASGISA strategy centres on addressing binding constraints to better performance both on the economic and social fronts. Some of these constraints will relate to addressing outstanding policy decisions or making policy reforms that will facilitate service delivery. Other constraints such as the skills deficit may require additional funding. However, departments should carefully examine their existing baseline budgets and re-align spending priorities before looking to the fiscus for additional funding. MTEC and MinComBud are likely to reward those departments that can convincingly demonstrate an ability to deliver on past commitments and a willingness to be creative in meeting ASGISA imperatives. Once again, past outputs and indicators should be linked to any new initiatives.

New MTEF proposals

Once all the information required above has been completed and if departments still believe they have a strong case for additional resources, then the following information should be submitted:

- Detailed costing of the policy proposals
- Spending plans over the MTEF
- Legislative plans where applicable
- Administrative plans (includes resources like personnel, accommodation and other administrative costs) and
- Implementation plans.

Given the already strong growth in budget baselines, MTEC will raise the hurdle for recommending new funding requests. There is a growing concern that Government is not reaping value for money in many of its present spending programmes and departments will need to demonstrate that current budgets are indeed being utilised efficiently and effectively before new funding is considered. Moreover, the proposals will need to be closely aligned with priorities that are emphasised by MinComBud and Executive more generally.

3.4.2.3.2 Instructions to Departments

This chapter of the *Treasury Guideline* provides further details on budget submissions of departments and includes definitions of terminology relating to the budget formats. In addition to the budget submission information contained in **Chapter 2**, the following areas should also be noted for the 2007 MTEF:

- Growth assumptions and inflation projections for the 2007 MTEF
- Devolution of accommodation costs
- Budgeting for personnel expenditure
- Performance information and measurable objectives
- Prioritising the 2010 Soccer World Cup TM
- Changes to programme structures
- Changes in provincial boundaries
- Skills levy.

Each of these items is discussed in more detail under the respective headings and references to annexures are provided where necessary.

Growth assumptions and inflation projections

The MTEF allocations provide for growth in expenditure at an average growth rate of just over 9 per cent in 2007/08 and 2008/09, and at an average rate of 7,2 per cent in 2009/10. The programme baseline for the third-year is an indicative allocation and may change, depending on a more rigorous examination of programme baselines.

Devolution of budgets to provinces with respect to state owned properties

Prior to 1994, the Department of Public Works (DPW), was deemed the custodian (“owner”) of most state-owned properties and therefore took responsibility for the payment of municipal property rates. This practice has continued notwithstanding the separation of ownership of state land between National and Provincial Governments determined by the interim Constitution. From 1 April 2007, DPW will devolve the payment of property rates in respect of provincial properties, to the relevant Provincial Government. A list of properties deemed to fall under provincial responsibility has been circulated to all provinces for verification in order to advise DPW on whether the

information is accurate. At present not all properties are subject to the payment of rates and taxes. However, the implementation of the Property Rates Act (PRA) may require a rating which will have cost implications for provinces. As a transitional arrangement, DPW will devolve the 2007/08 budget allocation for property which consists of the baseline amounts plus normal inflationary increase for properties; however year 3 includes 15 per cent growth for devolution costs. Provinces will be expected to pay the property rates for all the properties on their respective lists from 1 April 2007 direct to relevant Municipalities. This cost should be factored into the MTEF budget submissions. Progress in this regard will be communicated via the Treasury Committee on Finance (TCF) and Provincial Treasuries.

Budgeting for personnel expenditure

Previous guidelines on personnel budgeting for the MTEF were based on the 2004 Wage Agreement, negotiated in the Public Service Coordination Bargaining Council (PSCBC). This agreement was valid for 3 years and ends in the 2006/07 financial year. Departments and Provinces will budget for a 5.3 per cent wage increase this financial year, which is based on the projected¹ CPIX plus 0.4 per cent. The MTEF makes provision for wage and salary adjustments over the MTEF period. Negotiations in this regard have not yet begun in the PSCBC, hence the estimates may have to be revised once the agreement is in place.

Responsibilities of national departments

National departments responsible for concurrent functions like education, health, social development, housing, etc should take a lead role in ensuring the smooth transition to the newly demarcated provincial boundaries. In this regard, national departments should ensure that:

- a. The functions are administered fully in terms of their sector legislation and in terms of the Division of Revenue Act. Any deviation from these legislation should be reported to the National Treasury;
- b. It supports the provincial processes that seek to ensure that all assets and liabilities of the affected areas are clearly identified prior to their transfer by the releasing province to the receiving province;

- c. All national policies implemented at a provincial sphere are aligned to newly demarcated provincial boundaries; and
- d. All allocations should be in line with the new provincial boundaries from 1 April 2007. National departments administering conditional grants should realign their conditional grant allocation mechanism (formulae) to the newly demarcated provincial boundaries. In this regard, all data used in the respective formulae should be amended in terms of the new provincial boundaries.

Responsibilities of provincial governments

Provincial governments need to ensure that their budgets (revenue, expenditure, financing) is aligned to the new provincial boundaries.

Provincial own revenue

There will be shifts in provincial own revenue. When preparing their budgets, provinces must ensure that the impact of these shifts are taken into account. Provincial own revenue is affected in two ways:

- a. Firstly there are shifts in the revenue bases of provinces. Some provinces release own revenue generated from motor vehicle license fees, gambling and health patient fees while others will receive added income from these; and
- b. Secondly, there needs to be realignment in the tariffs rates of the respective provinces. This is mainly with respect to motor vehicle license fees where provinces have different rates for the different vehicle classes.

Contracts entered into with external agencies to collect provincial own revenue need to be revisited, assessed and possibly transferred from the releasing to the receiving provinces.

Provincial expenditure planning

In preparing their budgets for the MTEF, provinces must ensure that their expenditure responsibilities are fully aligned with the newly demarcated boundaries. This process should be speeded up and is independent of the reconfiguration of the equitable share and conditional grant formulae currently underway.

In this regard:

- a. A clear assessment of the expenditure responsibility that needs to shift from one province to another needs to be undertaken. This should include an assessment of each and every provincial department;
- b. The implications for personnel as far as it relates to service conditions needs to be assessed;
- c. The implications for government policy must be must be carefully considered. In education, for example, there is a difference between the school year and the financial year. The impact of this needs to be assessed and carefully managed;
- d. Projects currently underway in the affected areas need to be carefully monitored and where some projects will be spilling over into the new financial year, the transfer thereof needs to be dealt with and be provided for in the budgets;
- e. A full assessment of the assets and liabilities, as it relates to the affected areas, needs to be conducted.

Financing and general financial management

There may be a case for the affected provinces to enter into agreements for the financing of functions/projects where commitments are made in the financial year and finalization thereof is in the next financial year. Provinces are encouraged to assess progress in the implementation of these projects and speed them up to ensure that they are completed in the current financial year. If the need arises, the National Treasury will, when it sends out its guidelines for the preparation of annual financial statements, deal with pertinent financial management issues.

Skills development funding in National Budgets

The Skills Development Act, 1998, established 23 Sectoral Education and Training Authorities (SETAs) across various sectors, to co-ordinate training and learnership programmes in terms of the National Skills Development Strategy: 2000-2005.

It is not mandatory for a public service employer in the national and provincial spheres of government to contribute directly to a SETA. However, they must budget for a minimum of one per cent of payroll for the training and education of departmental employees. In this case 'payroll' refers to the total wage bill of the department. This is essentially the

total package of the employee and not just the basic pensionable salary. Moreover, this definition includes all employees; permanent, contract, temporary and so forth.

Cabinet has subsequently agreed that each department should contribute 10 per cent of the 1 per cent of payroll to the line-function aligned SETA in order to support the relevant SETA's administrative costs, thus giving effect to Section 30(b) of the Act.

Budgeting for infrastructure and capital expenditure

This chapter provides guidance on new and existing infrastructure proposals. All funding requestsm relating to infrastructure and large capital acquisitions are to be motivated separately from other budget proposals, as these will be reviewed and appraised by a separate sub-committee of MTEC, called the Capital Budgets Committee. The Capital Budgets Committee (CBC), is an interdepartmental task team, set up during the 2005 MTEC process to undertake the review of funding requests for individual infrastructure/capital projects and programmes of departments and entities.

The CBC makes recommendations to the Medium Term Expenditure Committee (MTEC) with regards to the funding of infrastructure projects and programmes as well as large capital acquisitions. It is the intention of the CBC to develop and implement a more rigorous approach to the appraisal of capital expenditure projects, as well as to encourage the progressive advancement of in-house project appraisal capacity within departments and entities. The reason for this approach is to ensure that funding is prioritised and directed towards maximum economic and social benefit, and that all large and 'mega' projects and capital acquisitions have been well thought-out from many different perspectives, accurately costed, risk assessed, strategically aligned, and make sense from an operations point of view. All infrastructure/capital funding requests and associated explanatory and supporting documentation, motivations and feasibility studies, etc are required before the start of the MTEC process by 16 August 2006 in order to allow the CBC to undertake a proper review of such requests across all departments and associated entities.

A Project Concept Note is also required for all projects or programmes to be appraised and is to be attached to the front cover of supporting documentation The type and depth of information required for appraisal will depend on the size and nature of the capital

project being considered. Resources spent on compiling particular project bids should be proportionate to the likely cost of a project, keeping in mind its nature and complexity. All infrastructure projects, programmes and major capital acquisitions must be classed according to three broadly pre-defined categories. These categories will require different levels of analysis and information as they have different budgetary implications and will thus be appraised accordingly. These categories are outlined below:

Classification of Capital Projects and Programmes

Funding requests for infrastructure and capital projects and programmes must be classed according to the category into which they fall. There are three broad categories of projects/programmes as follows:

- **“Mega”** projects or programmes: which are estimated to cost more than R250 million (in total), or have a borrowing or PPP component
- **“Large”** projects or programmes: which are estimated to cost less than or equal to R249 million but more than R20 million.
- **“Small”** projects or programmes: which are estimated to cost less than or equal to R20 million.

Within these broad categories projects can either be *existing projects* or *new projects*. These are discussed in more detail in the paragraphs below, and will be further clarified by the respective budget analyst.

Note on Mega projects and programmes (Over R250 million)

Mega projects consist of all new or existing large infrastructure projects, programmes and capital acquisitions that require *R250 million or more*, either from the fiscus, from departmental virements and savings, inter-departmental or inter-sphere funding, or through borrowings (from private or public institutions). All projects that extend beyond the MTEF period, also fall within the “mega” category. Being the largest capital commitments on the fiscus, mega projects and programmes will require the most detailed information and preparation and will follow a more rigorous review by the CBC in order to lower various risks of project failure as well as the chances of under expenditure.

Detailed feasibility studies are thus required for all mega projects and programmes.

Note on the Extension of Existing capital projects or programmes (Small, Large, Mega)

Funding for “Existing” projects or programmes is either based on the need to complete or the need to extend, based on new needs, within an existing project or programme. Where many small projects (under R20 million) exist, these may be grouped together and motivated as an infrastructure programme requiring extension. Within this category, it is important to give an accurate and detailed account of the history of the existing project or programme, an assessment of its output performance, the change in needs if applicable, and sound reasoning motivating the extension in respect of timing and expenditure as applicable. Ongoing infrastructure transfers to public agencies, entities and other spheres, which require further support may also be motivated under this category.

Note on New infrastructure projects and programmes (Small, Large, Mega)

These are infrastructure projects and programmes, which have not been funded before. New small projects (under R20 million), which are not part of an existing programme, may be grouped together and motivated as a new infrastructure programme. All new infrastructure projects or programmes will require some form of appraisal to be submitted which may vary depending on the size of the project or programme.

Appraisal and submissions for capital funding

Departments and entities are responsible for the appraisal of projects and programmes that require funding. The CBC will undertake a review of appraisals submitted and make recommendations on scarce resources within an environment of ‘competing’ requests. Therefore the onus is on departments to provide as much detail as possible, and ensure that motivations, feasibility studies and other supporting documents are comprehensive and realistic, to support funding requests. If time permits, the CBC may request further clarity on pertinent issues or request a discussion with officials from the department, as it is not always possible to cover all aspects of the wide variations of requests from departments in a guideline. The section below sets out some questions/requirements

that departments could answer within their motivating documents to demonstrate advanced planning and/or implementation readiness in their capital budget requests. As mentioned the level and detail of information required should vary with the category of project or programme being assessed. In general, the submission should be laid out as a discussion, with supporting graphs and tables where statistical information requires to be illustrated. Different programmes and large and mega projects each require their 'own' submission.

Needs Analysis

A needs analysis must demonstrate why a particular project is required and how the project or programme is aligned to the strategic objectives of an institution. In performing a needs analysis, the following aspects need consideration:

- What are the statistical trends and key indicators in the relevant area of service delivery that point to the need or increased demand at this time and location (if applicable)?
- Assess the extent and urgency of the need and the consequences if the need is not met. What is the rate of increase of pressure on the system, (both peak and average) if this is applicable? By what systems are people/users currently coping etc, and what is the impact on them?
- What proportion of the need is the request intended to fulfil, and how far into the future (at the current rate of increase of the need) will it be operational?
- What are the proposed outputs and outcomes, i.e. what will be built/ procured and how many will it serve, how, and for how long?
- Demonstrate that the project/programme fits with your overall departmental strategic plan or infrastructure delivery plan (supply this as well)?

Options Analysis

All possible ways of meeting a need should be identified and examined critically when considering project options. A discussion is required on other options considered. These should comprise a range of viable solution options available for providing the specified outputs (e.g. service to be provided as a result of capital project). The department should explain why the proposal under consideration was selected as the preferred option and why other options have been rejected.

Cost-Benefit Analysis

1. Show the build-up of all costs, present and future, and all assumptions made including escalation, exchange rates, tender estimation etc;
2. Show the estimates of all revenues (if relevant);
3. Identify the proposed or perceived economic and social benefits (to the country And individuals with respect to cost and time saving, positive externalities, etc.) of the project or programme, present and future, and all assumptions made;
4. Quantify the social and economic benefits as far as possible over time;
5. Perform a financial and economic Net Present Value (NPV) analysis on costs and revenues outlining all assumptions made including financial and social discount rates (see social discount rate given below).

Lifecycle Costs and Affordability

1. What are the operational implications of the infrastructure or capital acquisition on the budget of the department/entity in future years (e.g. more staff, maintenance etc) and is this affordable and sustainable?
2. What are the operational impacts and responsibility implications on other spheres of government and demonstrate their agreement in this regard?
3. If funding is required for a public entity, demonstrate why this should be funded by taxpayers and not the users. Demonstrate that the project assists the financial turnaround of the entity, if so.

Implementation Readiness

1. Indicate the project stage (identification, feasibility, design, tender, construction, etc).
2. What is the proposed start target date for construction and what is the estimated construction duration for the project? Outline the implementation schedule of the project or programme. Does it extend beyond the MTEF period?
3. Who are the intended implementation agents; public works, own department, private sector, etc, for the various stages from design, to construction to project management and monitoring?
4. Discuss the level of planning already undertaken/achieved on the project or programme, and what still needs to be done.

5. Are there other stakeholders that are required to make this project or programme succeed? If so, what is the status of formal negotiation and stakeholder buy-in?
6. What are the risks and constraints faced in the delivery of the project/programme?
7. If an extension of an existing project or programme is being motivated, demonstrate the success of the project or programme with respect to expenditure and physical output.

Funding and Approvals

1. Does this type of infrastructure generate ongoing user revenue? Does a trading account exist for this purpose?
2. What are the funding sources that have been considered?
3. Outline the proportional contributions from each funding source.
4. If relevant, why was a PPP option not considered?
5. List all approvals and permissions obtained for the project/programme including environmental (EIA's) etc.

Notes on Project Appraisal

There are a number of resources including books and courses on how to appraise projects and programmes. Departments are urged to capacitate staff in this important field of study as infrastructure delivery becomes an urgent priority for our country. It is the intention of the National Treasury to progressively require more detailed analyses as funding requests are becoming larger compared to available resources. Under these circumstances it is appropriate to prioritise requests which can demonstrate the largest benefits to our country. The brief sections below, whilst not exhaustive in the field of Project Appraisal, may assist in enhancing the quality of bids.

Cost-Benefit Analysis

Costs and benefits should be extended to cover the useful lifetime of a project under consideration. Based on the net result of economic benefits minus economic costs, decision-makers will determine whether a particular project or programme is a worthwhile investment – keeping in mind that benefits need to be maximised for society.

Departments must take account of the extent to which projects incur costs over a period of years. Costs should reflect the value of resources displaced (i.e. opportunity costs to society) as a result of the project. Departments must identify and calculate all costs associated with the planned investment; these should include but should not be limited to: the value of a resource in its next best alternative use – e.g. suppose a department wants to use a piece of land for a park. In calculating the cost of the park, the department should include the value of the land in its next best use.

- Capital or construction costs (e.g. land, buildings, equipment, labour costs, consultancy fees, contractors, any other pre-production expenses)
- Annual operating costs (e.g. purchases of additional equipment, personnel costs, Loan repayments and associated interest, any other operational costs)
- Annual maintenance costs
- In addition, all *non-quantifiable* costs should be listed and described as a matter of public reference.

When gathering data on the cost of inputs local contractors should be consulted and only where the inputs do not exist locally should the imported cost be used. Inflationary and exchange rate factors should also be accounted for as costs escalate over time.

Benefits should be a measure of all the direct social and economic benefits as a result of the project. This measures the *direct effects* that result from the project, usually in the form of revenue earned and employment created. All non-quantifiable benefits should also be listed and described as a matter of public reference. Externalities are costs and benefits to society that arise from a project but that are not experienced directly by either the project owner or the direct project beneficiaries.

They can include environmental, economic and social impacts, and can be both positive and negative. Negative externalities should be included as economic costs and positive externalities should be included as economic benefits – only externalities that result in a significant effect should be included. An example of a negative externality is environmental pollution or degradation as a result of the project. Displacement effects can also be seen as a negative effect (and should be included as a cost). These are the extent to which a project takes market share, labour or land from existing local firms. Positive externalities can be both social and economic. An example of economic positive

externality is the additional value-added generated from direct effects (i.e. *multiplier effects*). These initial effects result in additional effects known as indirect effects, and induced effects.

- *Indirect effects* occur when local businesses benefit from increased purchases of Production materials and services due to the project. These are second round effects.
- *Induced effects* arise when those households who benefit from an increase in direct or indirect expenditures spend a portion of their income locally.

Indirect and induced effects thus expand direct spending by a multiple. The *multiplier* (expenditure multiplier) thus measures the extent to which initial expenditure on a project or programme in a locality leads to additional expenditures in the local economy. The multiplier is calculated by dividing the total change in economic activity by the change in initial direct spending.

3.4.3 Provincial budgeting process

Section 215 of the South African Constitution recognises the importance of the Budget and the budget process, by stating that “national, provincial and municipal budgets and budget processes must promote transparency, accountability and the effective financial management of the economy, debt and the public sector”. Chapter 4 in both the PFMA and MFMA give effect to this provision, by requiring transparency in the budget process and budget documents. Linked to the budget process are the fiscal powers of the provincial and local spheres of government. Sections 226 to 230A deal with intergovernmental fiscal matters as well as fiscal and financial powers of provincial and municipal governments. These sections deal with the taxation and borrowing powers of provinces and municipalities, and also establish similar obligations on when funds may be withdrawn from the provincial revenue fund, and what entitlements provinces and local government have on their equitable share allocation from the National Revenue Fund, to ensure that they have the financial resources to provide basic services and perform the functions allocated to them.

3.4.3.1 Co-operative governance

The South African Constitution enjoins the three spheres of Government to co-operate in policymaking and implementation. All spheres of Government have to face the challenge of aligning their policy and implementation processes. In the context of a young democracy, such co-operation is critical, particularly for shared functions. The following intergovernmental forums all play an important role in shaping policy and resource allocation decisions:

- Extended Cabinet and President's Co-ordination Council, which comprises of the national executive, nine premiers and the chairperson of the South African Local Government Association (SALGA) for Extended Cabinet. The Extended Cabinet is the highest co-operative mechanism advising the national Cabinet when finalising the fiscal framework and division of revenue on which MTEF budgets are based.
- Budget Council, which is constituted by the Minister of Finance and the nine Members of the Executive Council responsible for finance in the provinces.
- The Budget Forum, which is made up of the Budget Council and local government representatives.
- MinMECs, which are sectoral policy forums of the Ministers and their provincial counterparts.
- Joint MinMECs between selected sectors and the Budget Council.

There are also several intergovernmental forums comprising of senior officials which provide technical support to the political forums. One measure bearing fruit is the peer learning forums established for financial officials in key sectors like education, health, social administration, housing and roads etc. These forums have contributed to developing uniform approaches to common challenges, providing a forum for promoting best practices, and at the same time allowing for comparisons of similar activities between different provinces. The forums need to be expanded, to cover non-financial aspects for non-financial staff, in areas like planning, personnel management, procurement and infrastructure. The provincial budget process is to a large extent parallel to the national budget process and also dependent on it. The processes at the national level of government inform the provincial budget process and spells out what is

deemed as priorities that have to be met and funded by the provincial budget. The January Cabinet Lekgotla, State of the Nation address by the President and the State of the Province address by the Premier lay the foundation on what has to be considered in the 2007 provincial budgets and they normally shape the MTEF budget priorities. Provincial priorities, finding expression in the national priorities (outlined in **Chapter 2**), have to be firmed up at this stage. They include the following:

- A core priority is to strengthen education and improve performance of the labour market. Investing in people and ensuring that skills development complements employment creation are critical platforms on which to build future prosperity.
- Alongside an expanded income security net, shared growth must also involve targeted welfare services and stronger partnerships with non-governmental welfare organizations. Addressing the impact of HIV and AIDS, care of child-headed households and appropriate management of children in conflict with the law are among the social service priorities.
- Housing delivery needs to be accelerated, together with municipal capacity building, and investment by both the public and the private sectors to improve the quality of life in poor neighbourhoods.
- Economic infrastructure upgrades will include new power generation capacity, rehabilitation and expansion of road and rail transport networks, improved water resource management and modernisation of communications.
- Industrial development, investment in science and technology, and employment creation will receive additional support. Initiatives promoting small business development and more effective economic regulation are aimed in part at bridging the divide between the formal and informal economies.
- Reducing crime, improving the performance of courts and security services, and improving traffic management and enforcement remain key priorities.
- South Africa continues to extend and deepen its diplomatic presence on the African continent and participation in various international forums. Defence modernisation and military skills development are boosted over the period ahead.

- Public administration reform is now strongly focused on building local government capacity, training and organisational reforms are under way across the public service, together with investment in improved government accommodation and information systems. Provinces should, within their resources; aim at addressing all or some of these priorities of government. There should also be an attempt to link these priorities with the Provincial Growth and Development Strategies (PGDS) and the Integrated Development Plans (IDPs) at municipal level. During the deliberations with provincial departments, provincial treasuries should ensure that this linkage is reflected between various departmental programmes and the PGDS and the IDPs

3.4.3.2 Preparation of Annual Financial Statements and Annual Reports

The months of May through to July are the most critical in the provincial budget process. After the financial year end in March, Provincial Departments have two months to submit their pre-audited *Annual Financial Statements* (AFS) to the Office of the Auditors-General. During this period, Provincial Departments are expected to finalise their *Annual Reports*. Eg. The 2005/06 Annual Reports have to be tabled in the provincial legislatures at the end of July 2006.

Annual and Quarterly Reports: Exercising Oversight: The Constitution vests the National Assembly and provincial legislatures with the power of oversight over their executives. Section 55(2) outlines the oversight powers of the National Assembly, by requiring that it “must provide for mechanisms to ensure that all executive organs of state in the national sphere of government are accountable to it; and to maintain oversight of the exercise of national executive authority, including the implementation of legislation; and any organ of state.” Note that this power of oversight is not given to the NCOP, as it is expected to play a different role in facilitating intergovernmental relations (co-operative government) in addition to its powers of approval of legislation. Provincial legislatures are provided with similar oversight powers as the National Assembly in Section 114(2), but over provincial executive organs of state. Whilst the legislative powers of Parliament and provincial legislatures are important for the approval of budget legislation, the oversight powers of the National Assembly and provincial legislatures are important with regard to monitoring and evaluation of the performance of departments

and public entities. This is particularly important for the process of considering annual reports, which process needs to be formalised in the same way as Parliament and provincial legislatures have formalised their budget approval processes. The Constitution recognises that legislatures have a critical role to play in overseeing better performance in the delivery of services. The challenge facing incoming members of Parliament and provincial legislatures is to improve the capacity of portfolio committees to hold departments to account for their performance, using their budget documents, strategic plans and annual reports. The PFMA and MFMA give effect to management reforms that places greater implementation responsibility on managers in the public service, and make them more accountable for their performance. In the first instance, it is left to the Executive Authority (Minister or MEC) or Executive (Cabinet or Exco) to resolve any management failures – however, thereafter, the National Assembly and provincial legislatures are vested with the power to oversee both the administration and the executive. Annual reports allow Parliament to evaluate performance of a department after the end of the financial year, whilst in-year quarterly reports allow Parliament to monitor performance during the financial year. However, oversight mechanisms in legislatures are relatively weak, as legislatures previously focused on narrow financial oversight only, through the public accounts committee process. Before 2000, there was no oversight over non-financial service delivery performance, and departments only tabled their financial statements and audit report, rather than an annual report. Recent reforms since 2000, enacted through the PFMA and Public Service Act, now require that performance targets (through the ENE or departmental strategic plans) are tabled with budgets at the start of the financial year, and that annual reports are tabled within 6 months of the end of each financial year.

Annual Reports: Annual reports are the key reporting instruments for departments to report against the performance targets outlined in the *ENE* (or strategic plans) published in the budget, and linked to the measurable objectives in that budget. Annual Reports therefore should contain non-financial service delivery information, in addition to financial statements and the audit report.

Given this new practice of tabling annual reports, the National Assembly has yet to develop a formal process (and rules) to consider such reports, in the same way that it processes the budget. Like the second reading process, all portfolio committees should consider the departmental annual report soon after its tabling, where it assesses the

performance of the department at the end of the financial year, using the annual report. If a portfolio committee completes its hearings on annual reports by the end of October or November, it could also feed into the next year's budget allocation process, thus strengthening Parliament's involvement in the budget process (as these hearings will occur at the same time as the MTBPS).

In developing such a system, legislatures will need to differentiate between the roles of the portfolio and public accounts committees with regard to the 'processing' or use of annual reports.

Issues to resolve include: which committee considers the annual report first, and when? Does the portfolio committee consider such reports first, making an assessment on both the financial and non-financial reports? Should the public accounts committee only consider financial or audit issues not resolved through hearings of the portfolio committee? Should each portfolio committee also issue a formal oversight report, commenting on the annual report, on the performance of the department or the quality of performance information, and also to make recommendations on corrective steps to be taken?

The challenge facing portfolio committees is that they ensure that departments provide good quality non-financial service delivery information in their ENE (or strategic plans) with tight performance targets, to then ensure that such departments report against those targets in their annual reports.

In-year monitoring: In addition to post-financial year evaluation, the legislatures can also oversee budget implementation during the financial year, using the monthly National Treasury gazettes in terms of Section 32 of the PFMA. Whilst the monthly reports are more important as a management tool, the quarterly reports could be used by legislatures as part of an in-year monitoring mechanism. The last Parliament established a Joint Budget Committee to process the quarterly reports, and tabled formal reports in the National Assembly. Similarly, in provinces, most finance portfolio committees have hearings to discuss each quarterly report, but do not necessarily issue a formal report to the legislature. Sectoral portfolio committees can also use the quarterly reports to assess in-year performance of departments. This will be even more possible if the current monthly financial reporting system is complemented by a system

of quarterly non-financial performance information. Such information will come with a similar lag as the financial information, i.e. 30 days.

There is a need to streamline performance measurable objectives to focus on outputs, and separate these from management or process objectives. Further, more information may be required on the use of important inputs (personnel, textbooks, medicines), as the public sector is still inefficient in the use of such inputs. For concurrent functions that are shared with provinces, the steps taken by the National Treasury in collaboration with Provincial Treasuries and National Departments and sectoral MinMecs to develop sector-specific budget and performance formats requires the strong support of all national and provincial legislatures. This approach allows for comparability of information and performance of the same functional department across sectors, and makes publications like the Intergovernmental Fiscal Review possible.

The main objective for producing this information is to enable Parliament and national and provincial executives to hold government departments accountable for their performance.

3.4.3.3 Role of Public Accounts Committees

Public accounts committees have an important role to play in each legislature, as they deal with the serious financial management problems not dealt with by the Executive or other portfolio committees. In particular, they ensure that all departments and public entities address the problems raised by the Auditor-General during the financial audit process. The public accounts committee is the ultimate watchdog overseeing sound financial management throughout that sphere of government. The public accounts committee generally does not get involved in policy or legislative matters, unlike other portfolio committees. It is expected that the Annual Reports should be a mirror image of the Strategic and Performance Plans (SPPs) tabled in the provincial legislatures in the previous financial year. Provincial departments, in writing the Annual Reports, are also expected to conform to the guidelines of the preparation of Annual Reports circulated by the Office of the Accountant General (OAG) in the National Treasury. Once the Provincial Executive Council (EXCO) has agreed on the most efficient allocation of available resources through a matching of the above outputs, the Budget is tabled in the Legislature for legislative hearings, debate and appropriation.

The various activities that lead to the outputs required in terms of the provincial budget process are outlined below:

Medium Term Policy Review

The process starts early in the year with Executive consideration of the policy priorities. Additional resources for funding new priorities arise from a review of the overall budget framework, including fiscal policy considerations, overall spending growth, inflation assumptions, and debt interest projections. Where critical spending pressures and major policy considerations exist, the Provincial Treasury may initiate bilateral discussions with the relevant departments in order to undertake a more rigorous examination of the economic and fiscal implications over the medium-term to long-term period.

Medium term policy review Departmental and agency planning and budgeting

EXCO legotla: Consider new spending priorities

Revise framework

Provincial budgets tabled

EXCO legotla

EXCO approves new MTEF

Finalise decisions

Departments prepare budget proposals

Prepare budget documentation

MTEC hearings

The timeline for critical budget decisions in the policy review stage of the process is outlined in

Policy review timeline

May – September Propose spending priorities

May EXCO considers spending priorities

July – September Revise macroeconomic framework

June – July Provincial technical committees consider key spending pressures

Policy discussions with line departments

September EXCO considers in year pressures and new policy priorities for the upcoming MTEF

October/November Adjusted Estimates tabled in Legislature

December-January Province prepare budget documentation

February Provincial budget tabled

The policy review part of the process is designed so that it informs departmental and agency planning and budgeting, and guides the Provincial Treasury in the evaluation of budget proposals.

Departmental and agency planning and budgeting

Planning and budgeting are closely related processes. Planning guides preparation of the MTEF budget proposals that are submitted to the relevant treasury. These proposals are evaluated in line with Government's priorities and recommendations on medium-term allocations made to Cabinet or the relevant provincial executive council. Before engaging in planning exercises, departments are expected to review performance or service delivery results of the previous period. These results provide feedback when planning for the new medium-term expenditure period. A typical planning process undertaken is outlined below.

Planning process

Assessing service delivery performance against targets and examining departmental strategic objectives against broader Government policy and spending priorities frame the following queries:

- Are departmental strategic objectives and planned outputs aligned with the core functions and mandates of the department?
- Are planned outputs and deliverables still relevant?
- Have service delivery commitments and targets been met?
- If there is a high degree of alignment between:
 - Government priorities and departmental objectives and outputs
 - Service delivery performance against targets

Then the department or institution should revise those aspects of their strategic plan and objectives that will improve service delivery and better achieve the desired results over the next five years. On the other hand, if there is a low degree of alignment then the department or institution will have to take a much more extensive review of its delivery plans in relation to Government's medium-term policy and spending priorities. The available budget affects what may be achieved and helps set priorities for resource allocation and service delivery objectives and targets. The final stage in the process is to assess the costs and resource implications of the revised strategic plan in terms of the departmental medium-term budget allocation. This may lead to significant reprioritisation of the medium-term budget to reflect changing priorities and fiscal realities, which depend on the broader economic environment. Departments are expected to prepare their new MTEF budget proposals by August annually in accordance with a prescribed format that is issued by the National Treasury in May. Where possible, departments are required to indicate five year spending projections. The 4th and 5th years need not be in as much detail as the MTEF budget figures. In addition to their budget proposals, departments also provide the Provincial Treasury with copies of their Annual Financial Statements and Annual Report. These documents are used by the National Treasury budget analysts when preparing for the Medium Term Expenditure Committee (MTEC) hearings in September, which focus on the following aspects of the department's MTEF budget proposals:

- The proposed revisions to the department's medium-term plans and the link to Government's broad policy priorities and key challenges identified for each of the sectors
- The credibility of the costing and affordability of the new proposals
- The department's ability to implement their new proposals over the MTEF period based on past performance and expenditure trends
- The outputs to be achieved in support of measurable objectives.

MTEC discusses each of the above areas with the relevant department, and finalises a recommendation to the Ministers Committee on the Budget and Cabinet that details changes to a department's programme structure, measurable objectives, and changes to programme MTEF allocations. EXCO's decision on changes to the MTEF programme allocations to provincial departments is set out in the Treasury allocation letters to

departments mid November. These detail the rationale and conditions of the final allocations to provincial departments for the new MTEF period. Once final allocation letters have been received, departments are required to revise their plans for the relevant period, and to pay particular attention to priority policies and strategies and to the affordability of their planned outputs.

The main stages and critical dates for departmental and agency planning and budgeting is summarized below:

Departmental and Agency planning and budgeting

May – August Departments prepare MTEF budget proposals

August - September MTEC hearing

November EXCO approves 2005 MTEF

November Departments submit first draft of budget estimates

February Budget is tabled

Legislative hearings, debate and appropriation

On Budget Day the MEC for Finance presents to the legislature the outcome of the Executive's budget process in the form of a three-year expenditure framework, and seeks legislative appropriation for the first year.

The provincial budget is presented as follows:

The *Appropriation Bill*, once enacted, gives departments the legal authority to spend money allocated to them. A brief summary of the Appropriation Act is given.

Alongside, the budget legislation, the MEC also tables the *Budget Statement*. This document describe the economic and political context that gave rise to the decisions outlined in the allocation of resources. These include:

- Government's outlook for the domestic and global economy
- Implications of tax policy
- The impact of fiscal policy on the budget framework, including changes to expenditure and the deficit
- The management of Government's assets and liabilities; and

- Government's medium-term expenditure framework and the division of resources between the three spheres.

Immediately after tabling in the Legislature, the Budget documentation is referred by the Executive Council to the Portfolio Committee on Finance (PCOF) and the Budget Committee (BC). Responsibility for different parts of the budget is shared between the Budget Committee and the PCOF, public hearings and debate on expenditure estimates and service delivery objectives are referred to the BC, whereas the PCOF deals with the microeconomic policy. Public hearings and debate in the two committees mainly focus on the allocation of resources in the outer years of the MTEF (years two and three). In this way, the legislature and the public is given the necessary space to influence and contribute to the next budget cycle.

The PCOF and Joint Budget Committee (JBC) consider the overall Budget, and provide a report shortly after the Budget, tabling a report to Parliament (first reading). The PCOF and JBC hold public hearings on the various parts of the Budget before reporting back to the Executive Council. The committees may also decide to refer specific aspects of the Budget to another Portfolio Committee in the Legislature. The PCOF leads the first reading debate (broad macroeconomic issues) on the appropriation bill, which is concluded in mid March prior to the Autumn Legislature Recess. The BC leads the second reading debate on government spending, after relevant portfolio committees have considered and debated their departmental budget votes in committee and Assembly plenary.

Appropriation act

Section 213(2) of the Constitution, 1996 determines *inter alia* that money may only be withdrawn from the National Revenue Fund in terms of an appropriation by an Act of Parliament. It is also a money bill in terms of section 77 of the Constitution. The Appropriation Act is therefore the legal framework by which departments obtain funds from the National Revenue Fund to finance their activities.

The Appropriation Act contains the expenditure information of all national departments at programme level as well as short descriptions of the aims, outputs and targets of the

departments and their programmes. In addition to the allocations per department and programme, the expenditure is also divided between current and capital expenditure as well as transfers.

The Appropriation Bill is a money bill in terms of section 77 of the Constitution, 1999, the Bill must be debated and approved by the National Assembly before it is referred to the National Council of Provinces for concurrence and approval. Once Parliament has approved the Bill it is referred to the President for assent and enacted.

The period between 01 June and 31 August is again critical in the provincial budget process. It is expected that the various intergovernmental fora, in particular, the various sector 4X4s, 10X10s and MinMecs to firm up sector priorities for the following year.

It is acknowledged that the province's specific budget process will differ per province but however, all provinces are expected to submit the first draft of the budget together with their SPPs on the 31 August of that year. Provincial treasuries at this stage are expected to have had preliminary discussions with provincial departments at two levels. First level should be discussions around the Annual Reports and AFS and around the first quarter spending of the financial year at the second level.

The Annual Reports and AFS have to be formally tabled in the provincial legislatures and the various oversight committees have to conduct hearings that mainly look at the spending outcomes for the financial year.

The National Treasury also visits provinces in July/August of every year. These two day visits will take place between 22 July and 22 August. The main purpose of these visits will be to discuss quarterly performance reporting and the implementation strategy to roll it out, non-financial information and database and first quarter spending of the 2006/07 financial year with provincial departments.

An example of Date Events for the 2006/7 budget.

28 June 2006 Education 10 X 10 meeting

30 June 2006 National Treasury issues new guidelines for provincial departments on the Strategic Planning for 2007 Budget. If no new guidelines are going to be issued, provincial treasuries and departments will be notified accordingly.

Mid July 2006 Minister's Committee on the Budget (MinComBud) meeting

22 July and 22 August 2006 National Treasury visits to provinces.

Province's specific date will be finalised with the province concerned

28 July 2006 Social development 10 X 10 meeting

31 July 2006 Health 10 X 10 meeting

31 July 2006 National Treasury to issue draft budget format guideline for the 2007 budget to provincial treasuries

31 July 2006 Provincial departments submit 2007 infrastructure plans to Provincial Treasury in terms of Section 37(1) of the Division of Revenue Act, 2005

The month of August in the provincial budget process is critical. The Extended MinComBud (In other words, MinComBud together with the MECs for Finance from the nine provinces) meet in the first week to agree on the final recommendations that will have to be tabled at the National Cabinet for the 2007 Budget.

During August and the September months, provincial departments are engaged with the provincial treasuries on the draft budgets for 2007. These draft budgets are based on baseline allocations as per the 2006 MTEF. These draft budgets will have to be submitted to the National Treasury on the 31 August 2006. Provinces are also expected to submit the first draft of the 2007 Strategic Plans and Infrastructure Plans to National Treasury for purposes of the Medium Term Budget Policy Statement (MTBPS) which happens in October 2006. The Budget Council Lekgotla takes place towards the end of August.

Template for preparation of a budget

Vote

Name of department

Accountability information

R thousand	2008/09				2009/10	2010/11
	Total to be appropriated	Current payments	Transfers and subsidies	Payments for capital assets	Total	Total
Programme 1	-	-	-	-	-	-
Programme 2	-	-	-	-	-	-
Programme 3	-	-	-	-	-	-
Programme 4	-	-	-	-	-	-
Programme 5	-	-	-	-	-	-
Programme 6	-	-	-	-	-	-
Programme 7	-	-	-	-	-	-
Programme 8	-	-	-	-	-	-
Programme 9	-	-	-	-	-	-
Programme 10	-	-	-	-	-	-
Total	-	-	-	-	-	-
Direct charges against the National Revenue Fund	-	-	-	-	-	-
Total expenditure estimates	-	-	-	-	-	-
Executive authority						
Accounting officer						

Aim

Detail

Programme purposes and objectives

Programme 1: Administration

Purpose: Detail (Purpose Bold)

Programme 2: Name

Purpose: Detail

Measurable objectives: Detail

Programme 3: Name

Purpose: Detail

Measurable objectives: Detail

Programme 4: Name

Purpose: Detail

Measurable objectives: Detail

Strategic overview and key policy developments: 2004/05 – 2010/11

Introduction (Paragraph)

Paragraph on the department's direction and expected results to be achieved.

Key policy developments

Paragraph on policy developments and legislative changes.

Recent achievements

Paragraphs on achievements in 2006/07 and 2007/08.

Key performance indicators

Indicators	Performance						
	Past			Current	Projected		
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
.....
.....
.....
.....

Expenditure estimates

Table x.1: Name

Programme	Audited outcome			Adjusted appropriation	Revised estimate	Medium-term expenditure estimate		
	2004/05	2005/06	2006/07			2008/09	2009/10	2010/11
R thousand								
1.								
2.								
Subtotal								
Direct charge on National Revenue Fund								
Total								
Change to 2007 Budget estimate								

Economic classification

Current payments		
Transfers and subsidies		
Payments for capital assets		
Total		

Expenditure trends

Detail

Efficiency savings**Infrastructure spending**

Customised text box per vote

Include table and text

Departmental receipts

Brief description of all departmental receipts for 2006/07 and anticipated revenue for the new MTEF period.

Table 1.2: Departmental receipts

R thousand	Audited outcome			Adjusted appropriation 2007/08	Medium-term receipts estimate		
	2004/05	2005/06	2006/07		2008/09	2009/10	2010/11
Departmental receipts							
Total							

Programme 1: Administration

Description of *programme* and *subprogramme*

Expenditure estimates**Table 1.3: Administration**

Subprogramme	Audited outcome			Adjusted appropriation 2007/08	Medium-term expenditure estimate		
	2004/05	2005/06	2006/07		2008/09	2009/10	2010/11
R thousand							
Total							
Change to 2007 Budget estimate							

Economic classification

Current payments			
Compensation of employees			
Goods and services			
of which:			
Transfers and subsidies			
Payments for capital assets			
Total			

Details of major transfers and subsidies:

Provinces and municipalities		
Municipalities		
Municipal bank accounts		
Current		
Capital		
Public corporations and private enterprises		
Public corporations		
Other transfers		
Current		
Capital		
Households		
Social benefits		
Current		
Capital		
Total		

Expenditure trends

Detail

Trading entities***Public entities and agencies*****Name**

Paragraph

Key performance indicators

Indicators	Performance						
	Past			Current	Projected		
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
.....
.....
.....
.....

Annexure**Vote 1: The Presidency**

Table 1A: Summary of expenditure trends and estimates per programme and economic classification

Table 1B: Summary of personnel numbers and compensation of employees per programme

Table 1C: Summary of expenditure on training per programme

Table 1D: Summary of conditional grants to provinces and municipalities

Table 1E: Summary of official development assistance expenditure

Table 1F: Summary of expenditure on infrastructure

Table 1G: Summary of departmental public-private partnership projects

3.5 Financial control

The control process may be regarded as a function to determine whether the execution of tasks, projects and programmes has been done in accordance with certain programme schedules and in terms of prescribed standards and specifications. Control should obviously focus on the operational efficiency and effectiveness of public activities, that is, on the full realization of objectives with the minimum expenditure of money. It helps to integrate the objectives and aims of operational programmes in the policy execution phase. Control is therefore, of singular assistance for co-ordination and, at the same time, helps to prevent the wastage of resources. Deficiencies within the executive phase of the budget are exposed during the control process.

Control includes the development of a feedback system to measure the results of departmental activities. The real results should be compared with the programme schedules, and the programme schedules or activities should be reviewed if shortcomings and deviations are identified. Corrective measures should be taken in the case of deviations so that the executive actions can be brought in line with the programme schedules. Firstly, those control units which it is meaningful to control should be identified. The control units are obviously resources such as personnel, stores, machines, equipment and money. Secondly, the critical aspects of the control units should be identified, namely time, costs, quality and acceptability. Thirdly, cost standards, time standards, quality standards and acceptability standards should be determined and prescribed. Fourthly, a feedback system should be developed which can measure the results of critical aspects in terms of their control units. Fifthly, a system should be developed for evaluating discrepancies between the results and the determined objectives and aims of the programme schedules exposed by feedback. Lastly, measures should be created for correcting deviations.

It is one of the primary obligations of government to see that *adequate and satisfactory financial control measures* are instituted to ensure that account can be given of all receipts and payments. The spending of money on operational activities, the buying of stock, materials and equipment (physical resources) as well as their storage and safekeeping are controlled by financial regulations. It is the task of the chief financial officer to ensure that the procedures prescribed by

regulation are promptly and correctly followed. These control measures must be of such a nature that theft and corruption can be eliminated. Although it is the obligation of the chief financial officer to see that proper financial regulations are in operation, it is also the task of the chief financial officer to give advice on the contents of such regulations. The chief financial officer is the obvious person to identify the deficiencies of existing financial regulations. Because s/he uses financial regulations as financial control instruments, s/he is in the best position to identify the deficiencies.

The second primary control function of the chief financial officer is budget control. It has already been advocated that budget control is the responsibility of the chief officer, which means that both the chief financial officer and the chief officer are concerned with budget control. While the chief officer is mainly concerned with the efficient and effective spending of the money, the chief financial officer's budget control function is concerned mainly with both the correct and regular spending of the funds provided in the approved budget, and the regulation of overspending. The chief financial officer, therefore, will concentrate on the correct accounting procedures and on the legitimacy of the expenditure, while the chief officer will calculate the results of the expenditure for efficiency and effectiveness. The chief officer wants to know to what extent the policy objectives of the approved budget have been realised and at what cost.

The chief officer is obliged to give account not only of the of the budget programmes but also of the legitimacy of the expenditure; therefore the chief officer and the chief financial officer supplement and support each other in their budget control functions.

The third traditional financial control function of the chief financial Officer is internal auditing. According to Marshall (1976:13) internal auditing is a control instrument in the hands of the chief financial officer enabling him to exercise his responsibility for checking the regularity and legitimacy of the financial administration of the other departments not directly under his control, as well as to ensure value for money spent by them. Apart from this, it puts him in a position to keep in contact with the other departments, especially with the departmental financial officers. The nature

and the scope of internal auditing may *differ* from one local government to another. According to Marshall (1976:17-1) the nature and the scope of internal auditing depend upon the perceptions of the chief financial officer and his status in the authority hierarchy of the local bureaucracy. In some local governments internal auditors are used mainly for checking the receipt and spending of money for the sole purpose of uncovering and/or preventing theft and corruption. In this regard the chief financial officer should encourage the heads of departments and departmental financial officers to introduce measures such as an effective financial record system to prevent theft and corruption.

The measure of success the chief financial officer can achieve in undertaking a comprehensive internal audit programme depends on several factors, such as:

- a. the size of the local government organization,
- b. the existence of a corporate management system with only one chief officer as the chief accounting officer,
- c. the formal and informal relationships between the chief officer, chief financial officer and heads of departments;
- d. the financial system in operation; and
- e. the presence of other management services such as an organization and work-study section.

Internal auditors may not concern themselves with the evaluation of policy matters nor with investigations where quality considerations are involved. However, a new approach to internal auditing has developed over time. The latest perception is that internal auditors should not only check the financial transactions for regularity and legitimacy, but should also be more constructive by investigating the results of the expended resources and reporting on this too. The new approach is to undertake simultaneously both a financial audit and a performance audit to check that value is received for the money spent. Thus in the new corporate management system, the chief financial officer supports the chief officer, as chief accounting officer, with his audit function, by doing what may be called an efficiency audit; an audit where the results of the budget programmes are compared with the objectives and targets of the approved budget and one which also identifies the reasons for unsuccessful results,

and brings these to the attention of the chief officer so that he can take the necessary corrective actions.

Financial audits and management audits should be integrated and not separated from each other. Correct bookkeeping and financial records are indispensable for management auditing; therefore, management auditing cannot be done without simultaneous financial auditing being undertaken. In order to measure the efficiency and effectiveness of performance correctly the financial transactions must be recorded correctly and steps should be taken to prevent irregularities such as theft and corruption. Exact financial records are a prerequisite for measuring the efficiency and effectiveness of performance. It would therefore be not only unwise but also unnecessary to remove the responsibility for the internal audit function from the chief financial officer. The chief financial officer acts on behalf of the chief officer in this regard. The internal audit function enables the chief financial officer to check the activities of all other departments as well as those of his own department. The instrument with which the chief officer commands accountability from the chief financial officer is the external auditor. In this regard the external auditor acts independently from the chief financial officer and reports all financial malpractices, including those of the chief financial officer's department, directly to the chief officer.

From the foregoing explanations and arguments it should be quite evident that the chief financial officer is faced with a formidable task and that he should have an extensive knowledge of the economic, accounting and management aspects of public finance. In medium-sized and large local governments the chief financial officer is obviously supported by competent specialists in his department.

3.5.1 The budget as an instrument of control

The budget is an excellent control instrument to be used by the legislative authority over the executive authority and by the executive authority over the administrative authority and even for internal control within a single component of the administrative authority. Two types of administrative control are important in this regard, namely, ***a priori*** control and ***ex post facto*** control. ***A priori*** control is prescribed control, ie. control measures which are based on

prescriptions and which are framed before any act takes place and prescribe how the act should take place. ***Ex post facto*** control is exercised after the act has taken place; typical examples of this are financial and effectivity audits. *Ex post facto* control consists of the control of results as against predetermined objectives and aims, the evaluation of the results for efficiency and effectiveness, and accountability for results to a higher authority. Theo Haiman (as quoted in Basi, 1968:133) defined *ex post facto* control as follows:

'Control is the process of checking to determine whether or not plans are being adhered to, whether or not proper progress is being made towards the objectives and goals, and acting if necessary to correct any deviation.'

3.6 Conclusion

This chapter is by no means a comprehensive discussion on the topic of public financial management. Public finance encompasses a wider field of study in government. Subjects such as State financial institutions, financial control measures and organizational structures for public finance should be dealt with as research and assignment topics.

CHAPTER 4

LOCAL GOVERNMENT MANAGEMENT

OUTCOMES

After reading this chapter you should be able to:
understand the terms “local government” and “local authority”, explain the reason for the existence of local authorities; and understand the terms the “locus” and “focus” of local authorities.

4.1 INTRODUCTION

Local government is regarded as a particular type of government, which focuses on the specific needs of people in demarcated areas with specified boundaries, popularly known as a “municipality.” Local government gives people of a particular area a sense of involvement in the political processes that control their daily lives and, local democracy denotes a political system in which the eligible people in a municipal area participate actively, not only in determining the people who will govern them, but also in shaping the policy output of the local authority. The legitimacy of the local authority is determined by free and fair elections supervised by impartial electoral bodies.

Local government in the 21st Century has to face new challenges and demands of the newly established democratic local authorities. Municipal councillors came face-to-face with the reality of community demands, needs and expectations on the one hand, and the limited resources to fulfil these needs on the other. It soon became clear to them that local government is actually a process of planning, budgeting, prioritising, meetings and, above all, the delivery of the basic needs of local communities.

4.2 THE IMPORTANCE OF LOCAL GOVERNMENT

The significance of good local government has been advocated throughout the democratic world in programmes aimed at achieving stable government. The importance of local government as the basis of all structures of governance cannot be overemphasized. In fact, it is vital in the universal quest for a stable democratic society.

4.3 DEFINITION OF TERMS

4.3.1 Local government

Local government is that level of government which is commonly defined as a decentralized, representative institution with general and specific powers devolved to it by a higher authority of government (central or provincial) within a geographically defined area.

ACTIVITY:

Look up other meanings and definitions of the term local government and the following terms:

4.3.2 Local authority

Local authority is synonymous with local government. A local authority is an organization comprising elected and appointed officials which operates within a specific geographical area to provide services for its local community. This type of authority has a relatively well-defined area of jurisdiction and local populace. It has the right to govern within the parameters of legislative constraints, *viz.* the Constitution of the Republic of South Africa Act, 1993 (Act 200 of 1993).

4.3.3 Local governance

The term “ governance” refers to “the act of governance” whilst “government” means “the power to govern.” Globally, it is recognized that organs of civil society need to be empowered to share the responsibility for governance. In essence, government institutions require a new citizen-oriented management approach. In this sense, relationships and partnerships have become much more important for local government than in the past.

4.3.4 Local government management

This refers to a system of managing the affairs of a local authority. The technique involves planning, financing, decision and policy making, human resources

management, devising work methods and procedures, control, accountability and transparency.

4.4 LOCAL GOVERNMENT CONCEPTUALISED

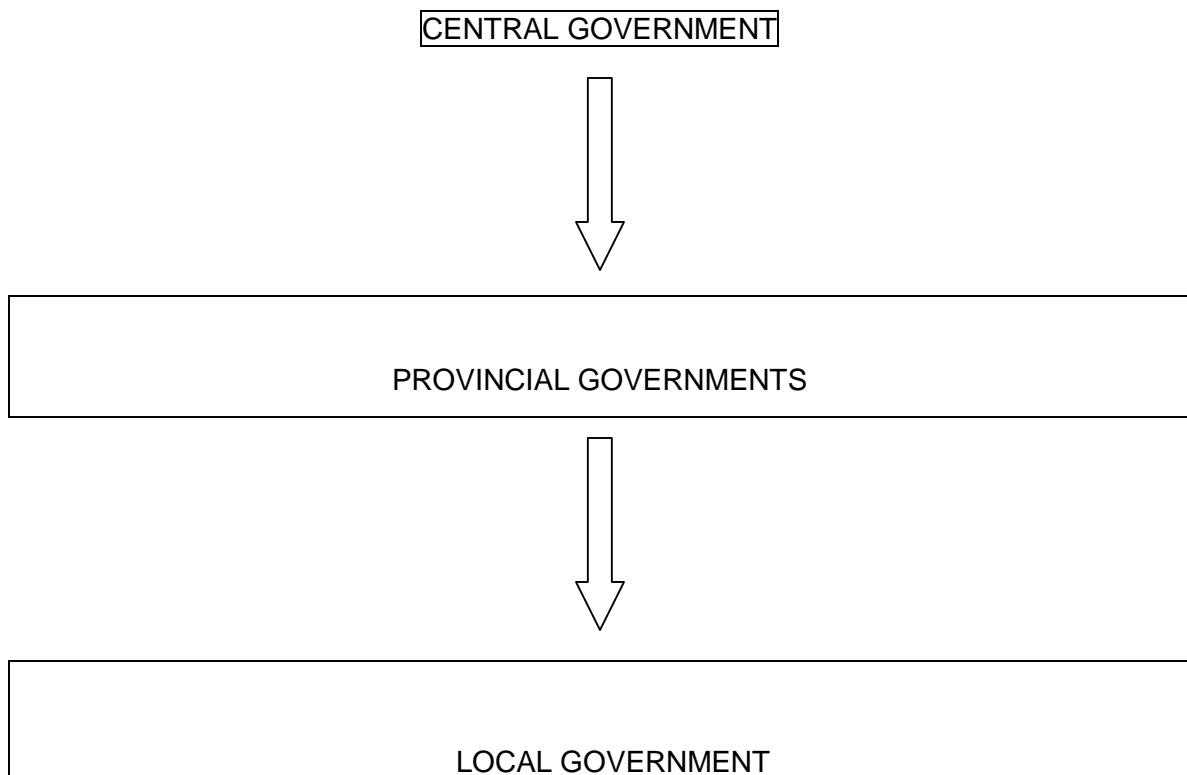
Local government is said to be the third tier of government. The other two are Central government and the nine (9) provincial or regional governments.

ACTIVITY

List the nine provinces in South Africa.

The Constitution empowers Parliament to establish local authorities in demarcated areas with set boundaries and elected/appointed political office bearers (councillors) to promote good governance for the well-being of the communities residing in these areas. A further proviso is that local authorities shall function within the constraints of the province in which they exist.

This hierarchical structure is illustrated below:



4.4.1 The white paper process.

In order to democratise local government in South Africa in terms of the Local Government Transition Act, 1993 (Act 209 of 1993), a number of amendments were made to this Act to facilitate the following changes:

- The insertion of a new (and long overdue) chapter on rural local government by providing for transitional representative councils, later renamed representative councils, or transitional rural councils, now renamed rural councils.
- The power of MECs to make enactments was terminated.
- Section 10G of the Act deals with a range of financial matters such as responsibilities; unauthorized expenditure; reports from the Auditor General; budgets; rates; fees and charges; contracts and tenders; valuation of property for rating purposes; loans; borrowing; investments; dedicated funds; and the non-liability of national and provincial government for local government debts. This legislation was enacted to ensure proper Treasury control.
- The provincial demarcation boards were terminated and a National Demarcation Board (since replaced) was established.

In addition, four important pieces of legislation about local government were passed as follows:

a. Organised Local Government Act, 1997 (Act 52 of 1997)

The racially based local government bodies prior to 1994 were replaced by non-racial local authorities. The Act also provides for the nomination of not more than six members (municipal councillors) to participate in the proceedings of the National Council of Provinces (NCOP) The South African Local Government Association (SALGA) must, from a list of 45 names designated in accordance with its criteria, nominate not more than 10 of those persons as local government representatives in the NCOP. Two persons from the provincial organizations must also be nominated by secret ballot in the executive committee of SALGA to serve on the Financial and Fiscal Commission.

b. Local Government: Municipal Demarcation Act, 1998 (Act 27 of 1998)

The Constitution requires that the outer boundaries of municipalities be determined by an independent authority in terms of the criteria and procedures contained in the national legislation. The Constitution further requires that the delimitation of wards within municipal areas be done by an independent authority, in accordance with criteria and procedure prescribed by national legislation. The LGMDA establishes the Municipal Demarcation Board as a juristic person, which is independent and must be impartial and perform its functions without fear, favour or prejudice.

c. Local Government: Municipal Structures Act, 1998 (ACT 117 of 1998)

This Act deals with the categories of municipalities, the establishment of municipalities, the electoral system, municipal systems, *etc.*

5. Local Government: Municipal Systems Act, 2000 (ACT 32 of 2000)

This Act covers a wide area, but focuses mainly on community participation, integrated development planning, performance management, local public administration, municipal services, and credit control and debt collection.

4.4.2 Stages in the White Paper process.

The White Paper process went through three stages:

Stage 1: The discussion document.

This document raised a number of questions on the future structure and nature of local government and invited comments.

Stage 2: The Green Paper.

A green paper is a device whereby government sets out a potential policy or set of policies and invites comments. In this case, the comments received on the Discussion Document were presumably used to frame the Green Paper, together with its view on how to deal with the issues raised.

Stage 3: The White Paper on Local Government.

Once a White Paper has been adopted by Cabinet, it becomes Government policy. The various themes of the White Paper were:

Current Reality: *This was a historical survey and a survey of the systems of local government in operation then.*

Developmental Local Government: This set the scene for the integrated development planning and performance management provisions in the Municipal Systems Act.

Co-operative Governance: This section set out to interpret co-operative governance and spelled out intergovernmental relations between the three spheres of government. This section concludes with the statement that national and provincial governments should seek to support and enhance the developmental role of local government.

Institutional Systems: This section defined the types of metropolitan, district and local municipalities and also brought to the fore the concepts of sub-councils and ward committees. (See Municipal Structures Act)

Political Systems: This dealt with the concepts of the executive mayor, executive committees, delegation, committee systems, the electoral systems, wards delimitations and the number of councillors.

(See Municipal Structures Act and Municipal Systems Act)

Administrative Systems: Under administrative systems, the principles for service delivery were laid out, as well as how this could be done, eg. in-house, corporatisation, partnerships, etc. Training and Labour Relations were also included. (See Municipal Structures Act)

Municipal Finance: The essence of this section was that effective treasury control over finances was necessary and that there would have to be national legislation on property rates. With regard to credit control, strong measures should be taken against defaulters. Borrowing and investment powers would have to be controlled.

The Transformation Process: The main points were speedy implementation of the White Paper and the putting in place of intensive support programmes to facilitate the changes that needed to be made.

It is clear from the above description of the main themes of the White Paper that democratic local government in South Africa cannot be achieved overnight. The process of transformation is a long road map which can only be achieved through dedication, transparency and commitment on the part of all stakeholders in the transformation process.

4.5 WHY LOCAL GOVERNMENT?

Local government exists for two reasons, *viz.* service-rendering and democracy. The first reason is related to the utilitarian consideration. It entails the efficient and effective rendering of services to the local communities and this function is highly dependent on the ability of local residents to pay for the services. The second reason involves the civic consideration. This deals with the values of participation, representation, local autonomy, responsiveness and fairness. It emphasises the notion of democratic processes such as elections, and the governing side of local government.

4.6 FEATURES/CHARACTERISTICS OF LOCAL AUTHORITIES

Local authorities have a well defined area of jurisdiction. In other words, a local authority is mandated in terms of legislation to function within a demarcated area and not to encroach in a neighbouring area. However, two or more local authorities may enter into service agreements (agency agreement) to assist each other in sharing and or providing services.

A local authority has a legal mandate and obligation to provide all the inhabitants living within its area of jurisdiction with basic services. Local authorities collect rates and taxes from their citizens in return for which they provide them with services.

Local authorities operate within the overall framework of both national and provincial governments and the Constitution of the Republic of SA. They may not pass laws that contradict national and provincial legislation.

Local authorities are mandated to pass by-laws or regulations in their areas of jurisdiction. They should take all the necessary steps to ensure the safety and security of all the inhabitants within their areas of jurisdiction.

Suitable staff are employed to conduct the daily business of the local authority. The Chief Executive Officer or City Manager is the administrative head and Accounting officer of the local authority. S/he is appointed by the Council.

Managers are appointed as heads of the various municipal departments, *eg.* Electricity Department, Health Department, Parks and Recreation, *etc.*

Local authorities must compile an annual financial plan (budget) indicating anticipated income and expenditure for a particular year. A budget is the operational plan of a local authority in terms of how much money will be required to accomplish the envisaged objectives and goals over a given period of time. Local authorities should determine, prioritise and translate local development needs into financial plans.

Local authorities should promote citizen participation in their search for solutions to local problems. They should not take any decision of policy or community significance without consulting the communities concerned.

All local authorities are expected to communicate their policies and decisions to their local inhabitants so that they can foster mutual trust between themselves and the local inhabitants of the area.

Regular free and fair elections must be held to elect new council members so that they may address the needs of the inhabitants at council meetings.

In essence, a closer look at these characteristics reveals the importance of local authorities. It is also obvious that, because of their position in the government hierarchy, local authorities are in closer contact with the citizens themselves and subsequently play a more direct role in the lives of local communities.

4.7 Values and principals for local government

In terms of the new Constitution, officials featuring at the various levels of government have to abide by the norms and values as prescribed by the legislature. At local government level as well, these norms and values play an important role in ensuring that officials are accountable to their constituencies for all their actions. A summary of these principles is provided hereunder.

- a. Local government must provide a high standard of professional ethics in its overall system of governance and management. In practice, officials and councillors must not expose themselves to corrupt practices, unethical behaviour, favouritism or anything that enriches one person at the expense of another. Local authorities are bound by the code of conduct as contained in *Schedule 7 of the Local Government Transition Act, 1993 (Act 209 of 1993)*
- b. Local government must use its resources efficiently and effectively. Misuse of public monies by local authorities should not be tolerated and should be reported immediately to the offices of the Public Protector and /or the Auditor General. These two functionaries have been mandated to investigate any complaints about financial or other irregularities on the part of local authorities and make recommendations for corrective action.
- c. Local government must be development-oriented. They should concern themselves with the business of development and not merely regulating the lives of people. They should be involved in physical development, as well as facilitating human development.

- d. Local government must promote fairness, reasonableness and impartiality, and have no bias. All citizens should be treated equally and with respect. The actions of the local authority must also be reasonable. No person, irrespective of status, should be given preferential treatment.
- e. Local government must respond to the needs of the people and respectfully provide policies and guidelines to address those needs.
- f. Local government must promote public participation in the management of its affairs. This may be achieved by creating opportunities for the public to participate in local government policy- and decision-making structures.
- g. Local government must be accountable to its electorate and where necessary, to other stakeholders. They must provide the public with explanations of their actions or inactions and any other matter which demands public explanation.
- h. Local government must promote transparency and supply the public with timely and sufficient information. This is one of the greatest challenges for local authorities in South Africa because of its history of secrecy and exclusiveness.
- i. Local government must promote good human resource development practices by adhering to the principles of fair and equitable labour practices.
- j. Local government must be broadly representative of the population it serves. In all fairness, the people of a particular local authority area should be served by representatives of their choice, elected and appointed in terms of the popular vote.
- k. Local authorities should provide reasons for decisions taken and communicate these to their constituencies. Members of the public have a constitutional right to be given reasons for public decisions which may affect their lives directly or indirectly. The Rules of Natural Justice and the Rule of Law must apply.

- I. Local government must administer its daily affairs within the ambit of the law and do nothing that will purposefully harm the rights of individuals. The Bill of Rights must be respected and given meaning by actions taken at local level.
- m. Local authorities must become income- and not expenditure- driven, and thereby avoid budgeting for deficits. This implies that they will have to revisit their *modus operandi* in the way in which they manage their finances.

The above principles, guidelines and norms are aimed at ensuring good governance, service delivery and a better quality of life for all citizens. However, instilling a culture of professional ethics will require the collective participation of all officials, councillors, community leaders, civic organisations, labour, and community-based organisations.

4.8 THE CURRENT REALITY.

Notwithstanding the reforms proposed for non-racial, democratic and transparent local government, the current realities in local government still need to be addressed. These include:

- Backlogs in service delivery and inadequate infrastructure
- The need to recognise the economic connections between rural and urban areas
- The need to transform administrations in municipalities
- The need for municipalities to rebuild relationships with communities

4.9 EXTERNAL ENVIRONMENTS OF LOCAL GOVERNMENT

The various levels of government cannot exist in isolation – they are widely influenced by the environments that exist all around them, viz. the physical, economic, political, constitutional, social, statutory, financial and demographic environments. These environments need to be considered when decisions and policies are made, when

planning comprehensive development projects and when local communities are governed.

a. Physical environment.

This refers to the geographical area within which a local authority exists. When planning development projects, local authorities need to consider the impact policies and decisions would have on the environment and physical resources of the area, pollution, ecology, plants, trees and forests, *etc.*

b. Economic environment.

This environment promotes economic development of a local area and impacts on opportunities available to local communities to undertake economic and business activities to sustain themselves and improve their quality of life. Opportunities such as job creation, business enterprises and industrial development enhance the economic wealth of the local municipality by empowering communities and enabling them to pay for services through rates and taxes.

c. Political environment

The political environment promotes the values of the local inhabitants in the light of the interactions between themselves and the political office bearers of the specific local government area. The political preference of the majority of inhabitants of a particular area will have an influence on the decisions and policies of the local authority concerned.

d. Constitutional environment

The Constitution of the country will have a bearing on the manner in which local government functions, the type of services to be rendered and the extent to which power and authority may be devolved to the local governing body. In other

words, local authorities may formulate by-laws or regulations within the constraints of provincial and central government legislations.

e. Social environment.

This environment focuses on the full potential of local communities, by a process of maximisation of opportunity and widening of choice, to sustain themselves through economic activities to improve the quality of life. In the same vein, the morals, values, cultures and social needs of different sectors of society have to be considered when decisions and policies are made.

f. Statutory environment

This environment focuses on the legal rights of local authorities to promulgate by-laws or regulations with due consideration to the limitations of power granted to them by higher levels of government.

g. Financial environment.

This impacts on the financial ability of a local authority to provide services for the local communities and this further impacts on the ability of the local communities to pay for these services. The main source of income for local authorities is tax on fixed property, levies on water, electricity and refuse removal, government grants and subsidies. It also relies on the number of economically active inhabitants in the area for revenue.

h. Demographic environment

The demographics of an area in terms of the size of the population, composition, racial groups, movement of people, etc .influence local government decisions and policies on development.

4.10 THE POWERS AND FUNCTIONS OF LOCAL AUTHORITIES

Over the years, local authorities have been performing a variety of functions ranging from refuse removal to township development. It was also customary in those early years for local authorities to carry out functions that are associated with central and regional governments. In fact, local government was the catalyst for the establishment of central and regional governments. Against this backdrop, local government forms an integral and important part of the daily lives of South Africans.

4.10.1 Status and objectives of local authorities

The legislative and executive powers of local authorities are vested in the local councils. Local authorities have the right, on their own initiative and within the parameters of the Constitution, to self-existence, and to manage the affairs of their constituencies in whichever way they see fit, as long as they satisfy the needs of their communities in the most efficient and effective manner. In the same vein, the ability or right to exercise their powers to perform their duties shall neither be impeded nor compromised by national or provincial government.

To this end, local authorities should, therefore, strive to achieve, within their financial and administrative capacity, the following objectives:

- The promotion of democratic and accountable government for local communities;
- The promotion of social and economic development;
- The promotion of a safe and healthy environment;
- The encouragement of citizen participation in local government matters.

In essence, local authorities have been given developmental tasks in two senses:

- firstly, they are expected to organise and manage their administrations, and to adopt budgeting and planning strategies that will give priority to the basic needs of citizens and promote their socio-economic development;
- secondly, they are obliged to participate in both national and provincial development programmes in the spirit of co-operative governance.

In return, national and provincial governments should support and develop the capacities of local authorities so that they can manage their own affairs. Furthermore, the constitutional arrangements seek to protect local governments from undue interference from provincial governments.

4.10.2 Powers and functions of local authorities.

In terms of the Constitution, the powers and functions of local authorities are clearly outlined. Schedule 4, Part B, lists the following as local authority matters:

“...air pollution; building regulations; child care facilities; electricity and gas reticulation; fire fighting services; local tourism; municipal airports; municipal planning; municipal health services; municipal public transport; municipal public works; pontoons; ferries; jetties; piers; and harbours; storm water management systems in built-up areas; trade regulations; water and sanitation services.”

Schedule 5, Part B, lists the following as further local government matters:

“... beaches and amusement facilities; billboards and the display of advertisements in public places; cemeteries, funeral parlours and crematoria; cleansing; control of public nuisances; control of undertakings that sell liquor to the public; facilities for accommodation care and burial of animals; fencing and fences; licensing of dogs; licensing and control of undertakings which sell food to the public; local amenities; local sport facilities; markets; municipal abattoirs; municipal parks and recreation facilities; municipal roads; noise pollution; pounds; public places; refuse removal; refuse dumps and solid waste disposal; street trading; street lighting; water reticulation; traffic and parking.”

Some of the functions listed above are positive service functions, such as, public health and public works. Examples of regulatory functions include building regulations, abatement of nuisances and inspection of abattoirs.

Ismail and Mphaisha (1997) classify local authority functions into the following broad categories:

- Town-planning
- Administrative functions
- Financial and accounting
- Community development (including health, education, housing and amenities)
- Security (including civil protection, ambulance services, traffic and licensing)
- Engineering and public works
- Transport
- Environmental functions
- Economic development.

The general classification of local government services is followed in most local authorities.

Community services

Community services are provided by local authorities for which no direct service charges are levied on consumers. Instead, these fees are collected from them indirectly through the payment of taxes.

Security services

These services are aimed at protecting the local inhabitants during or after a crisis. They include law enforcement and proactive measures such as civil protection measures and traffic control services.

Subsidised services

These are agency services provided by a local authority on behalf of other levels of government. In these cases, central or provincial governments will make transfer payments to local authorities for performing services on their behalf.

Commercial services

These are rendered according to business principles with the aim of making a profit.

Environmental services

These are essential services since they deal with the protection of the environment. These are not only restricted to pollution control, but also include the protection of the physical environment and its natural resources within the local authority area. It is not possible to levy a direct charge on the local communities because it is simply impossible to measure consumption levels.

Services of convenience

These are rendered for convenience purposes and include recreational facilities, swimming pools, public parks and gardens and municipal ablution facilities. These services are aimed at creating a relaxed and comfortable living environment for citizens.

Economic services

These are provided on a cost- recovery basis without the aim of profit maximisation or falling into debt.

The powers and functions of local authorities as autonomous bodies are outlined in the Constitution. Local authorities may function as independent entities as long as they govern within the framework of national and provincial legislation. In view of the fact that local government is that level of government that is closest to the people, it is reasonable to assume that local authorities have a very important function to perform in delivering quality services to their communities from a qualitative and quantitative point of view.

4.11 MUNICIPAL BOUNDARIES

The Constitution of South Africa requires that government legislation must establish the criteria used in determining the category of an area, ie. when an area should have a single Category A municipality (a metropolitan area), or a both Category B (a local municipality) and Category C (a district municipality). National legislation establishes criteria and procedures for the determination of municipal boundaries by an independent authority – the *Municipal Demarcation Board*.

4.11.1 The municipal demarcation board (mdb)

Main functions of the Board.

- The main function of the Board is to determine municipal boundaries in accordance with the Municipal Demarcation Act and other appropriate legislation enacted in terms of Chapter 7 of the Constitution.
- The other appropriate legislation is the Municipal Structures Act.
- The general powers of the Board are those commonly assigned to jurist persons, *inter alia*,
 - ▶ employment
 - ▶ hiring of services
 - ▶ acquiring or disposing of rights in or to property
 - ▶ performing legal acts
 - ▶ to sue and be sued.
- The Board may not borrow money (because Parliament must fund it) and it may require a municipality to provide it or its committees with facilities available to that municipality, eg. for purposes of holding a meeting.

Qualifications of Board members.

Members of the Board must be South African citizens and have qualifications, or experience in, or knowledge appropriate to one or more of the following:

- Local government generally
- Development economies

- Integrated development planning
- Community development
- Traditional leadership and traditional communities
- Local government and municipal administration
- Municipal finance
- Municipal services
- Social and economic geography
- Town and regional planning
- Legal and constitutional matters affecting local government
- Land survey, cartography and geographic information systems
- Public health care, or
- Transport planning.

Disqualification of members.

Individuals may be prevented from becoming members of the Board under the following circumstances:

- an unrehabilitated insolvent
- a person who is placed under curatorship
- a person who is declared to be of unsound mind by a court of justice, and
- a person who after 4 February 1997 has been convicted of an offence and sentenced to imprisonment without the option of a fine for a period of not less than 12 months – however, this disqualification ends five years after the prison term has been served.

Categories of municipalities.**Category A municipality.**

Criteria for Category A municipalities:

- Areas of high population density such as towns and cities
- An intensive movement of people, goods and services
- Extensive development
- Multiple business districts and industrial areas.

Category A municipalities are recognised as such when they have Exclusive municipal executive and legislative authority in their area. The legislative authority is contained in the Constitution, under Sections 43(c), 151(2) and 156(2)

Category B municipality.

Category B municipalities have an executive and legislative authority in an area that has more than one municipality. In terms of the Municipal Structures Act , a category B municipality is a local council. It has no constitutional guarantee for a specific “bundle” of executive and legislative powers, because the totality of executive and legislative authority in a wider area (district) must be shared between all the category B municipalities in that district, and the category C municipality for the district.

Category C municipality.

Category C municipalities have an executive and legislative authority in an area that includes more than one municipality. The category C municipality has primacy over a category B Municipality. The wording in a category C municipality does not include the word “share” which implies that a category B gets a share of the executive and legislative authority of a category C municipality.

4.11.2 TYPES OF MUNICIPALITIES.

Section 155(2) of the Constitution states that the different types of municipalities must be defined within each category. The types of municipalities for each of the three categories are subdivided into two basic groups, viz. types with executive mayors and those with collective executive system (executive committees)

Category A types.

There are eight types of category A (metropolitan municipalities). They are, municipalities with:

- a. a collective executive system
- b. a collective executive system combined with a sub-council participatory system
- c. a collective executive system combined with a ward participatory system

- d. a collective executive system combined with both a sub-council and a ward participatory system
- e. a mayoral executive system
- f. a mayoral executive system combined with a sub-council participatory system
- g. a mayoral executive system combined with a ward participatory system
- h. a mayoral executive system combined with both a sub-council and a ward participatory system.

As indicated above, the collective executive system means an executive committee. The mayoral executive system means there is no executive committee and the mayor takes the place of that committee, *ie* it is the executive mayor system. Where there is no executive committee or executive mayor, the type is said to have the *plenary system*, *ie*. all executive power vests in the council.

Category B types.

There are six category B municipalities (the local municipality) and these comprise a municipality with:

- a. a collective executive system
- b. a collective executive system combined with a ward participatory system
- c. a mayoral executive system
- d. a mayoral executive system combined with a ward participatory system
- e. a plenary executive system
- f. a plenary executive system combined with a ward participatory system.

Category C types.

There are only three types of Category C or district municipalities, and include municipalities with:

- i. a collective executive system
- ii. a mayoral executive system
- iii. a plenary executive system.

Because of its size, composition and functions, it is not appropriate for a Category C (district) municipality to have wards and therefore, it can have neither the ward committee nor sub-council system.

From the above exposition, it becomes clear that only types with the ward committee or sub-council systems, or both, need to be delimited into wards because wards are the basis for these structures.

4.11.3 Provincial powers

The different types of municipalities are determined by provincial authorities in terms of appropriate legislation, to wit, Section 104(1)(b)(iii) of the Constitution. Each province is responsible for establishing municipalities within the province. This is an executive and not a legislative power.

4.11.4 Establishment: process and procedures.

In terms of the Municipal Structures Act, MECs responsible for local government carry out this function. The procedure involves, *inter alia*.

- Consulting with organised local government and the existing municipalities affected by the proposed establishment, and giving written notice thereof to those parties,
- Publishing a notice in the Provincial Gazette establishing a municipality in each municipal area which the Demarcation Board has demarcated.

Whenever a municipality is disestablished or has its boundaries amended, a number of serious consequences are likely to arise, for example, are by-laws still operative, do loans fall away (to the loss of the lender, can rates and fees still be collected, what happens to civil litigation and criminal prosecutions in progress, are staff left without an employer, etc? Issues like these cannot simply be ignored. These consequences are legislated for in the Municipal Structures Act.

ACTIVITY

Trace the provisions made for the above consequences in the Municipal Structures Act.

4.11.4.1 Number of councillors

Where must there be wards?

The determination of the number of councillors is key to the delimitation of wards which is the responsibility of the Demarcation Board. Municipalities must have 50% of the councillors elected according to proportional representation and 50% to represent wards. In terms of the law, the number of councillors must not be:

- fewer than three or more than ninety councillors if the municipality is a local or a district municipality; or
- more than 270 councillors if it is a metropolitan municipality.

However, there may be different formulas for the different categories of local authorities at the discretion of the MEC concerned but, within certain limitations:

- a deviation may not be more than three councillors if 30 or fewer councillors have been determined by the formula; and
- if fewer than seven councillors have been determined, that number may not be increased. If, however, more than 30 councillors have been determined in terms of the formula, the MEC is not permitted a deviation exceeding 10% of the number so determined.

In the case of district municipalities:

The members of a district council are partly elected and partly appointed by the local councils within the district municipality's area. In some districts there are district management areas which are parts of a Category C area, but are not viable enough to be a municipality and declared as such by the Demarcation Board. There are many rural areas which are simply too poor to be able to afford a municipality of their own. In such cases:

- 60% of the total number of councillors determined for the district council (fractions disregarded), before the MEC undertakes any variation of the number,

- must be allocated to the local councils and district management areas in the district;
- councillors must also be proportionally elected by the voters on the district municipality's segment of the national common voter's roll, to proportionally represent the parties contesting the election in that district; and
 - the number of proportionally elected councillors is determined by subtracting the 60% referred to above from the total number of councillors determined in terms of the Minister's formula.

Ward delimitation.

In the case of boundary demarcations, wards are delimited by an independent authority. The term "delimitation" refers to determining boundaries of areas within which voters may cast their votes. Wards only have to be delimited for category A and B municipalities and the number of councillors is determined before wards are delimited, which means that the number of wards in a metropolitan area or local municipality that must have wards, must be equal to 50% of the total number of councillors so determined.

Delimitation criteria.

The Demarcation Board, after consulting with the IEC, must delimit a municipal area into wards. Each ward must have approximately the same number of voters.

Publication of delimitation.

The Board must publish its delimitation of wards for a municipality in the Provincial Gazette for that province. If any person is aggrieved by a delimitation, he or she may, within 14 days of publication, lodge an objection with the Demarcation Board which is obliged to consider all objections, and then confirm, vary or withdraw its delimitation. If a delimitation is withdrawn, although the Municipal Structures Act is not clear on the point, the process outlined above must be repeated.

This section focused on a synopsis of the determination and establishment of municipal boundaries for the purpose of delimitation. It also gave an insight into the constitutional

foundation for the demarcation of municipal boundaries, as well as the criteria, procedures and work methods applied in the demarcation of such boundaries by an independent Municipal Demarcation Board.

4.12 MUNICIPAL ELECTIONS, COUNCILLORS AND STRUCTURES

4.12.1 Municipal elections.

As already discussed in the previous chapter, the Demarcation Board, after consultation with the IEC for purposes of elections, must delimit all municipalities that have wards, into wards. Once this has been done preparations can be made for local government elections. Elections for local government in South Africa take place every five years.

The voters' roll

Voter's rolls are compiled for every local authority area by a voter's roll officer appointed by the MEC of a province. Usually the national voter's roll is used as a basis for the local voters' roll. Sometimes adjustments need to be made in view of movement in the population from place to place. The requirement is that the local voters' comprises people who live and work in a particular area.

A voter's roll is a list compiled alphabetically by surname per ward and voting district of all people who may vote in an election. Additional information contained in the voter's roll are:

- A unique serial number for each name
- The identity number of the applicant
- The address of the applicant
- The basis for qualification of entitlement

When the voter's roll is completed, a notice is published so that voter's can verify their registration and amend any incorrect information on the roll. All claims and objections are considered by a revision court which may change the roll accordingly. The court then certifies the amended roll which becomes the official voter's roll.

Qualification as a voter.

In terms of the Local Government Transition Act, to qualify as a voter a person must be:

- A South African citizen
- Not a South African citizen, but granted the right to exercise the franchise in terms of an Act of Parliament
- At least 18 years old
- An ordinary resident within the area of jurisdiction of a local authority or liable, under the law to pay rates, rent, service charges or levies to the local authority
- Mentally healthy.

People detained under the law for drug dependency and those serving a prison sentence for murder, robbery or rape may not be registered as voters.

Nomination and registration of councillors

Any citizen who is qualified to vote for a particular municipal council has the right:

- To stand as a candidate in an election for that council, except a person disqualified in terms of Section 158(1)(a) of the Constitution;
- If elected, to become and remain a councillor, except a person disqualified in terms of Section 158(1)(a), (c), (d) or (e) of the Constitution.

Only the MEC of a province may exempt a person from disqualification as a member of the municipal council, but only when there is no substantial conflict of interest, or any irreconcilable conflict between the duties of the person in the capacity as described in Section 158(a) of the Constitution and the person's mandate or duties as a member of the municipal council.

Nomination may take place in two ways: firstly when a person is nominated for election as a councillor in a ward, and secondly, on proportional representation where lists of candidates are submitted by political parties to the electoral officer.

A person in a local area may not be nominated if s/he:

- Is a member of the National Assembly, Senate or a provincial legislature,
- Is serving a prison sentence of more than 12 months without the option of a fine,
- Is an unrehabilitated insolvent,
- Holds any office of profit with certain exceptions,
- Is of unsound mind and has been declared as such by a competent court,
- Owes the local authority money for more than three months,
- Is an employee of the local authority, unless the necessary exemption has been obtained,
- Has been nominated as a candidate for a ward or is a candidate on any party list for the same election and the same local government,
- Has been nominated for election as a member of another local authority.

Nomination of candidates is done in writing on a prescribed form which must be signed by the candidate or his/her agent and the people doing the nominating. Nominations must be submitted to the returning officer well in advance of nomination day so that the returning officer has sufficient time to consider the validity of nominations. Invalid nominations are rejected by the returning officer. When all nominations have been received, the returning officer compiles a list of all nominated candidates and posts this list for display until 12h00 on nomination day when:

- the names of rejected candidates are announced
- the names of candidates whose nominations were accepted and who are deemed elected (if one person is nominated for a ward, there is no election in that ward)
- the names of candidates whose nominations were accepted and who will face election (where more than one candidate is nominated)

Electoral officers

Local authorities provide electoral officers to manage and administer the elections. The Municipal manager of a local authority acts as the returning officer and has to appoint the following electoral officers:

- Deputy returning officer (s)

- Presiding officers (in charge of voting stations)
- Voting officers
- Translation officers/voter's assistants
- Counting officers
- Any other electoral officers necessary.

Elections

Preparations for elections are the responsibility of the electoral officers under the guidance of the returning officer. On election day, presiding officers have to seal the ballot boxes in the presence of candidates or their agents half an hour before voting starts. As soon as the ballot boxes from the polling stations have been delivered to the returning officer, but not later than 09h00 on the day following election day, the votes are counted. The following people are authorised to be present during the counting process:

- Returning and electoral officers
- The presiding officer and other electoral officers
- Candidates and their appointed agents
- Police on duty.

When the counting is over, the returning officer must determine which candidates have been duly elected and a public announcement is made thereof.

4.12.2 Local government councils.

Once councillors have been elected, the council must be formally constituted at the first meeting of the newly elected councillors. In terms of procedure, the City Manager must call the first meeting of the council within 14 days of the council being declared elected. The chairperson of council, who is also the Speaker of council, is elected at this meeting.

The role of the speaker

The speaker:

- presides at meetings of the council

- performs the duties and exercises the powers delegated to the speaker by the council
- ensures that the council meets at least quarterly
- maintains order during meetings
- ensures compliance in the council and council committees with the code of conduct
- ensures that council meetings are conducted in accordance with the rules and orders of the council.

Functions of councillors

Councillors have no legal or formal powers to decide local matters, but they do perform the following functions:

a. Individual functions:

- They represent their constituencies and their interests.
- They are responsible for educating their voters in local government matters.
- As politicians, they have to resolve conflicts between people to maintain social order.
- In their role as ombudsman, they have to defend the rights of their voters.
- As public relations practitioners, councillors must at all times behave in such a way that they promote the good image of the community.
- In order to ensure democratic government, councillors need to motivate their voters to be good citizens.

b. Collective functions: Councillors are expected to, on a regular basis, review:

- the needs of their communities
- their priorities to meet those needs
- processes for involving the community
- organisational and delivery mechanisms for meeting the needs of the community
- overall performance in achieving the objectives of local government.
- A municipal council must develop mechanisms to consult the community organisations in performing its functions and exercising its powers.

A further collective function of councillors is to participate in council and committee business. It is in their collective capacity that councillors exercise the powers of council. This function requires councillors to:

- consult with their people
- discuss local matters with one another
- learn to know their local areas well
- study the agendas of council meetings
- request, if necessary, more information from the town clerk
- participate in council and committee meetings in a sensible way
- learn as much as they can about local government.

Executive mayor

The executive mayor may be described as a one-person executive committee. On the one hand, the executive mayor is a policy formulator who investigates needs, formulates criteria and places proposals for strategies, plans and services before the council. On the other hand, s/he is both a monitor and manager who ensures that action occurs and in so doing exercises delegated powers. The danger to local government would be if the executive mayor was given the opportunity to usurp power.

Only certain types of metropolitan, local and district councils may have executive mayors.(EM). The EM is elected for a particular term of office unless removed from office by a resolution of council.

The functions of the EM are to:

- receive reports from the committees of council and to forward them , with recommendations, to the council, except if the EM can dispose of a matter in terms of delegated powers,
- identify the needs of the municipality;
- review and evaluate those needs in order of priority;

- recommend to the municipality strategies, programmes and services to address priority needs through the IDP, and the estimates of income and expenditure, taking into account any
- apply national and provincial development plans; and
- recommend and determine the best way, including partnership and other approaches, to deliver those strategies, programmes and services to the maximum benefit of the community.

The powers of the EM are to:

- develop criteria for the implementation of policies and strategies for local government governance,
- evaluate progress against the key performance indicators,
- review the performance of the municipality in order to improve the economy, efficiency and effectiveness of the municipality; the efficiency of credit control and revenue and debt collection services; the implementation of the municipality's by-laws,
- monitor the management of the municipality's administration in accordance with the directions of the municipal council,
- oversee the provision of services to communities in the municipality in a sustainable manner,
- perform such duties and exercise such powers as the council may delegate to the EM;
- prepare and present annual reports to council on the governance of the municipality.

The mayor (non-executive)

The non-executive mayor is elected by council at the same time as the members of the executive committee. The functions attached to this post include:

- Presiding at meetings of the executive committee
- Performing duties, including ceremonial functions, and exercising the powers delegated to the mayor by the council or the executive committee.

Deputy mayors

There are two types of deputy mayors, viz. the deputy executive mayor and the deputy mayor. These deputy posts are tied to the types of municipality. Both types are elected by the council. Neither has any statutory powers, but both assume the powers of the executive mayor/mayor when he/she is unavailable.

4.12.3 Council meetings.

Councils and their committees govern local communities through the meetings they hold. Meetings take place according to the agendas compiled by the officials. All matters of local government which must be decided by councils and their committees are presented in the form of reports written by officials. These reports are attached to the agendas of meetings.

The way in which meetings take place is prescribed by standing orders. Standing orders are rules which must be followed to ensure orderly and effective meetings. Orderly and effective meetings will result in good decisions. Good decisions will result in good government, and good government is good for the people.

Speakers of councils have to apply the standing orders to ensure orderly and effective meetings. Everybody present in a meeting has to respect the speaker's decisions about matters of procedure. If people present in meetings do not behave properly, the speaker can order them to leave the meetings. Depending on the availability of room, council meetings are open to the public. This means that the voters are allowed to attend meetings to observe what takes place. Members of the public may not, however, participate in meetings, i.e. they may not speak in meetings.

Committee meetings are something different. Most of the time they are confidential and may not be attended by the voters.

A very important aspect about local government is that no individual councillor has any particular powers. All legal powers reside in the council as a juristic body. The body of councillors decides local matters as a group, as a council. No individual councillor can

take any legal decision on local matters. Nor may he/she interfere with local government employees.

4.12.4 Code of conduct for councillors.

In terms of the Municipal Structures Act, an enforceable code of conduct for members of a local government is provided by law.

This code of conduct addresses the following matters:

- General conduct of councilors
- Attendance of meetings
- Sanctions for non-attendance of meetings
- Disclosure of interests
- Personal gain
- Declaration of interests
- Full-time councilors
- Rewards, gifts and favours
- Unauthorised disclosure of information
- Intervention in administration
- Council property
- Duty of chairpersons of councils

4.12.5 Municipal structures

The executive committee.

An executive committee of a local authority comprises 20% of the total number of councillors or 10, whichever is the lowest, and the composition of the committee must be such that the parties and interest on the council are proportionally represented. Thus, if there are 90 councillors, the executive committee can consist of only 9 members.

The powers and functions of the executive committee are to:

- identify and develop criteria in terms of which progress in the implementation of the strategies, programmes and services for local communities can be evaluated, including key performance indicators which are specific to the municipality and common to local government in general,
- evaluate progress against the key performance indicators,
- review the performance of the municipality in order to improve the economy, efficiency and effectiveness of the municipality; the efficiency of credit control and revenue and debt collection services; and the implementation of the municipality's by-laws,
- monitor the management of the municipality's administration in accordance with the policy direction of the municipal council;
- oversee the provision of services to communities in the municipality in a sustainable manner; perform such duties and exercise such powers as the council may delegate to it; and
- report annually on the involvement of communities and community organisations in the affairs of the municipality and to ensure that regard is given to public views and report on the effect of consultation on the decisions of the council.

Metropolitan sub councils

The following types of metropolitan municipalities may establish sub councils. A municipality with:

- a collective executive system combined with a sub council participatory system
- a collective executive system combined with both a sub- council and a ward participatory system
- a mayoral executive system combined with a sub council
- participatory system
- a mayoral executive system combined with both a sub council and a ward participatory system.

A sub council has such duties and powers as the metro council may delegate to it , and may make recommendations to the metro council on any matter affecting its area. A sub

council may advise the metro council on what duties and powers should be delegated to it. The powers of sub councils are as follows:

- local rezoning, departures and consent uses in terms of planning laws and the enforcement of zoning or town planning schemes.
- The abatement of public nuisances.
- Control over undertakings that sell intoxicating liquor to the public.
- The licensing of and control over undertakings that sell food to the public.

It is also possible that from time to time, additional responsibilities shall be delegated to sub councils.

Ward committees

In terms of the Municipal Structures Act, only metropolitan and local municipalities established as a type with ward committees, may establish such committees. In the case of some types, there can be both sub councils and ward committees. The object of a ward committee is to enhance participatory democracy in local government.

The function of ward committees include:

- To make recommendations to the ward councillor or the council or the executive mayor or executive committee on any matter affecting the ward ,

The municipal administration

It is incumbent upon all functionaries in the local authority, be it political office-bearers or public official, to behave in a manner that promotes high moral and ethical values, transparency and openness. Therefore, the local public administration must be governed by the democratic values and principles embodied in the Constitution.

The municipal manager

The municipal manager heads the administration of the local authority and acts as the accounting officer for the municipality. This functionary ensures that the needs of the

local communities are fulfilled in so far as service rendering is concerned. The quality of services must be of a high standard. The needs and requirements of the local council and the administrative structure of the local authority is a further responsibility of the municipal manager. S/he must ensure that policies, decisions, rules and regulations of council are implemented; that suitable and qualified personnel are available to manage the local authority; that proper work methods and procedures are in place; that financial activities are transparent and officials stand accountable for all their actions and/or inactions to the local communities.

4.13 LOCAL GOVERNMENT FINANCING

Financing local government activities is considered an overriding factor in local government management and administration. Without sound financial management systems, local government will be forced out of business. It is incumbent upon local authorities to ensure that all role players and stakeholders have a sound knowledge of local government financial management.

4.13.1 Promotion of economic development

Local government finance is geared towards promoting economic development in the local authority. Therefore, every local authority must conduct its affairs in an effective, economic and efficient manner with a view to optimising limited resources in meeting its objectives. Planning is an essential feature in promoting economic development. In terms of statutory obligations, local authorities are required to prepare integrated development plans. These long-term plans set out their development strategies and action plans which are required to achieve their objectives. Financial plans are prepared by local authorities taking into consideration the integrated development plans (IDP)

4.13.2 Sources of local government revenue

In terms of Section 229 of the Constitution, a local authority may impose rates on property and surcharges on fees for services provided by, or on behalf of the local authority. It may also, if authorised to do so by national legislation, impose other taxes, levies and duties appropriate to local government. No local authority may impose income

tax, VAT, general sales tax or customs duty. The main sources of revenue for local authorities are as follows:

Assessment rates

A major source of revenue for local authorities comprises rates on property owned by individuals and /or companies. The assessment rate is income which a local authority receives from a charge on the assessed value of fixed property in its area of jurisdiction. It is a property tax.

Valuation of property

The tax base of the rating system is the assessed value of fixed property. This value is normally considered to be the market value of the property, although in many local authorities this is not the case. A value which is much lower than the true market value is often assessed.

The assessed value is determined by professional valuers who may be:

- independent agents whose services are contracted by the local authority;
- officials of the local authority in question;
- officials in the service of the relevant provincial administrations.

Valuations may take place every three to five years.

Methods of determining assessment rating

a) Site rating

This is when a rate is imposed on the assessed value of land only. Whether there are improvements on the land or not makes no difference as far as the levy rating is concerned.

b) Flat rating

A flat rating system implies imposing a single assessment rate on the total value of a property, that is, on the combined value of the land and improvements, if any. This method results in a higher level of income for the local authority.

c) Composite rating

A composite rating system implies that both land and improvement values are rated, but not to the same extent. Although it is possible in theory to have a high rate on improvements and a low rate on land values, the opposite generally happens in practice.

Service charges

Service charges are imposed on households, businesses and other consumers of the various services which are provided by local authorities, eg., electricity, water, cleaning, sewerage and transport. The basic principle is that those who use the services must pay for them.

Intergovernmental grants

The criteria for a grant to a local authority will be based on the following:

- It should benefit the poor and not those who have sufficient financial means
- It should be perceived as fair and reasonable
- It should be designed to enhance the efficiency of the service-provider
- It should create an incentive for service providers to provide appropriate levels of service to all who require them
- It should enhance accountability and efficient allocation of resources
- It should work in proper conjunction with the local tax and tariff system
- It should be easy to administer
- It should be reliable and not just subject to sudden change.

Loans and capital finance**Capital finance**

Capital projects can be an expensive business for local authorities. It may not be possible for the local authority to finance all the projects out of the same source of income as those which are used to finance operating expenditure. Local authorities usually raise loans to finance their capital expenses from various sources, namely, higher levels of government, capital development fund, foreign funding agencies, industry, the Development Bank, etc.

Loans for bridging finance

Although is not allowed in terms of legislation, these loans may be raised by a local authority during a financial year in order to finance current expenditure in anticipation of the receipt of revenue in that particular financial year, and not as a continuous and unlimited revolving credit.

Loans in foreign currency

A local authority may only raise loans expressed in a foreign currency or incur a liability or risk payable in a foreign currency with the prior approval of the Minister of Finance and on such conditions as he/she may determine.

Investments

Local authorities are allowed, in terms of appropriate legislation and with the approval of the MEC invest access funds with banks and /or financial houses in the best interest of the local authority concerned.

4.13.3 The budget

A local authority's budget may be regarded as a financial plan serving as a pattern for control over future operations, hence any estimate over future costs. It is a systematic

plan for the utilisation of manpower, material and financial resources in the most efficient and effective way to achieve the objectives and to provide the services expected by the local communities of that area.

In the case of a local authority, the budget period is normally for the financial year which runs from 1 July of one year to 30 June of the following year. Expenditures are classified into two distinct categories, namely, capital and operating.

Capital expenditure

Capital expenditure may be defined as expenditure that is incurred in the acquisition of a durable asset or in the extension of the useful life of such a durable asset, in regard to any long-term work., eg. Building a house or office block, constructing a bridge or road, upgrading a motorway, a water reticulation network or the purchase of motor vehicles and machinery.

To be included in a capital budget, the asset should have a lifespan of three years or more. It is often financed out of loan finance. This, however is not a fixed rule because some capital projects will, under certain circumstances, be financed out of operating income. For example, if a local authority wishes to purchase an overhead projector, it would not be financially viable to make this purchase out of loan finance. Therefore, it would be financed out of the operating budget, although this is a capital item.

Operating expenditure

Operating expenditure refers to the day-to-day expenditure of a local authority. Figure 5.1 is an example of a typical income and expenditure budget.

The Institute of Municipal Treasurers and Accountants (IMTA) has over the years worked on the standardisation of accounts used by local authorities as indicated below:

- Salaries and allowances - remuneration packages
- General expenses - operating expenses.
- Repairs and maintenance - maintenance work.

- Capital charges - loan repayments and interest.
- Contributions towards capital outlay - purchase of assets using operating income.
- Contributions - bad debts, loss of rental income, maintenance and renewal.

Steps in the compilation of a capital budget

- d. Determine needs for capital works.
- e. Compile a capital needs schedule.
- f. Prioritise capital needs.
- g. Compile a capital programme.
- h. Compile a capital budget.
- i. Refer to Council for approval.

Budget approval

In the case of metropolitan councils, the budget stage can start with a planning exercise as early as November. During January and February, the budget process sees the capital, staff and operating budgets being compiled by the various departments. Smaller local authorities tend to start the process a month or two later than metropolitan councils. All local authorities aim to have their first drafts compiled by the end of March.

The Minister of Finance will issue the budgetary limitation instructions for local authorities during April of each year. These instructions set a limit of growth on the capital and operating budget above that of the previous year. Thus, if a small local authority has a capital budget of R 10 million for the current financial year and the permissible growth is 10%, then that local authority may have a maximum capital budget of R 11 million for the next financial year.

During April and May, the council's Finance or Executive/Management Committee will consider the draft budget and, taking into account the limits set by the Minister of Finance, will make adjustments to the draft budget. This process requires reprioritisation of the budget, since many of the items first proposed have to be cut from the budget or the level of expenditure on that item will have to be greatly reduced. For example, some projects will be delayed by several months, thereby reducing the capital expenditure

during the financial year. In several instances, the project will continue into the next financial year. This has the result of spreading the cost of the project over two or more financial years.

Most local authorities aim to have their final drafts ready by the beginning of June. At this stage the Executive Committee will decide on the tariff increases of the various services which the local authority renders. Once these increases have been finalised, the rate in the Rand for assessment rates will be determined. The Executive Committee must have the draft budget ready for submission to the council before the end of June. The council will normally debate the draft budget before final approval.

In terms of law, local authorities may only incur expenditure in accordance with their approved budget. To this end, sound budget management and administration cannot be overemphasised.

Objectives of sound budget management and administration

- to ensure that council realises its estimated income
- to ensure that any expenditure actually incurred is covered by the approved budget of the council
- to ensure that the council receives due value for any expenditure it incurs.

The importance of the accounting system in sound budget administration

Control of expenditure is possible only if the accounting system used and the budget are both accurate and reliable. For this reason, all accounting and financial transactions should comply with the Public Financial Management Act and Treasury Instructions. The accurate classification of expenditure is vital in sound budget management and administration. The meaningful use of the Line-item budgeting system as a means of controlling expenditure requires a sufficient number of clearly-distinguishable line items, and a system which ensures as far as possible that any expenditure actually incurred is charged to the line item to which it relates.

Role of the Treasurer

The Treasurer is responsible and accountable for sound management and administration of the accounting system, the implementation of the budget and overall control and monitoring of all financial activities. S/he should be able to provide the city manager and council timeously with accurate financial and accounting records, deviations from the budgetary provisions, misappropriation of funds and financial maladministration and mismanagement.

The Treasurer will have to provide the various departments with regular statements of income and expenditure, preferably in summarised form.

These statements indicate not only what has actually been spent or what has been received by way of income for the period concerned, but also how the expenditure or income complies with the relevant portion of the budget.

The latest computer technology and software applications make the control process a little easier because they can produce exception reports of any variances in the budget whenever they are required.

Role of the executive committee

The executive has full control over the expenditure as approved in the operating budget. In the case of capital expenditure, the inclusion of an item in the estimates is not necessarily sufficient authority for the head of department to spend the amount. But the provision for funds for a capital project must be formally authorised or voted by a full council, subject to compliance with certain formalities such as borrowing powers granted by the Premier and any approval from higher levels of government. Because the Executive Committee is in control of all expenditure, its approval must first be obtained for the acceptance of tenders for work to be carried out and goods and services to be rendered. Some of the work of the Executive Committee may be delegated to officials, but final control still vested with the Executive Committee.

Reporting on savings and excesses

Departments are expected to report all savings and excesses to the council. Minor excesses are usually rectified by means of controlled virement (the transfer of items from one account to another) , or at the revision stage of the budget. In exceptional cases, if savings are not possible or if overspending may occur, permission has to be obtained from the State Treasury to exceed the allocated budget.

CHAPTER 5

ETHICS AND GOVERNANCE CONSIDERATIONS FOR THE PUBLIC SECTOR

LEARNING OBJECTIVES

After studying this chapter you should be able to:

- define the concept “ethics”;
- analyse the importance of promoting ethical governance;
- list and explain the guiding values for ethical governance;
- explain the role of public officials and political representatives in establishing infrastructure to manage ethics in government;
- list and explain the various manifestations of unethical conduct;
- evaluate the possible remedies for unethical conduct;
- define the concept “human rights”.

5.1 INTRODUCTION

Politics and governance cannot be completely value free. No government can function efficiently and effectively without a set of directives that will steer it in the direction which society expects it to move. Although governments have different cultural, political and administrative environments, they often confront similar ethical challenges, and the responses in their ethics management show common characteristics. Public employees and politicians have contact with the same range of incentives for personal gain as people in other walks of life. They need to know the basic principles and standards they are expected to apply to their work and where the boundaries of acceptable behaviour lie. A concise, well publicised statement of core ethical standards and principles that guide public institutions, for example in the form of a code of conduct, can accomplish this by creating a shared understanding across government and within the broader community. To further combat unethical conduct specific systems and procedures must be in place.

Non-elected public servants exercise significant discretionary power in their everyday work - in their stewardship of public resources, at the interface with citizens, and in the context of policy making. Ethical standards are a key check and balance against arbitrary use of that public power. As such they are a key factor in the quality of governance. Without some ‘ethical barometer’ it is difficult, if not impossible, to measure changes in levels of corruption or misconduct in the public

service. Unethical governance costs society much more than money; it also leads to a lack of trust and confidence in the government, ultimately resulting in a lack of participation or involvement in government affairs.

Ethical governance and human rights are discussed in this chapter. The concept 'ethics' is defined, after which the promotion of ethical governance comes under the spotlight. Secondly, the guiding values for ethical governance, the management of ethics, as well as the manifestations of unethical conduct are discussed. It is important for any government to establish formal mechanisms and to utilise possible remedies to ensure ethical governance. These issues are highlighted. Lastly, the issue of human rights is examined.

5.2 Definition of terms

5.2.1 Ethics

The term 'ethics' is derived from the Greek word *ethos*, which in its different forms could mean either 'inner disposition' or 'morality'. Ethics can be defined as the science of morals system of a particular school of thought, the rules of conduct recognised in certain departments of human life, and the science of human duty. Ethics is also described as a set of principles of morals. This implies that ethics has to do with the application of moral values to the behaviour and actions of people; the 'that which should be done' parameter of human behaviour. In this respect, Andrews (1989:210) points out that ethics involves more than merely acting in accordance with the law. It pertains to the morality and attitude with which an action is taken. Fox and Meyer (1996:45) contribute by defining ethics as 'the process by which we clarify right and wrong and act on what we take to be right, i.e. a set or system of moral principles that is generally applied. Commitment to the public interest is a function of the institutional role of government managers and of the ethos of public service that this role entails.

Although opinions differ on what constitutes ethical behaviour, it usually refers to behaviour that conforms to generally accepted social norms and values. Such norms and values could include:

- Humaneness.
- Honesty.

- Justice.
- Reasonableness
- Freedom.
- Truth
- Decency.
- Integrity.
- Order.
- Fairness.

These norms and values also provide the basis for sensitivity to responsibility and accountability. It can be argued that these norms and values determine how a government will exercise authority in such a way that the interests and welfare of society are served.

In the public sector context, two dimensions can be differentiated, namely, an internal and an external dimension. An internal dimension is unique to individuals and is based on an individual's religious and other moral beliefs, values, and attitudes. On the other hand, an external dimension refers to groups, societies, and/or institutions. This pertains to the collective consciousness of groups of people, and is based on their cultural beliefs, norms, values, and attitudes.

5.2.2 Ethos

According to Andrews (1989:211) ethos may be described as “ a normative system within which specific rules, guidelines and prescriptions for acceptable actions are prescribed to those operating under the system.”

The aim of such a prescription is to realisation of the ideals characteristic of the community concerned. The ethos of a local government which is generally observed by councillors and officials in the execution of their duties, is the prevailing set of norms and values of the local community.

5.2.3 Morality

Morality is described as points of ethics, moral principles or rules and values that form an integral part of an individual's life or of a groups behaviour pattern. Moral

behaviour pertains to character or disposition, the distinction between right and wrong, good and evil in relation to actions, violations or character. It is also concerned with virtue and vice or the rules of right conduct. (Onions, 1970:1280)

5.2.4 Values

Values are described as abstract standards of a lasting nature which contain prescriptions of what is good and right for a particular community. As such, values are supported by norms which are coupled with group membership. Values can also be described as that which is valuable and important in life. (Andrews, 1989: 212)

5.2.5 Norms

Norms are rules or authoritative standards of customary behaviour. They are frequently accepted as custom or guidelines for acceptable and desirable action. (Anderws, 1989: 212)

5.2.6 Principles

Principles are defined as fundamental truths or laws and as moral rules or settled reasons of action. (Irvine, 1977: 774)

5.3 The promotion of ethical governance

Critical issues in government and politics ultimately involve moral choices and value judgements. Since government functions in a political context it must act in a way consistent with democratic and other values. In a democracy every individual has certain rights and freedoms. These rights and freedoms are incorporated in the constitutions of countries. There are, however, some common rights and freedoms that are necessary to uphold any democracy.

These include the following:

- Every governmental action must at any time be open to observation and investigation in order to judge these actions. Governmental actions should not be secretive but carried out in public

- The individuals or groups who observe or investigate governmental actions should be free to comment thereon. Freedom of speech and of the media plays an important role in this regard.
- Freedom of speech and movement ensure freedom of gatherings (e.g. political meetings) and association.

We can contend that in a democratic state certain ethical norms have to be adhered to, and those invested with power must keep this power in trust for the community. Such power should be used only to satisfy community needs that are important enough to be recognised and satisfied by government institutions. The administration of the country must be of such a nature that rule of law is always maintained for the purpose of good public management. This means that:

- The executive branches must not be allowed too wide and uncontrolled discretion, nor be able to act in an arbitrary way.
- All citizens are equal before the law and must be treated according to legislation.
- All courts of law must function independently from the legislative and executive institutions.

Action is necessary to ensure well-functioning public institutions and systems for promoting ethical conduct in the government. The Public Management Service (PUMA 1998) proposed the following actions:

- Developing and regularly reviewing policies, procedures, practices, and institutions influencing ethical conduct in government.
- Promoting government action to maintain high standards of conduct and counter corruption in the public sector.
- Incorporating the ethical dimension into management frameworks to ensure that management practices are consistent with the values and principles of government.
- Combining judiciously those aspects of ethics management systems based on ideals with those based on the respect for rules and regulations.
- Assessing the effects of public management reforms on government ethical conduct.

Furthermore, in terms of Section 234 of the Constitution of 1996, Parliament may adopt charters of rights in order to deepen the culture of democracy. Professional socialisation should contribute to the development of the necessary judging skills, enabling public officials to apply ethical principles in real situations. Training facilitates awareness of ethical issues and the development of essential skills for ethical analysis and moral reasoning. Impartial advice can help create an environment in which public servants are more willing to confront and resolve ethical tensions and problems. Guidance and internal consultation mechanisms should be made available to assist public servants to apply basic ethical standards in the workplace.

5.3.1 Guiding values for ethical governance

Values, norms, and trends in society have a direct bearing on the way government is functioning. It is therefore important to consider the various guiding values from society, which ultimately influence ethical governance. Some of these guiding values include political neutrality, constitutionalism, democratic values, economic values, prescribed guidelines, and guidelines derived from society. Each of these guiding values is discussed briefly below.

5.3.1.1 Political neutrality

Although public servants have the right to be a member or to serve in the management of a legally established political party, they are prohibited from acting as chairperson or speaker at a public political meeting. The Public Service Act 103 of 1994 provides a statutory framework for the non-participation of civil servants in active politics. Obviously questions would arise as to the reason for these stipulations. Aren't they oppressive? Is the much-coveted freedom of speech not imperilled by these stipulations? The non-participation of civil servants in politics is termed the doctrine of the neutrality of the public service. This doctrine implies two propositions: public servants must abstain from participating in political affairs, while they retain the right of casting their votes and of discussing political matters in private; they are bound to administer the policy of any party in power.

The origin of this doctrine is founded upon democratic principles. In any other type of state this doctrine will most probably not apply. In a state where the career system of public staffing is not practiced, the doctrine will likewise not apply. The basic requirements for a career service are that entrance into the service must be based on merit, that once appointed, an official must be granted permanence of tenure during satisfactory performance and good behaviour, and that an official must have the opportunity for promotion. Officials must adopt an attitude of neutrality concerning the policies they must execute.

In terms of Section 236 of the Constitution national legislation must provide for the funding of political parties participating in national and provincial legislatures on an equitable and proportional basis. Especially during national elections the neutrality of the state must remain above question.

5.3.1.2 Constitutionalism

In South Africa the Constitution is the supreme authority that provides for the basic values, rights, and obligations of all citizens, the state, and all public officials. It attempts to protect human rights (see Section 7 of this chapter), entrench democratic principles for governance, and ensure ethical conduct in public institutions.

In terms of constitutionalism there are basically three important principles, namely, political supremacy, public accountability, and tenets of democracy. These principles imply that government officials will not abuse their authority and that there will be joint consultation and deliberation with society. According to Section 195 of the Constitution some of the basic values and principles governing public institutions include the following:

- Accountability.
- Impartiality.
- Development orientation.
- Representiveness and participation.
- Fairness

- Public accountability.
- Efficiency and effectiveness.
- Professional ethics.

5.3.1.3 Democratic values

To achieve the objectives of democracy and create conditions under which each citizen will be able to achieve the greatest possible well-being, government should be organised in a manner that will allow transparent deliberation, consultation, and the exercise of discipline. In adhering to basic democratic values, government and political representatives will ensure that the views of different communities and role-players are considered in order to find fair solutions for conflicting viewpoints. Some of these democratic values are highlighted below.

5.3.1.4 Responsibility and responsiveness

Responsibility in its simplest form means the duty of a person to carry out a certain piece of work allocated to him or her. Responsibility can also mean the manner in these tasks, and which a person carries out tasks, the values he or she attaches to in what way he or she considers the values of other persons he or she comes in contact with while performing daily tasks. In democracies one of the purposes of government institutions is to improve the general welfare of the public. Therefore, the actions of political office-bearers and public servants must be to the advantage of the individual as well as the community. Tension can evolve because different values are held by different individuals and pressure groups (Henry, 1980:133). Office-bearers and officials should therefore weigh these values against the possible outcomes of their actions before taking decisions. The general benefit to the community should be more important than individual or group values and interests.

5.3.1.5 Openness and transparency

Openness and transparency concern the extent to which the functioning of government institutions is open to public scrutiny (Schwella et al., 1996:16). It requires mechanisms to ensure that all public processes and programmes are open to the public. The media plays a very important role in this regard.

Representation

From a South African perspective, the Constitution (Section 195[i]) stipulates that public institutions must reflect the composition of the population in management positions and in other occupational groups. Representation as a value requires that public institutions represent their clients (the public), empathise with them, and view problems from their perspectives.

Legitimacy

According to Fox and Meyer (1996:73), legitimacy is the perception among citizens that the government and its actions are legally and morally correct and acceptable. It is important that the actions of political representatives and public officials contribute to the acceptance of government decisions, programmes, and policies.

Accountability

In its broadest sense, accountability is an obligation to expose, explain, and justify actions. Public accountability demands that the actions of public institutions be publicised to encourage public debate and criticism.

5.4 Economic values

Economy is a term associated with the cost elements of an activity and the relationship between input and output. Economy ensures that input costs are minimised. Important economic values include the following:

- *Effectiveness*: the extent to which goals are achieved.
- *Efficiency*: the extent to which maximum output is achieved with the minimum input.
- *Productivity*: an economic measure of efficiency that summarises the value of outputs relative to the value of the inputs used to create them. It is also an overall indicator of how well an institution uses its resources to create its services and products.

5.5 Prescribed guidelines

In terms of ethical governance the following prescribed guidelines can be identified:

Legal rules: every action of public institutions must be within (*intra vires*) the limits of enabling acts and regulations as binding documents.

Fundamental rights: Chapter 2 of the Constitution lists the fundamental rights that are binding on all public institutions.

Codes of ethics: Chapter M of the Public Service Act 103 of 1995 sets out rules governing conduct. It reflects the honest desire of public employees to serve their respective clients with dignity and integrity.

Administrative justice: apart from the normative guidelines of public management, Section 24 of the Constitution provides for specific guidelines in adherence to administrative justice.

5.6 Guidelines derived from community values

Values and norms shape every community. In South Africa, with its complex social composition and different 'communities', it is necessary that government agencies and political office-bearers are sensitive to the various ethical and moral systems. To further complicate this matter, it is virtually impossible to quantify these values and they are also subject to change. These aspects make it very difficult to address societal problems with a specific policy directive. Other guidelines that could be derived from society include probity, religious doctrine and value systems, thoroughness, effectiveness and efficiency, and fairness and reasonableness.

As far as the last-mentioned guideline is concerned, government actions must always be fair and reasonable towards every citizen, irrespective of race, religion, or

language group. Answers to the following questions could point out whether government action is fair and reasonable, or not:

- Is it in conflict with national or specific legislation?
- Did the office-bearer or civil servant responsible for the action act without the necessary authority?
- Did the office-bearer or civil servant act in a manner perceived as fair and reasonable by the community?

Managing ethics

High standards of conduct in the public sector have become a critical issue for governments. Preventing misconduct is as complex as the phenomenon of misconduct itself, and a range of integrated mechanisms is needed for success, including sound ethics management systems. Public management reforms involving greater devolution of responsibility and discretion for public servants, budgetary pressures, and new forms of delivery of public services have challenged traditional values in the public service.

In addition, governments should make all efforts possible to eliminate possible causes of unethical behaviour. Some of these causes could include deficient control and accountability, complex legislation, and inadequate procedures and manuals.

There seems to be conflict between traditional values and the systems governing the behaviour of public servants, and the modern roles they are expected to fulfil. Public servants try to meet these standards, but there are weaknesses in the procedures for maintaining and enforcing them. As a result, people in public life are not always as clear as they should be about the boundaries of acceptable conduct.

Public employees operate in a changing world. They are subject to greater public scrutiny and increased demands from citizens. As a result they have to provide better and more responsive services, but within a context of stricter limits on resources. They also have to assume new functions and responsibilities as a result of devolution and greater managerial discretion, increased commercialisation of the public sector, a changing public/private sector interface, and changing accountability

arrangements. In short, they have to adopt new ways of carrying out the business of government. In Chapter 12 of the White Paper on the Transformation of the Public Service (Notice 376 of 1995), for example, guidelines are set out to enhance internal and external accountability. Steps are needed to ensure that more effective internal and external scrutiny is exercised.

While public management reforms have realised important returns in terms of efficiency and effectiveness, some of the adjustments may have had unintended effects on ethics and standards of conduct. Causes of conflict include:

- Changing relationships between public servants and citizens.
- Downsizing.
- Restructuring.
- Limited resources.
- Changing societal norms.
- Contracting out government activities.
- A devolved and discretionary management environment.
- Increased recruitment from the private sector, including into management positions.
- Globalisation and contact with other ethical and cultural norms.

In response to such challenges the following principles have been developed by the Organisation for Economic Co-operation and Development (OECD) member countries. These twelve principles are designed to help countries review their public institutions, systems, and mechanisms for promoting public service ethics. Principles to manage ethical challenges include:

- Ethical standards for public service should be clear.
- Ethical standards should be reflected in the legal framework.
- Ethical guidance should be available to public servants.
- Public servants should know their rights and obligations when exposing wrongdoing.
- Political commitment to ethics should reinforce the ethical conduct of public servants.

- The decision-making process should be transparent and open to scrutiny.
- There should be clear guidelines for interaction between the public and private sectors.
- Managers should demonstrate and promote ethical conduct.
- Management policies, procedures, and practices should promote ethical conduct.
- Public service conditions and management of human resources should promote ethical conduct.
- Adequate accountability mechanisms should be in place within the public service.
- Appropriate procedures and sanctions should exist to deal with misconduct.

5.7 Infrastructure for ethical governance

Governments must ensure that standards are maintained in the public service, especially in times of change. In practice, governments can employ a range of tools and processes to regulate against undesirable behaviour and to provide incentives to good conduct.

To establish an 'ethics infrastructure', basic elements should be in place. Some of these key elements include:

Political commitment: politicians should emphasise the importance of ethics, set an example, and support good conduct with adequate resources.

Efficient accountability mechanisms: administrative procedures, audits, agency performance evaluations, and consultation and oversight mechanisms.

Workable codes of conduct: statement of values, roles, responsibilities, obligations, and restrictions.

Professional socialisation mechanisms: education and training.

Supportive public service conditions: fair and equitable treatment, appropriate pay, and security.

An ethics co-ordinating body.

An active civic society (including a probing media) to act as watchdog over government activities. (PUMA Policy Brief, 1998)

The relative synergy between the different components of the ethics infrastructure will depend on a country's cultural and political traditions, its overall approaches to public management, and its historical record in promoting ethical behaviour. Like any other set of management tools, the effectiveness of the ethics infrastructure depends on whether it is implemented, understood, and applied consistently. Ethics should cease to be seen as a separate and distinct activity, and more as an integral part of all management systems.

5.8 Manifestations of unethical conduct

If government fails to establish high ethical standards in its institutions, it may lead to an unfortunate situation where unethical conduct of public employees and political office-bearers becomes the order of the day. Some of the manifestations of unethical conduct include the following:

Political corruption

Traditionally the problem of corruption in the public sector was left largely to law enforcement officials. More recently high-level action has been taken against corruption. According to a survey conducted by the OECD countries in 1999, areas of most concern to governments appear to be those that involve interaction between the private sector and public officials. The most common measures being used against corruption in the public sector are criminal and other legal sanctions, supplemented by increased transparency and decentralised management responsibility and control. Methods for evaluating the effectiveness of anti-corruption measures are less well defined and largely take the form of reporting or periodic inspection.

In the South African context many examples of corruption in its various forms can be provided. The North West provincial legislature, for example, uncovered serious financial bungling in nine provincial departments and the loss of millions of Rand of

taxpayers' money in its 1997/1998 financial report. Loans, totalling R56 million, were granted, for which loan agreements were not in place and for which no repayments have been received. It was also found that in most departments budgets were exceeded, with the Education Department spending R304 million with no authorisation. Tender board regulations were violated, resulting in unauthorised expenditure (SundayTimes, 11 April 1999:2). This example is unfortunately just the proverbial tip of the iceberg.

Gildenhuys (1991:47) defines political corruption as 'government crimes', and identifies three forms of such crimes, namely, election fraud, official violence, and institutional misconduct.

Election fraud

Political parties and their supporters may use unethical tactics to secure an election victory. These may include tactics such as spreading false rumours, miscounting votes, declaring ballot-papers invalid after defacing them, and adding pre-marked ballot-papers for their candidates.

Official violence

Official violence usually manifests itself during protest action, labour disputes, and demonstrations. It could also occur when citizens are deprived of their political and other rights and freedoms by way of legislation and other similar suppressing measures. Official violence can also be very subtle. For example, if pensioners have to wait in long queues in the sun to receive their allowances, it can also be regarded as official violence.

Institutional misconduct

Misconduct and unethical behaviour by public employees and political office-bearers can take on a variety of forms. Some of these are listed below:

- Misuse of authority and the violation of public responsibility - usually for private gain.

- Protecting incompetence of colleagues, management, and political heads.
- Nepotism (if relatives or friends are favoured in awarding contracts or promotions).
- Bribery (if public employees accept improper gifts and entertainment in return for special favours such as privileged information).
- Misuse of inside knowledge and influence peddling.

The perceived deterioration of government services and products is usually attributed to the corrupting influences of power, which may lead those who hold it to act in their own self-interest rather than in the interest of the community. The historian Lord Acton (1834-1902) observed: 'Power tends to corrupt, and absolute power corrupts absolutely' (Du Toit et al., 1998:156). The selfish tendency of human beings is a hard truth that forms the starting point for much political thought. It is crucial for a state to devise remedies that would inhibit corrupting tendencies.

5.9 Possible remedies for unethical conduct

Governments can implement a variety of remedies to combat unethical conduct in their institutions. Some of the most common remedies are highlighted below.

5.9.1 Whistle-blowers

Individuals who report corruption or waste in a bureaucracy are called 'whistle-blowers'. Public officials need to know what their rights and obligations are in terms of exposing actual or suspected wrongdoing within the public sector. These should include clear rules and procedures for officials to follow, and a formal chain of responsibility. Public officials also need to know what protection will be available to them in cases of exposing wrongdoing.

New legislation in Britain will protect corporate whistle-blowers, but lip-service to the law is not enough. Paul van Buitenen, the Dutch auditor who blew the whistle on corruption in the European Parliament, was suspended. Andrew Millar was dismissed from his post as head of research at British Biotech when he allegedly disclosed confidential information about drug trials to a shareholder. The message is clear: 'If you want to keep your job you must keep your head down and your mouth shut'. But

things are changing for employees and their bosses. Soon a new law to be passed in Britain, the Public Interest Disclosure Act, will provide protection from recrimination for employees who speak out about their concerns. It will also protect the interests of employers, encouraging them to create an open culture where concerns can be raised and dealt with internally at an early stage. Whistle-blowing policy emphasises that it is good practice to expose bad practice (Sunday Times, 7 February 1999:3). In South Africa a statutory reward of, for example, 20 per cent of the money saved by disclosing fraudulent activities can turn a single phone call into a substantial amount of money for the whistle-blower. The danger, however, is that someone might be encouraged to blow the whistle solely for financial gain.

5.9.2 Monitoring and investigation

Ethical remedies include mechanisms for the detection and independent investigation of wrongdoing such as corruption. It is necessary to have reliable procedures and resources for monitoring, reporting, and investigating breaches of public service rules, as well as commensurate administrative or disciplinary sanctions to discourage misconduct. Public managers should exercise appropriate judgement in using these mechanisms when actions need to be taken.

5.9.3 Transparency

The public has a right to know how public institutions apply the power and resources entrusted to them. Public scrutiny should be facilitated by transparent and democratic processes, oversight by the legislature, and access to public information. Transparency should be further enhanced by measures such as disclosure systems and recognition of the role of an active and independent media.

In South Africa, for example, the Harms Commission found in 1990 that the Civil Co-operation Bureau operated on an annual budget of some R27 million without any documentation or written authority. Where did the money come from? Who authorised and audited this huge amount? The need for transparency in this example is obvious.

5.9.4 Clear rules and guidelines

Clear rules defining ethical standards should guide the behaviour of public servants in dealing with the private sector, for example regarding public procurement, outsourcing, or public employment conditions. Increasing interaction between the public and private sectors demands that more emphasis be placed on public service values and that external partners be required to respect those same values.

5.9.5 Political leadership

Political leaders are responsible for maintaining a high standard of propriety in the discharge of their official duties. Their commitment is demonstrated by example and by taking action that is only available at the political level, for instance by:

- Creating legislative and institutional arrangements that reinforce ethical behaviour and create sanctions against wrong-doing.
- Providing adequate support and resources for ethics-related activities throughout government.
- Avoiding the exploitation of ethics rules and laws for political purposes.

5.9.6 Statutory guidelines and codes of conduct

The statutory framework is the basis for communicating the minimum obligatory standards and principles of behaviour for every public employee and politician. Laws and regulations could state the fundamental values of public service and should provide the framework for guidance, investigation, disciplinary action, and prosecution.

The Executive Members' Ethics Bill 64 of 1998 was drafted to provide for a code of ethics governing the conduct of members of the cabinet, deputy ministers, and members of provincial executive councils. The bill is also intended to provide for matters such as the investigation of possible breaches by the public protector.

In short, the code of conduct for executive members requires cabinet members, deputy ministers, and MECs to at all times act in good faith and in the best interest of the government, to meet all the obligations imposed on them by law, and prohibits them from:

Undertaking any other paid work. Acting in a way that is inconsistent with their office.

- Exposing themselves to any situation involving the risk of conflict between their official responsibilities and their private interests.
- Using their position or any information entrusted to them to enrich themselves or improperly benefit any other person.
- Acting in a way that may compromise the credibility or integrity of the government.

Chapter M of the Public Service Act 102 of 1994 includes a code that contains guidelines for employees as to what is expected of them from an ethical point of view, both in their individual conduct and in their relationship with others. Compliance with the code can be expected to enhance professionalism and help to ensure confidence in the public service. This code of conduct covers the following:

- Relationship with the legislature and the executive (M4.1).
- Relationship with the public (M4.2).
- Relationships among employees (M4.3).
- Performance of duties (M4.4). Personal conduct and private interests (M4.5).

Most institutions have internal ethics codes and guidelines, which establish the norms for acceptable behaviour. These guidelines vary from institution to institution, but may not be in conflict with those promulgated by higher authorities.

5.9.7 Organisational arrangements

An organisational environment where high standards of conduct are encouraged by providing appropriate incentives for ethical behaviour, such as adequate working conditions and effective performance assessment, has a direct impact on the daily practice of public service values and ethical standards. Public managers have an important role in this regard by providing consistent leadership and serving as role models in terms of ethics and conduct in their professional relationship with political leaders, other public servants, and the community.

Public service employment conditions, such as career prospects, personal development, and adequate remuneration, as well as human resource management policies should create an environment conducive to ethical behaviour. Using basic principles, such as merit, consistently in the daily process of recruitment and promotion could assist in promoting integrity in the public service.

5.10 Accountability

Politicians and public servants should be accountable for their actions to their constituencies and their superiors, respectively and, more broadly, to the public. Accountability should focus both on compliance with rules and ethical principles, and on achievement of results. Accountability mechanisms can be established to be used internally in an institution or government-wide, or can be provided by civil society. Mechanisms promoting accountability can be designed to provide adequate controls while allowing for appropriately flexible management.

5.11 Incentives

Practices should demonstrate political and institutional commitment to ethical standards. Incentives to motivate political office-bearers and public servants to behave ethically should be in place. On organisational level, recognition, for example in the form of performance bonuses, could be utilised for this purpose. On a national level, national orders can be awarded in recognition of outstanding performance on various levels.

National orders are the highest form of recognition that a country can bestow on its citizens. With these orders the country acknowledges those who have contributed lastingly to reconciliation, nation-building, peace, and development through excellence in service and innovation. The following orders are bestowed in South Africa:

The Order of the Southern Cross: This order was instituted to honour South African citizens whose unique or outstanding achievements of the highest standard have served the interests of the Republic of South Africa. The latest recipient was Prof Jakes Gerwel for his role in the Libya/Lockerbie negotiations.

The Order for Meritorious Services: This order honours South African citizens who have distinguished themselves by rendering exceptionally meritorious or

outstanding service in the general public interest. Well known recipients of this Order are Mrs Helen Suzman, Mr Walter Sisulu, and Archbishop Desmond Tutu.

The Order of the Star of South Africa: This order recognises those who have distinguished themselves by excellent meritorious service contributing lastingly to the security and/or general national interest of the Republic of South Africa.

5.12 Training and internal guidelines

In-service training is an effective mechanism to institutionalise ethical behaviour. Such training, according to Andrews (1989:42), has to include the legal basis for public sector ethics, prohibitions and/or limitations of certain behaviours, measures restricting the leaking of information that could lead to illegal self-enrichment, and prescriptions with regard to reasonable behaviour towards colleagues and the public. Apart from training, institutions should have clear guidelines and codes and conduct.

5.13. Formal mechanisms to ensure ethical governance

Governments should utilise specific formal mechanisms to officially combat unethical conduct. In the South African context the Auditor-General, standing committees of Parliament, the public protector, and the Human Rights Commission are some of the formal mechanisms in place to ensure ethical governance.

These formal mechanisms are discussed briefly below.

(a) Auditor-general

The principal functions and responsibilities of the Auditor-General of South Africa are set out in the Constitution of the Republic of South Africa, Act 108 of 1996, as well as in the Auditor-General Act 12 of 1995. To ensure his or her independence, the auditor-general is appointed by Parliament for a fixed term that is not renewable. His or her duty is to audit and report on the accounts of government at all levels and thus to provide that essential, independent link in the whole process of legislative control over the financial activities of the executive arm of government. In the course of performing these duties, some 1 400 audit reports are compiled annually and submitted to the various legislative institutions concerned.

At the local government level these audit reports are submitted to the relevant council, at provincial level to the provincial legislature, and at national level to Parliament.

(b) Standing committees of Parliament

An effective system of accountability is at the very heart of an open and transparent democracy. To achieve accountability a clear division of power between the legislative, executive, and judicial arms of government is essential. Ideally, this could lead to a Parliament that demands accountability of the executive, and consequently has a strong interest in financial matters and active committees of finance and public accounts. The media should have free access to the working sessions of the committees to keep the public fully informed about important issues and the accountability process. Parliamentary committees that investigate the conduct of MPs from an ethical perspective (ethics) and that investigate whether state funds are in fact spent lawfully and on the items budgeted for (public accounts) play an important role to ensure openness and transparency of government actions.

(C) Public protector

In terms of Section 182 of the Constitution, Act 108 of 1996, the public protector (also called the ombudsman in other countries) has the power to investigate any conduct in state affairs that is alleged or suspected to be improper or to result in any impropriety or prejudice. The public protector must be accessible to all citizens or groups in the South African society and can take corrective measures to limit unethical conduct. The public protector can furthermore report on improper conduct. Such reports must be open to the public unless prohibited by national legislation.

(d) Human Rights Commission

In terms of Section 184 of the Constitution the Human Rights Commission must promote ethical conduct by monitoring and assessing the observance of human rights in South Africa. The Commission has the authority to require relevant organs of the state to provide it with information on the measures that they have taken towards the realisation of the rights specified in the Bill of Rights (Du Toit et al., 1998:160).

Apart from the Human Rights Commission, there are other commissions to oversee ethical conduct in government. Some of these commissions include the Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities, the Commission for Gender Equality, and the Electoral Commission. Furthermore, law courts, regular elections, and the media could be useful in ensuring ethical behaviour. The media, in particular, play an important role by scrutinising the behaviour of public employees and political office-bearers through investigative reporting.

An aspect that is closely related to ethical governance, is the issue of human rights. Since government must adhere to and promote basic human rights, it is important to have a clear understanding of what it entails. Human rights are discussed in the following section.

Identify actual, practical examples in the ` South African context where one or more of the four formal mechanisms discussed played a significant role. Evaluate the effectiveness and significance of their role.

5.13 Human rights

Due to the penetration of government activities into almost every sphere of life, public officials are endowed with wide discretionary power, which enables them to take decisions on matters that may adversely affect the lives of citizens. It is possible for public officials to abuse their power or to exercise it in an arbitrary fashion, infringing on the fundamental rights and freedoms of citizens. Given the past of apartheid in South Africa and subsequent emphasis on the protection of rights and freedoms of individuals, control over public officials is vital in order to prevent infringement of such basic rights and freedoms. In a constitutional state like South Africa, a Bill of Rights and institutions created in terms of the Constitution can be regarded as control mechanisms to limit the abuse of powers by public officials.

Political philosopher John Locke (1924) raised the central question: Under what circumstances and for what reasons should people obey the commands of government? The answer, he argued, must be based on the fact that men join together in civil societies and establish governments for only one reason: to

secure more firmly the personal rights to life, liberty, and property that naturally belong equally to all people simply because they are human beings. When a government fails to preserve these rights and thus ceases to serve the end for which it was created, Locke argued, the citizens have the right - indeed, the duty - to overthrow it. Locke (1924:180) put it as follows: 'Whenever the legislators endeavour to take away and destroy the rights of people ... they put themselves into a state of war with the people, who are thereupon absolved from any farther obedience, and...have a right to resume their original liberty, and by the establishment of a new legislature provide for their own safety and security, which is the end for which they are in society' These rights are still commemorated annually on 10 December - International Human Rights Day.

Human rights (fundamental rights) primarily protect individuals from state power. They are derived from each human being's inborn dignity. Every person is born with these rights - hence human rights (Kleyn and Viljoen, 1995:236). Civil liberties guarantee individual freedoms of speech, religion, press, assembly, and petition against governmental interference. Human rights can be limited by government. Civil rights involve the protection of both groups and individuals against state discrimination based on the suspect criteria of race, national origin, or sex.

On the basis of inherent dignity, citizens have a basic claim that government should treat them with respect and concern. Human rights are the means through which the goal of human dignity is attained. These rights can only be guaranteed fully under a democratic government. Modern democracies function through chosen representatives who govern the state on behalf and in the interest of citizens who have voted them into power.

Even a democratically elected government has to respect the individual's humanity. This core of human rights, also referred to as fundamental rights, may not be infringed. These rights are inalienable and inviolable. The philosophical basis of human rights is found in natural law. This means that these fundamental rights are believed to be part of a higher set of norms, on which the validity of man-made laws depends.

5.13.1 Obligations of government

What are the rights of a person? What specific areas of individual freedom are defined and guaranteed by the various constitutions of modern nations? One may begin to answer these questions by noting that every modern constitution contains at least some formal guarantees of civil rights. A survey of the various constitutions of nations resulted in the following list of general obligations on government:

- Protection of belief and expression.
- Protection of action (e.g. assembly, strikes, movement, etc.).
- Protection for those accused of crime (e.g. against capital punishment and trial without indictment).
- Guarantee of due process of law (e.g. equality before the law and public trials).
- Protection of property rights.

Furthermore, governments should provide economic assistance, including equal pay for equal work, regardless of sex, age or nationality; minimum wages; maximum hours; unemployment assistance; and social security. Apart from economic assistance, governments should provide social assistance, including education; prohibition of child labour; protection of families, children, and motherhood; preservation of historical monuments; recreation; and culture.

5.13.2 Generations of rights

Human rights are usually divided into three categories or generations. First-generation rights provide a shield for individuals to protect themselves against state authority. These rights guarantee freedom from unlawful interference by the state. These rights are political and civil rights, including the right to life, freedom of speech and of association, and religious freedom.

Second-generation rights are socio-economic rights. In general these rights do not require the state to refrain from doing something specific, but to take positive action. An individual's claim to the socio-economic resources may include the right to reasonable housing, medical services, education, and work. Claims to these rights are frequently met with the argument that they are unenforceable in a state where insufficient means exist to give them effect.

Third-generation rights have been identified more recently. These are rights that in general pertain to groups. They include the right to a healthy living environment, the right to development, and the right to self-determination. These rights are sometimes referred to as 'green' rights.

A coherent and human rights based legal system of the Department of justice includes the following:

- Harmonisation of all laws with one another and the Constitution, including religious and customary laws.
- Implementing Section 8 of the Constitution, the equality provision, in all areas of social justice. Attention will be given to the issues of human rights legislation forbidding discrimination in aspects of life, offering recourse to victims, and contributing to employment equity legislation.
- Auditing all existing and intended statutes to ensure compliance with the Constitution - in particular regarding racial segregation and disparities, and gender discrimination.
- Giving effect to Constitutional Court decisions with regard to constitutionality of legislation.
- Legislation to implement ratified international conventions, such as the Convention of the Elimination of all forms of Discrimination Against Women (CEDAW) and the Child Convention.
- Establishment of a central legal drafting component.

As in the case of ethics, the application of human rights involves moral and value judgements. Government is often confronted by different sets of values from different communities in society, which may be in conflict with national legislation and policy directions. An example in this regard was the announcement by former Minister of Health, Dr Nkosazana Zuma, that people who are HIV positive are to be forced by law to disclose their status to close relatives and sexual partners (Sunday Times, 18 April 1999:1). Dr Zuma said: 'We can't afford to be dictated to by human rights or Aids activists. We need to do what is right. We want to know who is dying of Aids, and relatives and partners must be notified. It is time we treated Aids as a public

health issue like TB. We don't go about treating that with secrecy.' The National Association of People Living with HIV/Aids said that Dr Zuma's proposal was 'an outrageous suggestion'. They argued that Aids cannot be regarded the same as other diseases because with other diseases people are not denied employment, are not evicted from family homes, nor killed for revealing that they are infected. It is an invasion of privacy that could be challenged constitutionally (Sunday Times, 18 April 1999:1).

The Human Rights Commission said 'choices should not be made between human rights and public policy. Both make their own legitimate demands and one cannot ignore the prejudice and levels of discrimination directed at people who are HIV positive'. Currently one out of five South Africans between the ages of twenty and forty are HIV positive (Institute of Life and Pension Advisers, 1999:41).

However, one should keep in mind that human rights in return can hamper government actions. In a country like South Africa, where there is currently a debate that human rights provide more rights for the criminal than for the victim of criminal activities, the criminal justice system and the South African Police Service are arguably hampered by the vast array of human rights.

5.13.3 The Bill of Rights

In South Africa the interim Constitution, Act 200 of 1993, included a Bill of Rights, which was adopted by the multi-party negotiating council (CODESA) at Kempton Park. A technical committee compiled the chapter on fundamental rights. These rights must be understood in the context of the Constitution as a whole. The Bill of Rights was subsequently revised and included in a separate chapter of the Constitution of the Republic of South Africa, Act 108 of 1996. A total of thirty-two rights are listed in Chapter 2. All three generations of rights are contained in the Bill of Rights. The Bill of Rights is to a large extent the result of comparative legal research. Its drafters studied several international human rights documents and the constitutions of other countries. Therefore, many of the clauses in the bill correspond to similar provisions elsewhere in the world. The Bill of Rights is the cornerstone of democracy in South Africa, since it safeguards the rights of all people in our country and affirms the democratic values of human dignity, equality,

and freedom. The state must protect, promote, and fulfil the rights in the Bill of Rights.

Any legislation passed or administrative action exercised which is contrary to the provisions of the Bill of Rights can be declared invalid by South African courts and, furthermore, the courts can make an appropriate order to rectify the damage done to the person whose rights were affected. The Bill of Rights applies to all laws and binds the legislature, the executive, the judiciary, and all organs of the state.

Growing internationalism is advanced by common problems, which threaten the world as a whole. Internationally accepted ideologies, such as the protection of human rights, encourage countries to conform to or move closer to international norms. The eventual acceptance in South Africa of a bill of human rights was largely influenced by the existence of an international human rights culture. Legal comparison is necessary for the development of one's own legal system. It is unnecessary to reinvent the wheel over and over again. Relevant international law on human rights must be taken into account, since it consists of rules and norms in force between states on the international level. International human rights are discussed below.

5.13.4 International human rights

International human rights law has its historical antecedents in a number of international legal doctrines and institutions. The most important of these are humanitarian interventions, state responsibility for injuries to aliens, protection of minorities, the League of Nations' Mandates and Minorities Systems, and international humanitarian law (Buerghenthal, 1988:4).

On 10 December 1948 the General Assembly of the United Nations adopted and proclaimed the Universal Declaration of Human Rights (General Assembly resolution 217 A III of 1948). The Assembly called upon all member countries to publicise the text of the Declaration and 'to cause it to be disseminated, displayed, read and expounded principally in schools and other educational institutions, without distinction based on the political status of countries or territories.'

The International Bill of Human Rights consists, in addition to the human rights provisions of the UN Charter, of the Universal Declaration of Human Rights, the two International Conventions on Human Rights, and the Optional Protocol to the Covenant on Civil and Political Rights. It must be noted that the Bill of Rights does not deny the existence of any other rights or freedoms that are recognised or conferred by common law, customary law, or legislation, to the extent that they are consistent with the Bill. In addition to the institutions that have been established to supervise the implementation of human rights treaties, there also exist within the UN framework various institutions and procedures which have their constitutional basis in the Charter of the United Nations itself. This is true of the principal human rights organs of the UN - the Commission on Human Rights, the Sub-Commission on Prevention of Discrimination and Protection of Minorities, and the Commission on the Status of Women. It is also true of the procedures the UN has developed to deal with especially serious human rights violations.

5.13.5 Humanitarian law

A discussion of human rights would be incomplete without an outline of humanitarian law. Humanitarian law can be defined as the human rights component of the law of war (Buerghenthal, 1988:190). It is that branch of human rights law that applies in international armed conflicts and, in certain limited circumstances, in internal armed conflicts. The principal sources of that law, although by no means the only ones, are the four Geneva Conventions of 1949 and the two 1977 Protocols additional to these treaties. It also consists of some earlier instruments on the subject, as well as various rules of customary international law.

The four Geneva Conventions were concluded in 1949 and came into force in 1950. They consist of the:

- Convention for the Amelioration of the Condition of the Wounded and Sick in Armed Forces in the Field.
- Convention for the Amelioration of the Condition of Wounded, Sick and Shipwrecked members of Armed Forces at sea.
- Convention relative to the treatment of prisoners of war.
- Convention relative to the Protection of Civilian Persons in Time of War.

Most member states of the United Nations adhere to these treaties. In each of these treaties, the state assumes a large number of obligations for the benefit of the protected persons. Thus, the Geneva Convention on Prisoners of War requires, for example, that prisoners of war be treated 'humanely' (Article 13) and that they not be subjected 'to physical or mental torture to secure from them information of any kind' (Article 17).

To ensure that member countries comply with these obligations, the Geneva Conventions provide for a system of supervision that is administered by so-called Protecting Powers. The functions of the Protecting Powers are 'to safeguard the interests of the Parties to the conflict' (Article 8 of Geneva Convention I, II and III). The International Committee of the Red Cross or another comparable and impartial humanitarian organisation may also perform the role of the Protecting Power.

South Africa and other countries have had various examples of internal conflict. Article 3 of the Geneva Conventions makes specific provisions for internal armed conflicts. These provisions require the parties to the conflict-the government and the insurgents-to treat 'humanely' all 'persons taking no active part in the hostilities, including members of armed forces who laid down their arms and those placed out of combat by sickness, wounds, detention, or any other cause'. Adverse distinctions in treatment based 'on race, colour, religion or faith, sex, birth or wealth, or any other similar criteria' are prohibited. Article 3 also prohibits the following acts:

- Violence to life and persons, in particular murder of all kinds, mutilation, cruel treatment, and torture.
- Taking of hostages.
- Outrages upon personal dignity, in particular humiliating and degrading treatment. The passing of sentences and the carrying out of executions without previous judgement pronounced by a regularly constituted court, affording all judicial guarantees which are recognised as indispensable by civilised peoples.

Article 3, furthermore, permits the International Committee of the Red Cross to offer its humanitarian services to the parties to the conflict. The international arrest warrant issued for Yugoslav leader Slobodan Milosevic by the International Criminal

Tribunal will help ensure that even heads of state do not commit serious crimes with impunity. This was the first time that a serving head of state was indicted for serious breaches of international humanitarian law. The indictment alleges that, since the beginning of 1999, forces under the control of Milosevic have persecuted the Kosovo Albanian civilian population on political, racial, or religious grounds.

5.13.6 Citizen responsibilities

The concept of human rights not only refers to the rights of citizens but also makes provision for specific responsibilities of citizens. The Constitution of the Republic of South Africa provides the basis for such responsibilities. Table 5.1 contains a brief summary of the key responsibilities of or obligations upon citizens to behave according to specified guidelines. It should be noted, however, that virtually all national legislation imply responsibilities as well as guidelines for conduct.

Table 5.1: A summary of key responsibilities and obligations contained in the Constitution of the Republic of South Africa

Article	Responsibility/obligation
2	The Constitution is the supreme law of the Republic; law or conduct inconsistent with it is invalid, and the obligations imposed by it must be fulfilled.
3(1)b	Citizens are subject to the duties and responsibilities of citizenship.
9(4)	No person may unfairly discriminate directly or indirectly against anyone on one or more grounds in terms of subsection (3).
16(2)	No person may propagate war, incite violence or advocate hatred that is based on race, ethnicity, gender or religion, and that constitutes incitement to cause harm.
181(4)	No person may interfere with the functioning of public institutions, which strengthen constitutional democracy.

Most rights can be limited only under the following circumstances (Kleyn and Viljoen, 1995:242):

- The restriction or limiting measure must be in the form of a legal rule of general application.
 - The limitation must be reasonable and justifiable in an open and democratic society based on freedom and equality.
 - It may not negate the essential content of the right in question.
 - A second group of rights may only be limited if a more stringent test is met.
- Limitations must comply with requirements set out above. In addition to the

requirement that the limitation must be reasonable, it must also be necessary to limit the right. If this is not the case, the limitation is invalid.

Limitations of a third group of rights (such as freedom of expression) need only meet the additional requirement of necessity in certain circumstances. This is when the limitation interferes with free and justifiable political activity.

If a government official infringes an individual's right, a court may invalidate that action. If the action amounts to an offence, the official may be prosecuted later in the ordinary criminal courts.

5.14 LINKING STRATEGY WITH ETHICS AND SOCIAL RESPONSIBILITY

Governments today use strategies to plan and deal with the complicated issues that they are confronted with in providing goods and services for the welfare of the communities they serve. To this end, strategies ought to be ethical. It should involve rightful actions, not wrongful ones; moral actions and not immoral ones. Ethical and moral standards go beyond the law and the language of “thou shall not.” They address the issues of *duty* and the language of “should do” and “should not do.” Ethics concern human *duty* and the principles on which this duty rests.

The Government has an ethical duty to each of three constituencies, namely:

- The community at large who are the customers;
- Its employees; and
- Suppliers ie those individuals and groups who are contracted to provide goods and services to communities on behalf of government.

5.14.1 The public service ethos

People have certain expectations of public managers, and see the relationship between the citizens and their officials as a cornerstone of government. Effective democratic government – be it at central, provincial or local level – requires a bond of trust between the people and those who serve them. To restore and maintain that trust at local government level is at the heart of the agenda to modernise local

government. Trust remains an integral part of the public service ethos and goes hand-in-hand with morals, values and norms such as honesty, integrity, morality, impartiality, probity, accountability, and transparency.

5.15 CONCLUSION

In this chapter ethical governance and human rights were discussed. It was found that governments must promote ethical conduct by adhering to guiding values and by establishing infrastructure to manage the process. It was furthermore established that unethical conduct manifests itself through political corruption, election fraud, official violence, and institutional misconduct. To combat such manifestations, it is important that remedies are utilised. Possible remedies include the use of whistleblowers, monitoring and investigation, transparency, clear rules and guidelines, political leadership, statutory guidelines, accountability, incentives, and training. Apart from these remedies, government should furthermore establish formal mechanisms to ensure ethical governance. In the South African context some of these formal mechanisms include the auditor-general, standing committees of Parliament, the public protector, and the Human Rights Commission.

Lastly, the issue of human rights was discussed. It was found that the adherence to human rights is closely related to ethical governance. Governments have certain obligations and must ensure that these rights are contained in formal documentation. In South Africa basic human rights are contained in the Bill of Rights (Chapter 2 of the Constitution). The Bill of Rights was compiled with due consideration to international human rights and humanitarian law.

Current and future demands on government will place increasing emphasis on ethical behaviour and professional competence. Public officials and political office-bearers should serve society and all their actions must be directed at promoting the public interest.

CHAPTER 6

STRATEGIC MANAGEMENT IN THE PUBLIC SECTOR

OUTCOMES

At the end of this section you should be able to:

Define strategic management;

Explain what strategy is;

Understand the strategic management process

READING

This section has been designed to be read in conjunction with the following textbook:

Thompson, Arthur A. Jr., Strickland, A.J. III and Gamble John E. (2007). Crafting and Executing Strategy: Concepts and Cases. 16th Edition, Boston: McGraw–Hill Companies.

Cloete F and Mokgoro J (1995) Policies for public service transformation, Cape Town, Juta.

6.1 Introduction

Strategic management is increasingly being accepted as one of the most powerful tools managers have at their disposal. It is a process of adapting organizations to their often rapidly changing environments, to better accomplish organization goals and ideals, and to sustain their long-term viability.

Although strategic management as a management tool was initially developed for the private sector, it is accepted that it can be adapted successfully for utilization in the public sector. It is the premise of this contribution that it is necessary that strategic management be applied in the public sector. It can indeed be argued that given the present South African context, the need for the application of strategic management in the public sector is imperative.

The strategic management approach has a considerable amount to offer at this juncture in South Africa's development. At a time of such great turbulence and uncertainty, when

public and private sector organizations often seemed paralyzed by the bewildering threats and weaknesses within the current organizational structures and macro-environment, a strategic management approach can highlight possible scenarios for sustained development.

6.2 What is strategic management?

A general starting point for understanding the fundamentals of strategic management is provided by Hodge and Anthony (1988: 239-40) in the following definition:

Strategic management is the process of adapting the organization to its environment to better accomplish organizational purposes and to sustain the organization's long-term viability by enhancing the value of its products and services.

This definition implies making basic and fundamental decisions in the following areas:

- firstly assessing the external environment;
- secondly formulating organizational purpose, philosophy, mission, and key goals;
- thirdly making major choices of a particular set of long-term objectives and grand strategies needed to achieve them;
- fourthly developing short-range objectives and allocating resources to achieve them; and
- fifthly designing organizational structures and systems to achieve the goals.

According to Bozeman and Straussman (1990:29-30), strategic management entails management guided by four principles:

- firstly concern with the long term;
- secondly integration of goals and objectives into a coherent hierarchy;
- thirdly recognition that strategic management and planning are not self-implementing and are very important; and
- fourthly an external perspective emphasizing not adapting to the environment, but rather anticipating and shaping environmental change.

6.3 The strategic management process

The strategic management model is based upon the belief that organizations should pursue strategies that take advantage of external opportunities, minimize the impact of external threats, capitalize on internal strengths and mitigate internal weaknesses (Schwella, 1991:223). The different steps and activities necessary to obtain this posture make up the strategic management process. While the specific steps, as well as the sequence of steps in the process, vary from author to author, there is general consensus that the type of activities to be included in the strategic management process are:

- environmental scanning;
- analysis and forecasting;
- an internal organizational assessment;
- the development of a mission, purpose, goal and objectives;
- analysis of strategic options and choice of appropriate strategies; and
- the implementing and evaluation of strategies (Schwella, 1991:223-4).

The strategic management process could also be viewed as occurring at different governmental levels, eg a national education strategy formulated at central level followed by implementation by a regional education authority, or even at local level by a single school. At the macro level strategies will be very general in nature becoming more specific as the process is recycled at organizational level. It is generally easier to illustrate the different steps in the strategic management process at organizational level in view of the fact that approximately 75% of the information needed in strategy formulation is organization specific.

According to Bozeman and Straussman (1990:39-40) an appreciation of history and the ability to interpret it is at the core of effective strategic management. They quote Einhorn and Hogarth who suggest that forward thinking by backward scanning is intuitive and suggestive, that it tends to be diagnostic and requires judgement. Studies of time horizons show that going back into history is an essential step in making useful conceptual forecasts.

Stage one in Nutt and Backoff's model entails the identification and examination of trends and events, directions and ideals, noting how they have changed in the past and may change in the future. The strategic manager must understand the way in which the environment impinges upon the organization, as well as the way in which the organization interacts with (or influences) the environment. As a general rule the task of the strategic manager is made less complex when the variables in the general environment are static, or change only very slowly through time. The irony is that in societies with high degrees of social, political and economic stability, the need for strategic management is greatly reduced. It is in those societies which are in a rapid state of transition, where few of the variables of the general environment are static, that strategic management is most required - and most challenging.

The main elements in the social environment (following Schwella 1991:219-37) which a strategic manager would need to address include:

- demography- including birth and death rates; social composition of the population; levels of urbanization, employment, education and training; and
- social structures - including class and race characteristics.

The main elements of the political environment include:

- political ideas, philosophy and ideology;
- national power structures and processes;
- political institutions;
- political policy; and
- laws, acts and regulations.

In the economic environment the most salient elements include:

- the structure of the economy;
- economic growth rates;
- personal income levels and income distribution; and
- economic factors such as inflation, exchange rates, balance of payments position. and debt.

The strategic manager must assemble the most up-to-date and accurate information about the general environment that is currently available. Having assembled this information the

strategic manager should then look at historical trends in the general environment, working towards a projection of likely developments in the future. The problem in the case of South Africa is that there are simply too many possible variables to allow for accurate strategic forecasting. The whole future of South Africa depends to a large extent upon the outcome of the current negotiations; the outcome of the transition process; and the policy choices of the new government.

Perhaps the most stable element of the general environment is the country's demographic profile. Demography is one of the fundamental defining issues in the macro-environment of government, both local and national. The changing demographic profile in South Africa will have a marked impact upon the government's ability to deliver services to society. Demographic growth is relatively predictable. Other issues, which fall within the social environment, such as urbanization, health provision, housing, and education, are in part dependent upon changes in demography - but are also dependent upon the two other main macro-environmental factors, the economy and polity.

South Africa's demographic profile corresponds very closely to demographic patterns experienced elsewhere in the world. The world experience indicates that in developed countries the rate of population increase is in decline. Developing countries are experiencing uncontrollable explosions in their populations - with populations doubling every thirty years. If demographic projections were the only variable in the social environment that strategic managers needed to consider then their task would be relatively unproblematic. The statistics provide a firm basis from which strategic plans can be developed. This would be the case if other factors within the macro-environment were equally stable and predictable. However, South Africa in transition from apartheid will present one of the most turbulent macro-environments that any strategic manager has confronted anywhere in the world. This assessment has been highlighted in numerous futures scenarios which have been designed for South Africa. Equally perturbing is the fact that the South African experience is in many ways totally unique. There are some experiences elsewhere in the world that South Africa can look to - but for the most part the country will experience environmental transformation that has never been attempted anywhere in the world. This point is perhaps best highlighted when one considers urbanization.

Demographic changes, and population shifts caused by migration, have a profound impact upon the provision of social services. As populations increase it is necessary to increase service provision by a concomitant amount. If the current levels of service provision (ie health, education, housing and policing) were adequate then increases in service provision could shadow the population increase curve. Again, this would make strategic management for service provision relatively unproblematic. However, this scenario does not apply in the South African case - there are numerous variables that need to be considered in the strategic management matrix for social service provision. Firstly, and most politically contentious, is that service provision at the moment is not equitable. There is a 'First World/Third World' divide along racial lines. In health, for example, approximately one-third of black children under fourteen years of age suffer from varying degrees of malnutrition. The infant mortality rate for black children is approximately ten times higher than for white children (Schwella, 1991: 5-6). In housing there is a critical shortage of low-cost housing units. The University of Stellenbosch Institute of Futures Research estimates that the annual growth in the need for black housing is 127 000 units per year between the years 1988 and 2000.

A new government will seek to reduce the divide between the developed and underdeveloped elements of society, and to remove the racial criteria for service allocation. This leads to the second variable, ie that of planning choice - a central consideration in strategic decision-making. Planning choice begs the question: 'What kind of society are we planning to create?' Strategic management decisions will be needed to determine priorities for resource allocation. In the health sector decisions will need to be taken about what type of health provision will be emphasized - whether primary health care and preventative techniques, or whether high-tech hospitals (or what kind of balance between the two). In education the choice needs to be made between the allocation of resources to primary, secondary, or tertiary sectors. A decision would need to be made about whether emphasis should be placed on technical, vocational training, or on more traditionally 'academic' pursuits.

The political environment is perhaps the most turbulent and unstable of all. process. The new democratic government in South Africa has resolved to restructure the offices of government and administration to ensure that they are inclusive rather than exclusive. Exactly what the new political structures will look like is impossible at the moment to predict-this is one of the most contentious issues of the transition process. A strategic

manager would need to assemble the various options and then assess what impact each political model would be likely to have upon the organization of the state.

The economic environment is equally problematic. The South African economy has developed very peculiar and unique characteristics. Built around its primary export sector (particularly gold and other extractive minerals, but also agriculture) South Africa in the 1970s attempted to make the transition towards a more capital intensive manufacturing economic structure. It was in this attempted economic restructuring that many of the fundamental weaknesses of the apartheid social, political and economic system became apparent. In particular the concentration of wealth in the white segment of the population prevented manufacturing capital from being able to utilize a large and protected internal market for its goods. Of equal importance was that the labour structures (built around migrant and temporary labour) prevented the development of the necessary skills within the work force. To restructure this economy required the scrapping of some basic tenets of apartheid. This economic rationale (coupled with mass resistance to apartheid from the black population) was one of the forces within South Africa's political economy that pressured for fundamental reform.

Strategic managers who are scanning the economic environment at the moment are faced with a gloomy reality. South Africa, on the fringes of the world economic system, is experiencing a severe and sustained recession. This is compounded by natural phenomena such as ten years of severe drought. South Africa's economic malaise is reinforced by business uncertainty in the future South Africa and by the impact of international economic sanctions against apartheid. A successful political transformation in South Africa will ameliorate at least two of these factors. The political settlement which introduced participatory democracy will strengthen business confidence (both national and international), leading to an influx of capital investment into the economy. Similarly, a successful political dispensation will remove the last vestiges of economic sanctions, and should facilitate increased aid and assistance programmes-both bilateral, and multi-lateral through organizations such as the IMF/World Bank - for economic restructuring and reorganization.

There is very little within this environment that can be predicted to remain stable through the transition phase. The strategic manager can anticipate radical shifts in social, political and economic environments - making accurate projections very difficult. Reconstructing

history is particularly useful in public organizations to help to deal with ill-defined clients, other important stake-holders, constraints, political influence and authority limits. In public organizations, key factors that make up directions as well as the influence of these factors on the organization's desired future are vague and must be uncovered from a mass of conflicting information. Table 6.1 depicts the various stages and steps in the strategic management process.

Stage one in the strategic management process is concluded when the organization creates idealized images of itself several years into the future with the trend, event and shifting direction analysis still fresh in mind. These ideals are derived from the best- and worst-case future conditions that could face the organization. Nutt and Backoff's approach uses ideals

	CONDUCTING SEARCH	CARRYING OUT SYNTHESIS	SELECTION AND PRIORITY SETTING
Stage1:Historical context 1. Trends and events 2. Directors 3. Ideals	Silent reflective techniques Nominal group technique (NGT)	Synthesis techniques Snowball Morphology Relevance tree	Selection techniques Anchored rating scales
Stage 2: situational assessment 1. Strengths 2. Weaknesses 3. Opportunities 4. Threats	Brainstorming Nominal interacting technique Keva technique Delphi survey	Interpretive Structural modeling	Distribute points Paired comparison Q-sort
Stage 3: :strategic issues tension agenda	Interacting techniques		
Stage 4: strategic options	Traditional face-to-face groups		
Stage 5: feasibility assessment	Focus group Dialectic groups		
Stage6: implementation 1.resource management 2.stake-holder management	Special purpose techniques Synectics scenarios		

in place of goals. Ideals suggest aims that can be articulated in concrete terms to capture goal-like targets and offer ways to seek compromise among competing views that dictate what the organization is (or is not) about. This strategic management approach is designed to aid public managers as they steer their organizations toward ambiguous ends in the context of political authority systems and the claims of multiple stake-holders (Nutt & Backoff, 1992:175-6).

Public organizations see their ideals as creating a balance between tensions which are created by opposing forces: for example meeting particular client needs whilst maintaining high standards of services for all with limited resources (Nutt & Backoff, 1992:172).

6.3.1 Situational assessment

Specifying historical context brings the public organization to an understanding of its past and, through it, an idealized future. In stage two, the immediate situation facing the organization is considered. In the South African case the strategic manager would have considerable cause for concern. Any organizational assessment of the present national and local government and administrative structures would reveal that they are ill-suited to cope with the process of transformation that South Africa has entered. The first and most obvious problem is that the administrative structures created under the 1983 constitutional dispensation were structured along racial lines - with divisions between 'general' and 'own' affairs. This has created duplication within the administrative environment. The new government will have to reform this apparatus to both remove the taint of apartheid, and to rationalize the use of expensive and scarce resources. The strategic manager will need to carefully assess what elements of the existing organizational structures can be maintained; which elements can be swiftly reorganized or reformed; and which elements need to be scrapped and replaced.

The culture of the current administrative structures is also in need of reform. This culture is again influenced by years of racial segregation. Furthermore, there is increasing evidence of widespread maladministration and corruption within the previous administration. A strategic manager would need to quickly establish retraining programmes to produce a new organizational culture more suited to the mission statement of the new South Africa.

In the implementation of this stage, the organization identifies and ranks its current Strengths and Weaknesses, as well as its future Opportunities and Threats (referred to as a SWOT analysis). The information for the SWOT analysis can be collected by utilizing the techniques and can be integrated and prioritized by means of one or more of the available methods.

According to Nutt and Backoff (1992:180) the emphasis in the content of SWOTs differs contextually. The difference between the private and the public sector contexts is as follows:

- firstly public sector organizations are driven by threats instead of being pulled by opportunities;
- secondly the challenge is to identify opportunities in a turbulent sea of threats, instead of to recognize threats in an ocean of opportunities; and
- thirdly strengths and weaknesses in public organizations can arise internally and externally and are not limited to organizational capacities.

6.3.2 The issue agenda

The first two stages build pressure to get at the core issues that must be managed and usher in stage three: establishing the issue agenda (Nutt & Backoff, 1992:1815). An issue is defined as a difficulty that has a significant influence on the way the organization functions or on its ability to achieve a desired future, and for which there is no agreed-upon response. These issues are crucial to the conduct of strategic management because they direct the search for strategic responses, much like problems in problem-solving. Issues can be internal or external to an organization, or both. The dynamic nature of both the organization and its environment ensures that, over a year or two, the strategic issue agenda will shift, with new items entering and old items disappearing.

6.3.3 Strategic options

According to Nutt and Backoff (1992:102) portfolio analysis is an analytical approach which is widely used to create strategy. This approach has a problem-like focus with the emphasis on evaluating by sorting key activities (such as services) into categories to

identify the activities that need modification or elimination. The framework developed by the Boston Consulting Group (BCG) is widely used for private sector organizations. An adapted portfolio approach can according to Nutt and Backoff (1992:102-5) also be used for issue management in public organizations. In this adaptation, relative stake-holder support and tractability are substituted for market share and industry growth, respectively. Issues are then analyzed, instead of products or services.

The term tractability indicates the prospects that an issue can be successfully attacked by the public organization. Tractability depends on technical problems, target group mix, the proportion of the population included in the target group, and the extent to which the target group is expected to change. Relative stake-holder support indicates the attitude of people who will be affected by the public organization's actions to serve people with needs. The public manager can use the categories produced by tractability and stake-holder support to classify issues facing the organization and derive recommendations for issue management.

According to Nutt and Backoff (1992:185-9) the organization at this stage identifies possible strategic actions to deal with each issue on the agenda, beginning with the most important issue. The different issue tensions bring out different configurations of strengths, weaknesses, opportunities and threats, and different rankings of the items in each. Using the SWOTs as guidelines, the organization now starts generating ideas for action to manage the issues to *build* on strengths, *overcome* weaknesses, *exploit* opportunities, and *block* or *blunt* threats. Actions that address a strength, a weakness, an opportunity, *and* a threat are of particular interest because they can be synergistic. By identifying and grouping the common themes, strategic themes could emerge for further exploration. For example strategies could emerge around themes like public awareness, political support, redefinition of role, stability of funding, cost containment and coordination and cooperation.

Partly because public organizations have jurisdictional or domain limitations, their strategies also tend to be more reactive in nature. For instance, a low-cost leadership strategy which merely segments a market, has no meaning for a fire department or a mental health centre. Pure opportunities stemming from new social concerns occasionally arise for public organizations and produce honeymoon periods, but these

periods tend to be short-lived. A strategy typically must take shape as an incremental movement that balances opportunity with threat. For example, in environmental conservation, being too proactive can crystallize opposition that may hamstring future efforts, but being too reactive, forces the responsible government authority to use threat-management tactics.

6.3.4 Feasibility assessment

The environments of public organizations tend to be complex, so that any attempt to introduce new strategies ushers in considerations that go far beyond forecasting what services consumers will purchase. In addition to the standard concerns about client and employee views of changes, the political, financial, and legal implications of new strategic actions must be considered.

To deal with this broader set of considerations, a different kind of feasibility assessment is needed according to Nutt and Backoff (1992:190): firstly a stakeholder analysis is called for to identify specific parties who can affect or are affected by the strategy to be introduced. The organization must focus on people and organizations with political, financial, managerial, and professional interests or stakes in the strategy, and try to anticipate how they might respond as the strategy is communicated and implemented. Second, the resources that are required to implement the strategy must be determined. The assessment must be extended to go beyond finances to consider political, legal, managerial, and professional resources and who can allocate them. Stakeholder and resource analysis clarify the range of joint commitments that must exist or be built between the organization and its stake-holders and resource suppliers to successfully implement the strategy.

The limitations of time and resources call for the targeting of the high-priority stake-holders by firstly identifying the stake-holders for the strategy under consideration; and secondly ranking them in terms of importance and position on the issue and plotting them on a grid. The ranking clarifies how much power each stake-holder has, suggesting the extent to which each stake-holder can influence the actions required by the strategy.

The resource analysis follows a similar procedure: firstly the types of resources required to carry out the priority strategy and who might supply them are listed. The resources can be internal and external, fiscal and non-fiscal, such as labour, power and legitimacy, status,

acceptance, knowledge or expertise, time and existing programmes. Secondly the resources required by the priority strategy are assessed in term of their criticality (importance) and potential availability (ease of finding or mobilizing) and plotted on a grid.

The grid allows resources to be interpreted as one of four types called essential scarcity (critical with low availability), core support (critical with high availability), auxiliary support (non-critical with low availability), and irrelevant (non-critical with low availability). This ranking identifies the resources that must be obtained to ensure that a strategy can be implemented, with at least some chance of success.

The identification of stake-holders and resources is needed because a cooperative ecology must be in place before public organizations can offer new initiatives, such as a new service. In building these joint commitments, public organizations must consider whether the service could have harmful effects on both users and private enterprises, and whether it can be supported by taxation, levies or fees.

Everyone is a potential stake-holder in a public organization. which calls for careful assessment of a stake-holder's motives to block the strategy and his or her power to do so. This suggests that the actions of public organizations come under close scrutiny from a variety of sources with the result that each action must be carefully managed if implementation is to be successful.

6.3.5 Implementation

The constraints imposed by political influence, authority limits and public scrutiny, make strategy implementation more complex in public organizations. These factors call for more elaborate procedures that differ from those used in private organizations. A careful consideration of what is needed to make strategy implementation possible, and steps that must be taken to secure the needed support are essential components of strategic implementation in public organizations. In dealing with stake-holders and resource suppliers, public managers must use political instead of power tactics. This final step in the strategic management process deals with the broad-scale concerns raised by a change in strategy or implementation of a new strategy, not with steps to install new procedures.

In strategic management, according to Nutt and Backoff (1992:195-201), tactics are devised to monitor and evaluate stake-holders' predicted actions and to manage resource

suppliers. To monitor and evaluate the predicted actions of stake-holders the organization examines each of the stake-holder categories, viz the antagonistic, advocate, problematic, and low-priority stake-holders.

- Firstly the numbers and proportions of stake-holders in each category are determined.
- Secondly additional analysis is carried out to suggest the extent of stake-holders' support or opposition.
- Thirdly the homogeneity of the stake-holders in each category is determined.
- Fourthly the prospects for a coalition are evaluated and neutral stake-holders who could be influenced are targeted.
- Fifthly the organization selects tactics for dealing with each of the stake-holder categories.

Scenarios are often used to simulate how key stake-holders will respond and to develop tactics that deflect their claims. The tactics for the management of resource suppliers follow the same line of reasoning as that used for stake-holders: the organization examines the resources found in each category viz. essential scarcity, core support, auxiliary support and irrelevant, to determine the number and proportions of resources in each category. The first assessment contrasts the number of resources in the 'essential scarcity' category with those in the 'core support' category. A strategy that relies on scarce resources may be feasible if one of three approaches is followed:

- Firstly, some resources can be shifted from auxiliary support to core support by changing their targeted audience or intended use. This step may require outside approval by the organization's authority network.
- Secondly, internal reallocations, dropping some activities, and re-budgeting, may be desirable for very important strategies. This step also may require outside approval.
- Thirdly, appeals to key stake-holders known to be advocates can be made to promote more funding, user charges, and reallocations among programmes that would make the strategy feasible.

6.4 Operationalization

The process of strategic management has become, according to Nutt and Backoff (1992:152-9), a crucial part of the progressive public manager's work life. The well-trained

public manager of the future should have strategic management skills and should apply them continuously. Nutt and Backoff (1992:152) suggest the formation of a strategic management group (SMG) as the primary vehicle in the strategic management process. The SMG typically consists of the chief executive officer, senior staff members, and up to three levels of management. Research shows that nearly 75% of the information needed in strategy building is organization specific, and informed insiders should therefore be involved in the process. It is not unusual for representatives of advisory or oversight boards or key stake-holder groups to participate. Outsider stake-holders are involved in legitimizing the process at the beginning and become involved again during the formulation and implementation of strategies. The purpose of the SMG is to develop ideas and build consensus for action, translating ideas into plans that can be implemented.

A facilitator could be used to initiate the strategic management process. The facilitator's role is to ensure that the process, if followed, frees the organizational leader to become immersed in the content of strategy. Facilitators can be used to teach the leader or others in the organization how to manage a strategic management process, but should be phased out as soon as the notion of managing strategically takes root in an organization. Because of the need to manage the organization strategically on a continuing basis, the chief executive officer or the manager of the work unit should assume the role of SMG leader. Nutt and Backoff (1992:425-40) have designed a number of forms, worksheets and handouts to facilitate the different stages in the strategic management process.

6.5 Conclusion

This overview of South Africa and perspectives for the future serves to indicate that we find ourselves in a time of great turbulence and uncertainty with a bewildering array of threats and weaknesses within the macro-environment. It is clear that the problems encountered and the possible solutions to counter these problems require strategic thinking and action.

It is the contention that strategic management is one of the most powerful and , useful tools at the disposable of organizations to better accomplish organization goals and ideals arid for the sustainability of their long-term viability. It is furthermore clear that the fast changing macro-environment in which the public sector operates

CHAPTER 7

INTRODUCTION TO PUBLIC POLICY AND POLICY ANALYSIS

OUTCOMES:

After studying this chapter you should be able to:

Understand the concepts policy and policy analysis;

Understand the policy-making process;

Evaluate the policy-analysis models;

Apply policy-analysis models to the process of policy making;

7.1 Introduction

Modern democratic governments are characterized as having a macro policy framework spelled out in a constitution. Constitutions may be written or unwritten and contain the values, norms and principles democratically established by particular societies. A constitution also makes it possible for decision and policy makers to determine broad guidelines and a procedural framework for the effective administration and management of public executive programmes.

In the case of South Africa, the *Constitution of the Republic of South Africa Act, 1991* (Act 108 of 1996), paved the way for a truly democratic dispensation. This dispensation was based on principles such as freedom of speech and association, freedom to assemble, and respect for life and property, as well as maintaining civilised standards and discipline. The 1996 *Constitution*, preceded by the 1993 *Interim Constitution*, indeed reflects a significant change in political thought when compared with the separate development policies of the previous apartheid regime. In contrast with previous constitutions, in which Parliament was the supreme authority, Parliament is now subordinate to the *Constitution* and the 1996 *Constitution* is indeed the highest law or 'authority' in South Africa.

Constitutional reform of such a magnitude inevitably leads to change and transformation in almost all spheres of government and administration. As a matter of fact, there is hardly a functional area of government not touched by the new generation of policy and decision makers in South Africa. From 1994 to

2000, 24 Green Papers and 40 White Papers, which all contain major policy changes, have been presented.

We can accept that the introduction of new executive and departmental policies indeed reflects the values, norms and principles of the 1996 Constitution. But the question remains as to whether these policies are cost-effective and implementable, and whether they will satisfy the needs of a transformed society. In other words, are policies, which reflect the broad guidelines to follow when government objectives are pursued, properly analysed and scrutinised in order to determine whether policy options available are indeed the best and most cost-effective? Will society benefit from, and can government afford, its policy agenda?

Executive programmes of the government cost billions of rand every financial year. Taxes provide most of these funds. It is therefore understandable that taxpayers expect government institutions to act with caution when new programmes and policies are initiated. Once public officials are sensitised to issues of policy analysis, it could become possible for them to make meaningful and structured inputs when considering policy options.

7.2 Definition's of Policy and Policy analysis

It is important to understand concepts such as policy and 'policy formulation' to conduct public policy analysis. Before attempting to define policy, take note that no administrative action can take place if specific goals and objectives have not been set. In practice, this implies that objectives will be set for each government institution. The determination of goals and objectives, as well as the 'guidelines', or policy, to follow to reach particular objectives, should be based on the actual needs of society

.

Normally; public officials and political office bearers would become aware of deficiencies in society. They would also become aware of areas in which government is not rendering a service it should have rendered. After officials

have gathered thorough information, it becomes possible for them to identify objectives. They can also indicate:

- what is intended
- how to go about achieving the objectives
- by what means (i.e. resources and capital needed) the objectives will be achieved.

During this process, they will also consider alternative possibilities or policy options, and the cost beneficial nature of different sets of alternatives.

We should note, particularly, the role of parliamentary portfolio committees and the joint standing committees of Parliament in this regard (see section -1n Constitution of the Republic of South Africa, 1996.

Once policy makers have formulated a policy, the policy must be authorised. It can be argued that a policy becomes significant for the purpose of public administration only after legislation has been passed. Let us consider the definition of Policy as a function in more concrete terms. According to Dye (1995:4), 'Public policy is whatever governments choose to do or not to do.' In reaching this definition, Dye (1995:3) acknowledges the contributions made by: political scientist David Easton, who defines public policy as 'the authoritative allocation of values for the whole society'

Political scientist Harold Lasswell and philosopher Abraham Kaplan, who define policy as 'a projected programme of goals, values and practices'.

Fox and Meyer (1995:107) define policy as 'authoritative statements made by legitimate public institutions about the way in which they propose to deal with policy problems'.

More acceptable, however, for the purpose of this chapter, is the definition by Anderson (1997:9), as based on the work of Political Scientist Carl J. Friedrich. Anderson defines policy as 'a proposed course of action of a person, group or government within a given environment providing obstacles and opportunities which the policy was proposed to utilize and overcome in an effort to reach a goal or realize an objective'.

Given the above, public policy refers to 'a proposed course of action' of government, or guidelines to follow to reach goals and objectives, and is continuously subject to the effects of environmental change and influence. Public policy, indeed, is also an 'authoritative statement' on what government 'chooses to do or not to do' and incorporates, or implies, the 'authoritative allocation of values for the whole society'.

Of importance is the fact that policy can never be static. It should always relate to current issues in society. It should constantly be adapted to match the impact of environmental variables and influencing factors. Policy should therefore be dynamic, including influencing factors such as the following:

- circumstances, which include the total environment, as determined by time and place
- technological developments
- population increase and the effect of urbanisation
- natural disasters
- international relations and trends, as well as the effects of globalisation
- economic and industrial development
- public needs and aspirations
- party political dynamics
- views of interest and pressure groups
- research and investigations by commissions and committees
- personal views of public officials and political role players.

While policy is a dynamic phenomenon, we should note that objectives, by themselves, are static. This implies that policy containing the broad guidelines or courses of action of government must change according to need, whilst objectives will be fixed or static in terms of time.

To understand public policy we need abstract thinking. Policy, in itself, is not discernable unless written or contained in a document. Even then, it can be argued that it is not the policy which can be seen but merely the written word or the document. Contained in the document, therefore, is the formulation, in writing, of

the intent of government, or the course of action to follow, regarding particular functional areas. We should note, further; that some policies that established institutions follow might not even be in writing. This is because, over time, officials develop a particular *mindset, organisational culture and perspective* on how, when and where to do things. In this case, policy is indeed an intellectual understanding amongst colleagues of the course to follow in order to achieve objectives most effectively, as proven by experience.

In the past, comprehensive debate on the rightful place of Policy Analytical Studies, amongst scholars from Public Administration and Political Science led to much confusion on the academic status of the subject matter. To avoid such possible misunderstanding, we should note that policy manifests on different levels, i.e.

- political Party policy
- government policy, or cabinet policy
- departmental policy
- operational or administrative policy

In practice this implies that, from the angle of the scientific discipline of Public Administration, the assessment or analysis of policy issues, and the methodology followed, will mainly focus on departmental and operational policy levels. For the political scientist who studies Political Science as an academic discipline, Policy assessment and the methodology employed might be the same, but with a specific focus on the political party policy and government policy levels. The distinctive character and nature of the different policy levels are such that academic discourse is unnecessary. We should avoid it if possible. The focus of this chapter will be on policy issues and analysis within the field of activity of Public Administration.

Although a single definition will most probably not display the full scope and meaning of the theory and practice of policy analysis, the following definitions, might be useful in understanding the concept better.

Dunn (1981:35) defines policy analysis as follows:

Policy analysis is an applied social science discipline which uses multiple methods of inquiry and argument to produce and transform policy-relevant information that may be utilized in political settings to resolve policy problems.

Hanekom (1987:65) provides the following definition:

Policy analysis is an attempt to measure the costs and benefits of various policy alternatives or to evaluate the efficacy of existing policies: in other words, to produce and transform information relevant to particular policies into a form that could be used to resolve problems pertaining to those policies.

Weimer and Vining (1989:1) define policy analysis merely as client-orientated advice relevant to public decisions.

In view of the above-mentioned definitions, Quade's (1975:4) approach to the policy analytic process is probably much more pragmatic. He writes that it could include any type of analysis that generates and presents information in such a way as to improve the basis for policy-makers to exercise their judgement ... In policy analysis, the word analysis is used in its most general sense; it implies the use of intuition and judgement and encompasses not only the examination of policy by decomposition into its components but also the design and synthesis of new alternatives. The activities may range from research to illuminate or provide insight into an anticipated issue or problem to evaluation of a completed program. Some policy analyses are informal, involving nothing more than hard and careful thinking, whereas others require extensive data gathering and elaborate calculation employing sophisticated mathematical processes.

Taking into account the above-mentioned definitions, we may state, provisionally, that the discipline of policy analysis could be considered to be a social or *human* science. In practice, this assumes that various methods and techniques could be applied in order to analyse information relevant to policy to such an extent that meaningful solutions for policy problems can be found, and the costs and benefit, of the policy options envisaged, as well as the probable effectiveness of existing

policy trends can be determined. Policy analysis could also be undertaken on a highly *formal, scientific* basis. It could also be performed by using less formal, but logical, reasoning.

Some authors tend to view the policy process, or policy formulation, as fairly synonymous with decision making. Owing to this tendency, we should take care not to confuse these concepts:

Decision making is a neutral activity, which is undertaken time and again in carrying out management and administration. Decision making, indeed implies an intellectual activity - choosing between two or more sets of facts or options. The processes that constitute decision making differ fundamentally from those that constitute policy making or policy formulation.

Policy-making encompasses a series of actions extending over time and includes many decisions, some routine and some not so routine

7.3 Participants in policy analysis

The formulation of public policy rests, in practice, mainly with the legislative institutions at the different levels of government and administration, political functionaries, leading public officials, pressure groups and interest groups. These institutions and people, however, cannot play a central role in policy formulation if adequate information relevant to policy is not available. It is mainly in this context that public officials, who perform their duties on a daily basis at grass roots level, are in a position to provide valuable information for the development of public policy. It is the public official who is confronted continuously with the implementation as well as the cause and effect of policy. The public official, therefore, is in an excellent position not only to identify limitations and constraints in policy, but also to initiate effective procedures to rectify them.

This practical reality coincides partially with Quade's premise that policy analysis, in some cases, is nothing more than well-considered and accurate reasoning in respect of policy matters. This means that officials who are conversant with the basic methodology of policy analysis could possibly play a more important role in

the practical analysis of public policy in future. As mentioned, the official is strictly speaking in an excellent position to make a contribution in this regard.

It is unfortunately true that senior officials are so involved in the daily functional activities of a department that few opportunities occur to enable them to consider policy matters analytically. Hanekom (1987:69-70) remarks as follows:

The public official ... has to carry the burden of other administrative and functional activities and can therefore devote only a limited amount of time to the actual analysis of policy. The result is that other bodies become involved in policy analysis, either as individuals or as groups specifically appointed for the purpose of policy analysis ...

It is not wrong to appoint private consultants for policy analysis. It could even be argued that such individuals or groups are in an excellent position to analyse policy objectively. But officials, after all is said and done, are in more favourable positions to determine the cost-effectiveness of policy. Such officials know the internal activities of the department and we should regard them as the primary role players in the process of policy analysis.

If the need for formal departmental policy analysis exists, we should consider the creation of a unit or division in a department, with specifically assigned officials who have the primary task of investigating policy matters on a more scientific basis. That is to say, supplementary to the view that all officials who are involved in policy matters should also look at policy from an analytical standpoint, these officials should be identified as role players in policy analysis.

Apart from the main participants in policy analysis, mentioned in the preceding paragraphs, the following participants or role players could also be involved, depending of course on the nature of the policy under investigation:

- non-governmental organisations (NGOs)
- civilian-based organisations (CBOs)
- research institutions, i.e. the Human Sciences Research Council, the Council for Scientific and Industrial Research, the National Policy Institute

- media
- political parties
- commission, of inquiry
- interdepartmental and departmental committee',,
- parliamentary committees, i.e. the Standing Committee on Public Accounts (SCCPA)
- central directive and co-ordinative institutions, i.e. the Department of Finance, the Department of Public Service and Administration
- international organisations
- departmental portfolio committees.

Although this list is by no means complete, it does indicate the extent of individuals or institutions that might directly or indirectly influence policy outcomes. We should note particularly, however, the recent influence of the international environment on national or domestic policy issues. In this day and age, no country can view itself as an island. All countries, great and small, developed or underdeveloping, experience the effects of globalisation. Needless to say, this also applies to South Africa and, in broader terms, the African continent (Venter 2000:3).

The term 'globalisation' refers to the ideology and process of a borderless world, evolving from a realisation that nations and countries are increasingly becoming interdependent. This interdependence covers the full spectrum of political, socio-economic, scientific and technical issues. The following are all matters, amongst others, which necessitate some form of regional or international co-operation and interdependence amongst countries:

- pressure on scarce resources
- poverty
- underdevelopment
- human rights violations
- economic recession
- refugee migration
- uncontrolled capital flow
- environmental deterioration, for example ozone problems and global warming.

Post-1994 trends truly reflect South Africa's reentry into the international arena. South Africa:

- took up membership of, amongst other organisations, the United Nations, the European Union, the Commonwealth and the Organisation for African Unity, which is now the African Union
- was also able to obtain access to funding by the World Bank and the International Monetary Fund (Thornhill 2000:2)
- Obtained access to grants from various donor organisations, such as the European Union, the Dutch Government, USAID, AUSAID, the Open Society, the Ford Foundation and the Kellogg Foundation.

These international organisations and agencies, in various ways, set the standards against which national policy formulation can be benchmarked, although they cannot formulate national policy as such.

On operational level, public officials from the various government departments increasingly become involved in matters that directly relate to the requirements and workings of international organisations or supranational organisations. The following examples illustrate these:

- The European Union requires adherence to standards in so far as trade and industry are concerned. South Africa is presently one of Europe's significant trading partners and officials involved in monitoring trade agreements need to know the nature and content of such agreements.
- The national health standards applied by the Department of Health, and related health organisations, accord with standards laid down by the World Health Organisation (WHO).
- The requirements of the International Labour Organisation (ILO), insofar as labour practices are concerned, apply in South Africa. Officials from the national Department of Labour play a major monitoring and co-ordinating role in this regard.
- The United Nations Universal Declaration of Human Rights relates to the dignity and basic rights of all people. The International Universal Declaration of

Human Rights is reflected in the Bill of Rights as contained in the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996).

- The requirements of the European Union (EU) apply insofar as donor funding for the development of public management capacity in South Africa is concerned.

Identifying various participants, role players or stakeholders in the process of policy analysis also implies the clear identification of the client. The reason for this is that it can be argued that 'the client'

- represents the authority who requests the analysis of a particular policy, or
- refers to those individuals, or sections of society, which will be the beneficiaries of particular policy outcomes.

For the purposes of this chapter, the viewpoint is held that the main objective of public policy analysis is finding the best policy options available, i.e. finding those options that will best address and serve the needs of the public. The 'client', within the context of public policy analysis, should therefore be those members of the public who will benefit from a particular policy outcome, as stated above. This issue also has some ethical implications, which we shall consider below.

7.4 The role and characteristics of the policy analyst

People who have a natural inclination for conducting policy analysis appear also to derive satisfaction from doing any kind of scientific research. In pure scientific terms, it is normally agreed that the existence of a problem stimulates and motivates research, in itself, and that a clear 'statement of the problem' precedes any scientific research programme. As we shall discuss further in later paragraphs, this also serves as the starting point of any policy analytic investigation.

In practical terms, this implies that, for the policy analyst, a researchable problem must exist; which, after thorough data collection and systematisation of knowledge, could lead to a point where alternatives could be identified and recommendations be made.

It is clear that the analysis of a policy, either prospective or retrospective, by a policy analyst aligns well with the procedure and methods that the conduct of any kind of scientific research follows. Indeed, this also underscores how important it is for policy analysts to have proper knowledge of the basic, underlying principles of scientific inquiry.

If we argue that the identification of goals, objectives and alternatives represents probably the most important phase in the process of policy analysis, the immediate questions to arise would be:

- What is required from the analysts in their search for alternatives?
- What should their competencies be?

Finding alternatives, based on the precondition that analysts have all the policy relevant information at their disposal, will require critical and creative thinking, as well as the ability to invent and design. In fact, it also requires imagination, intuition and sound judgement. Weimer and Vining (1989:201), for example, argue: 'Certainly this is one area of policy analysis in which you should stretch your imagination. Much of the intellectual fun of policy analysis arises in trying to come up with creative alternatives.'

Critical thinking is defined by Ennis (1987) in Das (1994:334) as 'reasonable reflective thinking that is focused in deciding what to believe or do'. Das (1994:334) argues further that this definition does not exclude creative thinking. Formulating hypotheses, alternative ways of viewing a problem, questions, possible solutions, and plans for investigating something are creative acts that come under this definition. However, a more explanatory definition, which would include critical thinking and creativity, is provided by Kurfiss (1988) in Das (1994:334). Kurfiss argues that critical thinking (including creativity, for the purpose of this argument) implies 'an investigation whose purpose is to explore a situation, phenomenon, question or problem to arrive at a hypothesis or conclusion about it that integrates all available information and that can therefore be convincingly justified'.

For policy analysts to seek alternatives by, amongst other things, also using their imagination and creativity, they should:

- keep all assumptions open to question
- aggressively seek divergent views
- ensure that inquiry is not biased in favour of a particular outcome.

In sum, analysts must objectively assess policy relevant information so as to determine the best policy option (see also Quade 1989:128 and Weimer & Vining 1988:201 et seq.).

In addition to the above-mentioned requirements, policy analysts should also keep the following aspects in mind (see Roux in Cloete and Wissink 2000:130-132):

- Do not expect to find the perfect policy alternative.
- Do not contrast a preferred policy with a set of obviously unattractive alternatives.
- Do not let subjectivity overrule objectivity.
- Ensure that alternatives are mutually exclusive.
- Avoid formulating too many alternatives.
- Do not choose alternatives that are too general and all-inclusive.
- Be able to move from 'concept' to reality.

The description above does not necessarily provide a complete agenda for the competencies and skills required and important aspects to consider. However, it could stimulate constructive thought on policy problems, as well as sensitise the mind when policy alternatives, or options, are designed.

7.5 Ethics and policy analysis

Ordinary human beings undertake policy analysis, whether on a formal or informal basis. This implies that policy analysts are subject to the issue of *objectivity* and *subjectivity*. At a particular stage during policy analysis, they have to decide whether considering alternative policy options and recommendations would be to

the advantage or disadvantage of the client. This decision borders on the question of *ethics*, or the maintenance of high ethical norms and standards in any activity, but more particularly when conducting policy analysis and recommending policy.

Let us consider the concept of 'ethics' in some detail. The concept of 'ethics' has its origin in Greek. The Greek *ethos* refers to the inner disposition and ethos without the accent on the first V, refers to morality. Ethics refers to the guidelines which direct the conduct and activity of staff in public institutions and which we might call 'moral laws'. The adjustment and modernisation of methods and procedures will be in vain if the staff who apply these procedures and methods do not uphold high moral standards (Andrews 1987:37).

Ethics also refers to the idealistic dimension of human existence; that is to say, the normative or that which should apply in a person's daily behaviour. This alludes to the way in which the individual's approach to life in reality becomes embodied in his or her ideal perceptions of what is right, good and beautiful. In this way, 'ethics' emphasises quality of life (see Davitt 1970:238).

In less philosophical terms, it could be argued that public managers interpret ethical behaviour as the correct moral activity. This means that they should adhere to the prescribed rules for moral behaviour. The ethos, or the moral, should therefore be supported by particular values and norms and an ethical code that is acceptable to society (see Denhardt 1988:37).

In practical terms, what we have discussed above implies that policy analysts, particularly those who function on a private consultancy basis, should try to maintain the greatest degree of objectivity when decisions are taken in respect of alternative policy options. They should thus act in a scientific manner and as objectively as possible. This means that they should relegate personal values to the background in the decision-making process. They should give high priority to the value concepts of those who are involved in particular policy options and resultant policy changes. It is unfortunately true that human beings tend to take decisions

according to what they perceive as good, beautiful and precious, i.e. valuable, and that, as a result, they ignore the value systems of other people.

The concept of 'loyalty' further complicates this problem. The questions thus arise:

- To whom should the policy analyst be loyal when policy proposals are made?
- Should the client, i.e. those who are ultimately affected by particular policy changes, benefit from particular policy decisions?
- Should policy options be given so that those who gave the initial instruction for the analysis of a particular policy benefit from the decision?

It is possible that a policy analyst might think that a minister or public official who gives the instruction for an analysis is also the official who will have to meet the cost of professional fees at the end of the policy investigation. Policy options should therefore be formulated so that the policy is acceptable to the minister or public official giving the initial instructions, rather than the client alone reaping the benefit.

If we accept that public officials function within a political milieu and are considered to be an extension of the legislature, then we can apply the arguments mentioned above to the cases of officials involved in policy analysis. The following questions arise:

- Should decisions on alternative policy options be taken so that political advantage is obtained from them?
- Should policy options be considered in a spirit of rendering service and promoting the welfare of society?

The objectivity or subjectivity of any scientific investigation, and also any scientifically-based policy analysis, should be measured. Policy analysts must act with circumspection and professionalism and within accepted guidelines provided by the values of society.

Policy analysts need the following attributes to conduct professional policy analysis:

- honesty
- integrity

- competence
- diligence
- loyalty
- discretion.

These characteristics cannot necessarily guarantee that policy analysts will act ethically and will maintain absolute objectivity. However, their presence in an official capacity should ensure that politically sensitive policy analysis and advice is formulated with the necessary balanced insight and circumspection.

7.6 Policy analysis models

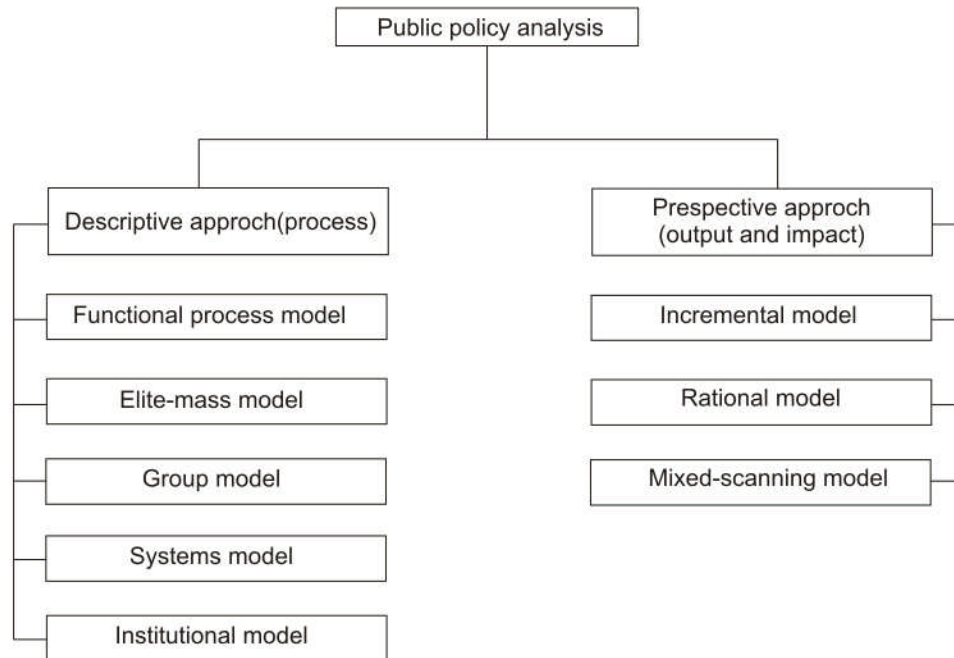
In order to obtain insight into and the understanding of the theory and practice of academic disciplines, scientists use models. Using this method, we describe and explain specific scientific phenomena in a particular field by means of models. In this respect, models are merely instruments in the hands of researchers. Researchers use them to study environmental phenomena systematically and according to a particular approach. Researchers can choose their models. Their choices of particular models reflect, in part, the inevitable subjectivity present in any scientific research. This subjectivity also applies to policy analysts who, on account of particular factors present, may decide on specific models for policy analysis.

Various analytical models for the better understanding of public policy have been developed. Some of the models have their roots in the decision-making process, which has been adapted for policy analysis. The generic administrative function can also be used as a model for policy analysis by determining to what extent a specific policy is applicable or not in terms of the composite sub-functions (the six administrative functions of: policy-making; organising; financing; personnel provision and utilisation; the design of work procedures; and the determination of measures of control) of the comprehensive administrative process.

Policy analysis models may be classified into two types, viz. descriptive and prescriptive models.

7.6.1 Descriptive models

The following are descriptive models, which are the outcome of the empirical approach:



Functional process model

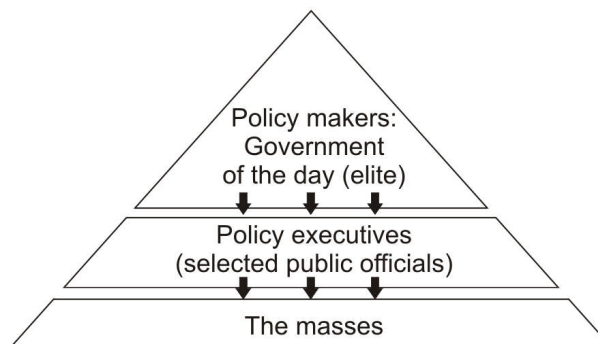
The functional-process model for public policy analysis focuses on the functional activities involved in policy-making (the process) and considers the following questions:

- How are alternative recommendations on a particular matter formulated and made known?
- How, and by whom, are measures formulated and applied?
- Who decides whether a particular action is a contravention of the law, and who demands enforcement of the law?
- How is legislation applied and enforced?
- How is application of policy judged with regard to its success or failure?
- How is initial legislation terminated or continued in amended form?

From the questions it can be deduced that the functional-process model lends itself to a comparative study of policy-making. The form of the questions suggests that policy formulation is a purely intellectual process. This represents an inherent shortcoming of this model because policy-making is affected by so many different factors that it is shortsighted to see it as merely intellectual.

Elite or Mass model

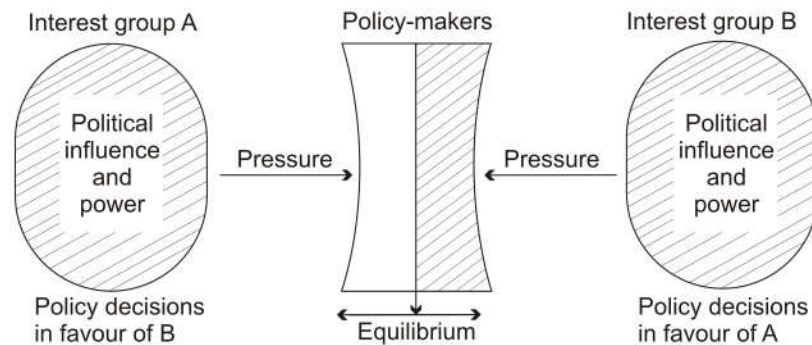
The elite-mass model for policy analysis is the model best known by public administrators. This model postulates that a small elite group is responsible for the formulation of policy. The policy flows downward from the elite to the masses and is applied to the masses by a select group of government institutions and public officials. The model is illustrated below. One of the assumptions of the elite-mass model is that the elite have consensus of opinion policy and that the continuance of a system is dependent on the continued consensus of the elite. The need of the masses is secondary to the interests and values of the elite.



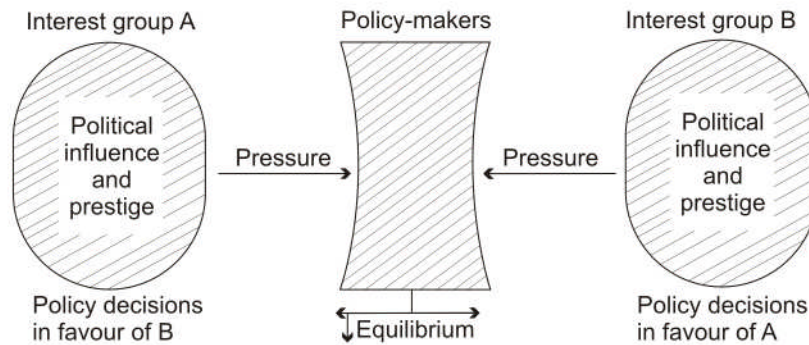
Group model

Due to the interaction between organised interest and pressure groups on the one side and the policy-makers on the other side, the aforementioned groups are able to play an important part in the formulation of policy, hence the group model for public policy-making. The group serves as a link between the individual and the legislator. The influence and power of the group is determined by its membership, leadership, cohesion, access to policy-makers, and money.

The group model is represented diagrammatically below.



This representation implies that the two interest groups enjoy exactly the same measure of political influence and prestige and the decisions by the policy-makers are in equilibrium, benefiting both groups equally. The possibility that two opposing interest groups can exert equal influence is very remote, however. In practice, it is more likely that one group would have greater political influence than the other. Diagrammatically, the situation can be represented as follows:

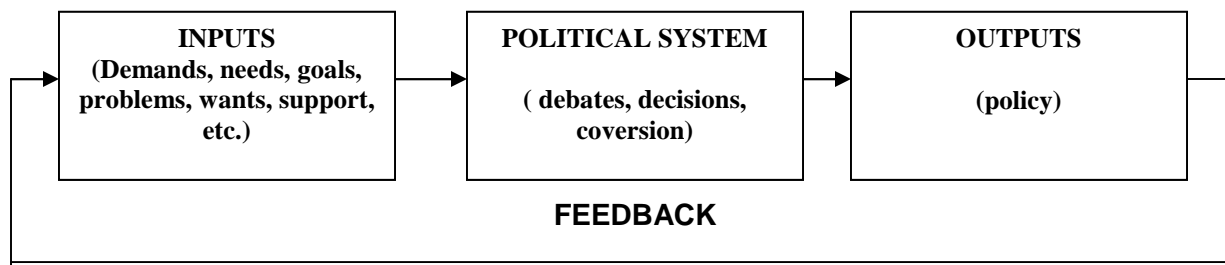


As the diagram shows, policy decisions are entirely in favour of interest group A. Any change in the political influence and prestige of an interest group directly influences public policy. It is possible that policy is adapted in the direction of the group with increasing prestige, with a movement away from the group that has forfeited it. It may therefore be said that public policy is the equilibrium reached in the struggle between groups.

Systems model

The systems model for policy analysis regards public policy as the response to factors acting on it from an external environment. The factors from the external environment, such as demands from individuals and groups for satisfaction of their needs, and their support by obeying the law and by paying taxes, serve as inputs to the political system, where, through the complex political process, the inputs are debated, decided upon, and converted into outputs (policy). Once the policy is implemented, feedback is required to determine whether or not the policy has had its desired effect. If not, the process of policy evaluation and policy-making is repeated.

This model is represented as follows:



Institutional model.

Traditionally, the institutional model of policy analysis was intended to give a description of the roles of the various government institutions involved in policy-making. Recently, the focus has shifted to an analysis of public policy as the product of institutional activities. The premise of the institutional model is that public policy is formulated and implemented by government institutions.

7.6.2 Prescriptive approaches

The second focus in policy analysis is the analysis of the policy outputs and impact with a view to the improvement of both, in other words to be normative and prescriptive. The best known prescriptive policy analysis models are the rational, the incremental, and the mixed-scanning models.

The rational model

The rational model implies (as in decision-making) a comprehensive approach. The following requirements hold for rational policy-making:

- Detailed knowledge of the value preferences of the society and their importance is necessary;
- All the relevant policy alternatives must be known;
- All the consequences of each policy alternative must be calculated;
- The ratio of realized/abandoned aims for each policy alternative must be determined;
- The policy alternative must be selected that will make the greatest contribution, in terms of costs, to the welfare of the community at large.

The assumption is that the value preferences of the community as a whole are known and can be weighed. This will eventually lead to a rational policy decision that will most effectively realise a specific goal. The value of the rational model for public policy analysis lies in the prescriptive approach followed: how public policy ought to be formulated. Variations of the rational model for policy analysis are the questions of public choice and political economy and the evaluation of technology.

Public choice emphasises the role of decision-making structures, goods and services, joint action, and the requirements for constitutional government.

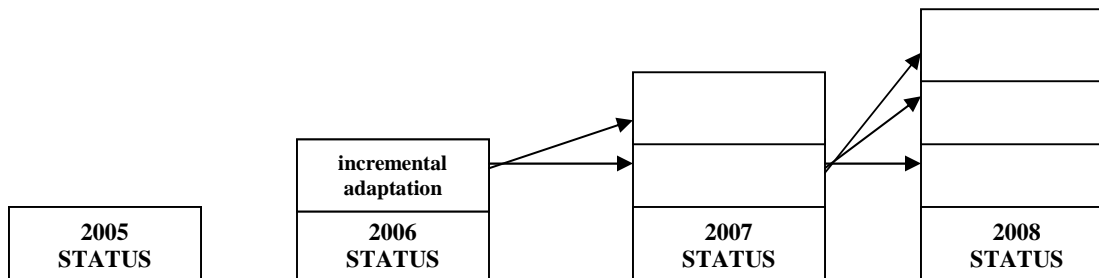
Political economy is based on evaluation of policy in terms of the economy; for example, should the taxation of cars be based on their pollution quotient or on their mass?

The starting point in the **evaluation of technology** is to ascertain the influence of technology on the community.

The incremental model

The incremental model for policy-making regards public policy as the continuation of existing government activities with only incremental adaptation to provide for changing circumstances. Applied to policy analysis it means that only a limited number of alternatives is available for policy-makers and each of the alternatives differs only marginally from the status quo. In practice the status quo maintained with only marginal adaptations because of vested interests, the impossibility of obtaining full data on all aspects of policy, and expediency.

The incremental model for policy analysis can be represented as follows:

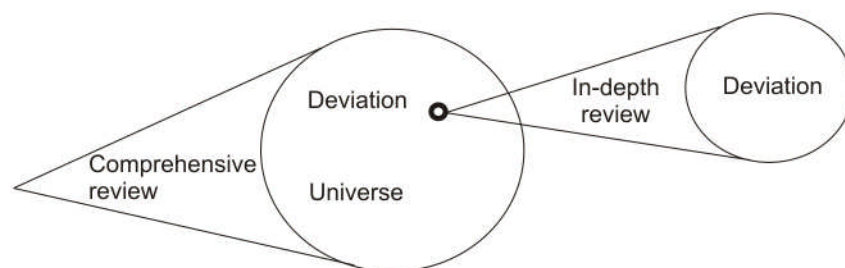


If 2005 is taken as base year for a specific policy, then the section at the top in the diagram for 2006 represents the incremental adaptation in the policy. It is also possible to return to the status quo of 2005.

The mixed-scanning model

The mixed-scanning model for decision-making was suggested as an alternative to the rational comprehensive and incremental decision-making models. Mixed-scanning attempts to integrate the best qualities of both the aforementioned models by reviewing comprehensively the overall situation or universe and then concentrating on the deviations. Applied to policy analysis it would be possible to make a comprehensive survey of a specific policy, eg. the South African sports policy, and then to concentrate on the policy of grants to sporting bodies; or to make a study of the education policy in general and then to concentrate on the training of mathematics teachers.

The mixed-scanning model of policy analysis can be illustrated as follows:



In the light of these descriptions, we should bear in mind that models are only aids or instruments in the hands of policy analysts. Analysts also have choices regarding the type of models they intend to use. They may choose to use, for

example, the generic administrative and management paradigm as a model. Circumstances will exercise a decisive role in this choice. Although the choice of a model partly reflects subjectivity, policy analysts should try to maintain the greatest degree of objectivity during the analysis.

7.7 Policy implementation, monitoring and evaluation

The process of implementation should start after the formulation and thorough analysis of public policy. However, it appears that this phase in the policy process tends to be the most problematic one in terms of practical policy execution. Sound policies are annually formulated and analysed in government's quest to offer South African society the best policy options available. Unfortunately, such options do not always include a well-designed programme on the practice of implementation. This appears also to be symptomatic of policy failures elsewhere in the world (Hogwood & Gunn 1986:197).

This underscores the fact that the task of the policy analyst does not end after the best options or policy alternatives have been identified. The role of the policy analyst should include the responsibility to advise on implementation as well. After all, the policy analyst could be seen as the architect of a particular policy, and should therefore be co-responsible, not only for analysing policy issues, but also for the management and implementation of the total policy

An implementation programme should take into consideration the following requirements:

- the financial or budgetary requirements brought about by new policies or changes in existing policy;
- organisational and administrative requirements, i.e. the administrative and organisational capacity of the department responsible will have to be realigned, or changed, if necessary, in order to cope with new policy challenges;
- human resource requirements, because implementing policy implies not only the availability of trained staff, but also their commitment to pursue goals and objectives in a professional way.

We need to investigate who has to do what, when and how, in order to co-ordinate activities in the implementation plan and to ensure that time frames and deadlines are met. As suggested above, the policy analyst should accept co-responsibility in the management of the implementation programme. The analyst should carry out this responsibility in an objective, unbiased way. They should, where possible, be prepared for possible failures or unanticipated consequences. They should be willing to redesign alternative options if earlier assumptions fail to meet practical realities.

7.8 Monitoring and evaluation

Implementing public policy also requires the effective monitoring and evaluation of policy outcomes.

7.8.1 Monitoring

According to Dunn (1981:275), **monitoring** is the policy-analytic procedure we use to produce information about causes and consequence of public policies. It specifically permits analysts to describe relationships amongst policies, their implementation and their outcomes. As such, it represents a vital element in policy management. Monitoring performs at least four major functions:

Compliance: Monitoring helps determine whether the actions of programme Administrators, staff and other stakeholders comply with standards and procedures imposed by legislatures, regulatory agencies, and professional bodies.

Auditing: Monitoring helps to determine whether resources intended for certain target groups and beneficiaries of policy have actually reached those groups.

Accounting: Monitoring produces information that is helpful in accounting for social and economic changes that follow the implementation of broad sets of public policies and programmes over time.

Explanation: Monitoring also yields information that helps to explain why the outcome of public policies and programmes differ (Dunn 1981:278-279)

7.8.2 Evaluation

Evaluation is a process carried out to determine the worth or value of policy outcomes. Evaluation has to do with the critical assessment of policy implementation. Evaluation also determines the impact of policy outcomes. The following are the main characteristics of evaluation:

Value focus: Evaluation focuses on the value of policies and not on the collection of information about policies.

Fact-value interdependence: Evaluation should be based on facts, but also incorporate value judgements.

Present and past orientation: Whereas policy recommendations are prospective in nature and occur before actions have been taken, evaluation is retrospective and occurs after actions have been taken (Quade 1989:272-273).

The policy analytical process will never be complete if we do not give serious attention to the practical manifestation of policy options. Designing implementation strategies, as well as determining the feasibility of such strategies or programmes, is of utmost importance if government is serious about its objectives. In this regard, policy analysts could play vital roles in ensuring not only the design of effective policy options, but also the realistic implementation, monitoring and evaluation of policy outcomes.

7.9 Conclusion

This chapter focused on policy and policy analysis as one of the generic administrative processes of public administration. It goes without saying that policy formulation and implementation are fundamental to the successful functioning of any government and provide the means by which the wheels of government turn.

CHAPTER 8

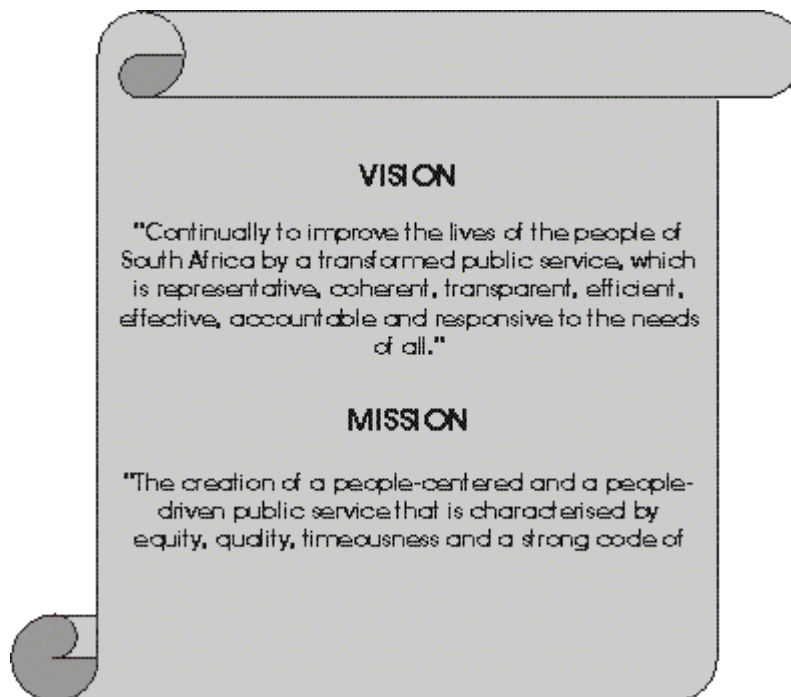
SERVICE DELIVERY CHALLENGES AND SOLUTIONS

8.1 Introduction

All service delivery starts with a vision and a commitment to a mission to make it happen. The South African government has adopted the vision and mission the following pages for the new Public Service, in it's quest to transform it from a rules bound entity, concerned with the administration of rules and regulations to a result driven organisation, intent on improved service to all South African citizens.

The vision and mission are the well spring of public service delivery. They are the source from which the spirit of Batho Pele flows, infusing every process of government with the compelling need to "put the people first". They are based on a fundamental redefinition of the role of the State and its relationship to society. Government is aware that the process of transformation can only succeed if its carried out in partnership with the organizations of civil society.

8.2 Vision and mission



8.3 Background

When the new South African Government was elected to power in 1994 it had a special mandate to provide appropriate services to all the people of the country. This was, still is and will continue to be a massive responsibility of government and one that requires total commitment by people at all levels of government, if it is going to be fulfilled.

The new government made a promise to the people of South Africa that they would serve the people without discrimination, respecting the dignity of all and ensuring that the needs of the majority of the population, who had been disadvantaged in the past, are met efficiently and effectively.

This promise is unequivocally spelt out in the South African Constitution of 1996, which stipulates that the public service “must be governed by the democratic values and principles enshrined in the Constitution, including the following principles:

- (a) A high standard of professional ethics must be promoted and maintained.
- (b) Efficient, economic and effective use of resources must be promoted.
- (c) Public administration must be development-oriented.
- (d) Services must be provided impartially, fairly, equitably and without bias.
- (e) People’s needs must be responded to, and the public must be encouraged to participate in policy-making.
- (f) Public administration must be accountable.
- (g) Transparency must be fostered by providing the public with timely, accessible and accurate information.
- (h) Good human resource management and career development practices, to maximise human potential, must be cultivated.
- (i) Public administration must be broadly representative of the South African people, with employment and personnel management practices based on ability, objectivity, fairness, and the need to redress the imbalances of the past to achieve broad representation.”

These principles are intended to guide the transformation of the public service, from being a rules-bound, bureaucratic entity, concerned with the administration of rules and regulations, to a dynamic, results-driven organisation, committed to delivering appropriate services to the people.

Since 1994 government has passed a substantial body of enabling legislation to create an environment conducive to the rendering of appropriate services to all the people of South Africa. This body of legislation is referred to as the Regulatory Framework.

To support the implementation of the service delivery mandates contained in the Regulatory Framework, government introduced the new Public Service Management Framework (PSMF).

While the PSMF incorporates a range of integrated management interventions to help managers deliver the services promised by government, its fundamental message to all public servants is to consult with their end-users to establish their needs and how best to provide for these needs. It urges managers in the public service to be innovative in service delivery, rather than following existing procedures slavishly.

However, it soon became evident that, despite government's commitment to service delivery, its promise of a better life for all would not be met unless a culture of service delivery, which put the "customer" first, could be inculcated throughout the entire public service.

8.4 Batho pele concept

To promote this notion of "putting people first" and to provide a framework for the transformation of public service delivery, government introduced the concept of *Batho Pele*, "people first" in 1997. This notion was expanded in the White Paper on Transforming the public service, also known as the *Batho Pele* White Paper, which provides a policy framework to ensure that *Batho Pele* is woven into the very fabric of government.

Simply stated, *Batho Pele* is an initiative to get public servants to be service orientated, to strive for excellence in service delivery and to commit to continuous service delivery improvement. It is a simple, transparent mechanism, which allows customers to hold public servants accountable for the type of services they deliver.

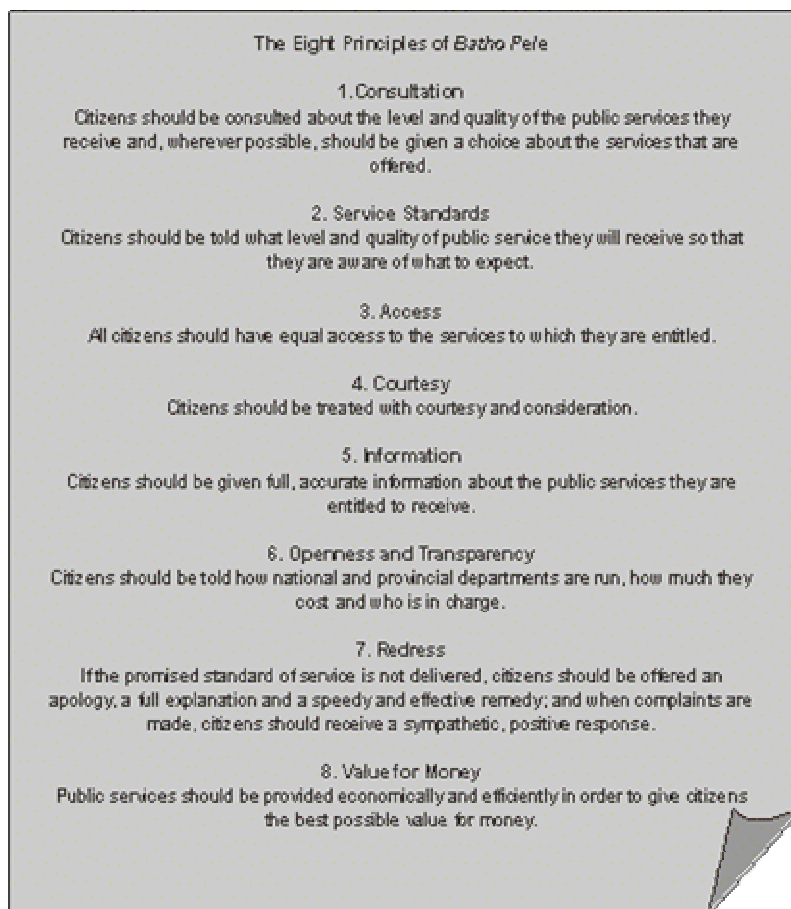
The *Batho Pele* White Paper signalled very strongly government's intention to adopt a citizen-orientated approach to service delivery, informed by the eight principles of

consultation, service standards, access, courtesy, information, openness and transparency, redress and value for money.

Batho Pele should not be construed as a separate or “bolt-on” management exercise that needs to be attended to on an annual basis. It needs to be embraced as an integral part of all management activities to ensure that every management process is aimed at improved service delivery and customer satisfaction.

The *Batho Pele* policy remains government’s single most important campaign to achieve the necessary transformation of the hearts and minds of public servants and to put the citizen at the centre of planning and operations.

Every person who works in the public service should be proud to be a servant of the people and relish the challenge of providing improved services to all. *Batho Pele* is the soul of the public service and the heartbeat of the nation that will help us rise above the legacies of the past and drive us forward with courage and pride. In a nutshell, the following are the basic principles of Batho Pele:



8.5 The batho pele revitalization strategy

Since 1997, much has been done by government departments and frontline service delivery institutions to raise levels of awareness around Batho Pele principles and to embrace these in their service delivery transformation initiatives.

However, there has been a growing recognition that while the policy has been enthusiastically received and has become an effective brand name to signify the intention to improve service delivery, its actual implementation has been slow. It is against this background that the Batho Pele Revitalization Strategy was developed and disseminated to government departments during the course of 2001.

The *Batho Pele* Revitalisation Strategy represents a framework within which efforts to intensify the *Batho Pele* campaign could be structured. It is supported by four pillars, namely:

- ❑ Re-engineering and improving the back-office operations of government;
- ❑ Re-engineering and improving the front-office operations of government;
- ❑ Internal communication; and
- ❑ External communication.

Each of these pillars is unpacked below.

8.5.1 Re-engineering and improving the back-office operations of government

This includes efforts to improve systems, work processes and institutional structures, which collectively make service delivery possible. Typical examples of re-engineering and improving back-office operations are:

- ❑ introducing effective performance management systems;
- ❑ revising organisational structures to support work objectives;
- ❑ re-organising work processes to use staff optimally and minimise inefficiencies;
- ❑ utilising appropriate forms of technology; and
- ❑ improving conditions of service.

Back-office operations often constitute the core of the machinery of service delivery. If they are ineffective or poor, the quality of services experienced by consumers is compromised. Although the consumer generally does not see these operations and is largely unaware of them, they are key to shaping and sustaining the nature and extent of

the services citizens eventually receive. They represent the macro organisational issues that ultimately make service delivery improvement possible.

8.5.2 Re-engineering and improving the front-office operations of government

This is the actual interface between the public service and citizens. This is the “face” of government citizens see and very largely determines their opinions of government. Typical examples of these operations are:

- ❑ accessing health services at a clinic or hospital;
- ❑ obtaining passports, birth certificates or ID documents;
- ❑ applying for a housing subsidy; and
- ❑ admitting children to school and interacting with teachers and school authorities.

These operations are very visible and are mostly supported by back-office operations.

8.5.3 Internal communication

This involves efforts to promote communication within government about service delivery transformation and about the critical role that public servants play in the lives of citizens. The purpose of internal communication is to instil a greater sense of pride and even patriotism in public servants and to lift their morale. Good internal communication can build a strong organisational culture of customer service, promote a sense of belonging and a common purpose and make people proud to serve their country by serving their fellow countrymen and women.

8.5.4 External communication

The purpose of external communication is to find out what end-users need and expect in terms of service delivery and, once the services have been defined, to inform them what services are available to them and what their rights and obligations are in accessing public services. External communication is a two-way process, it involves listening to stakeholders, on the one hand and providing them with useful information, on the other. It helps to build constructive relationships that will support the process of improving service delivery. The relationship between the above-mentioned four pillars of the *Batho Pele* Revitalisation Strategy can be represented graphically as indicated in the diagram on the following page.

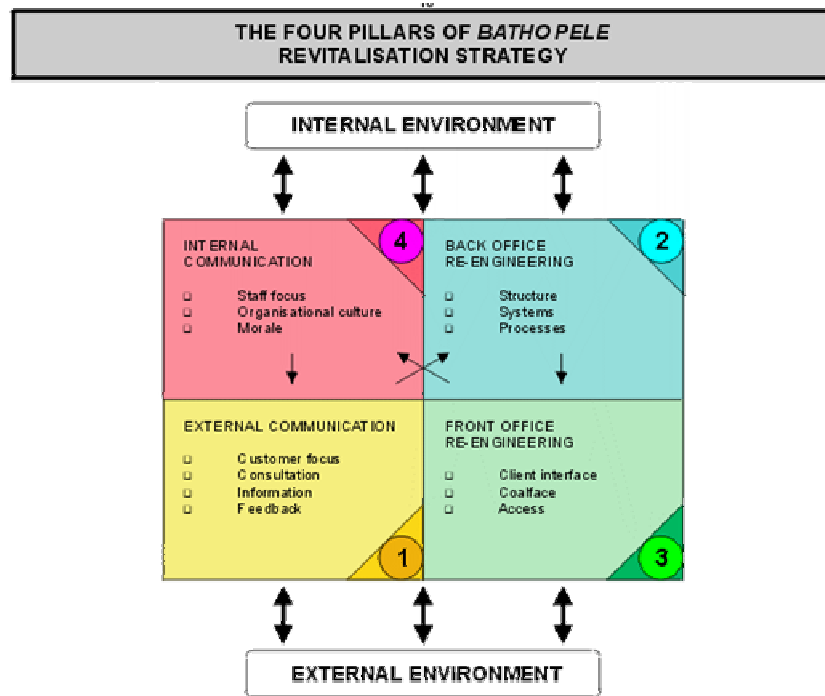


Figure 8.1: Four Pillars of the Batho Pele Revitalisation Strategy

Each pillar is represented in one of the four quadrants. The relationship between the four pillars or quadrants is as follows:

- In the first quadrant customers and their stakeholders are consulted on their needs and expectations and informed of what services are available and what their rights and obligations are.
- Having established what services are required for customer satisfaction in Quadrant 1, we need to move on to Quadrant 2 where we have to devise/improve the necessary structures, systems and processes to deliver against these expectations.
- In the third quadrant we implement actual service delivery. This is the coalface where public service frontline staff interface with the public.
- The organisational culture of service delivery is promoted and sustained in Quadrant through good internal communication strategies.

The activities of quadrants 1 and 3 interact with the external environment, while those of quadrants 2 and 4 are part of the internal environment. However, activities in all four quadrants conspire to provide customers with improved service delivery.

The step-by-step guides provided in Volume 2 of this handbook relate to the four quadrants as follows:

- Self assessment – Quadrant 2
- Peer assessment – Quadrant 2
- Service Delivery Charter – Quadrant 3
- How to consult – Quadrant 1
- Handling complaints – Quadrants 1 and 3
- Setting service standards – Quadrants 1, 2 and 3
- Wayfinding and signage – Quadrant 3
- Delegations – Quadrant 2
- Translating strategic to operational plans – Quadrant 2

It is important to understand that each one of these initiatives impacts on the others. They do not occur in isolation. This would compromise the potential impact of *Batho Pele*. For example, setting service standards involves consulting with consumers of services and communicating the standards to consumers, both activities in Quadrant 1. It is something that happens behind the scenes and is part of back-office re-engineering in Quadrant 2. Finally it results in setting up a complaints handling mechanism, which is a front-office activity in Quadrant 3.

This illustrates the point that service delivery is not a simple, single-track activity. It is a complex operation, involving a range of initiatives that ideally should interlink to provide “seamless” service delivery to the customer.

As mentioned earlier, all the customer sees or experiences is the front-office service delivery and for him or her this represents government, this is the face of government and for the face of government to “smile” upon the customer, all the many actions that go into delivering a particular service should work together in harmony, each complimenting the other.

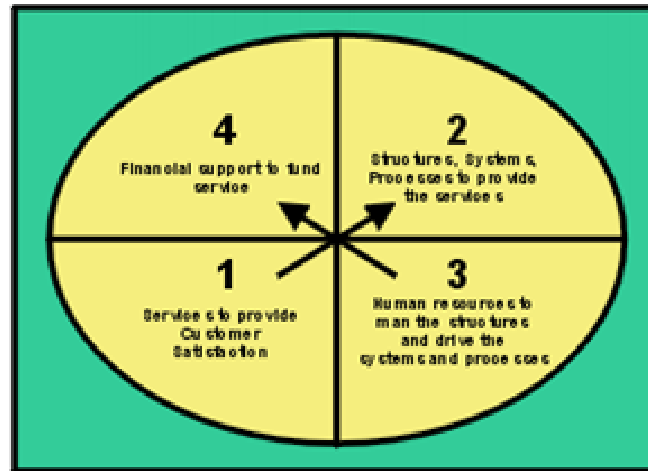


Figure 2 - The Balanced Scorecard

8.6 The balanced scorecard

Another way of describing this harmony or balance that is essential to excellence in service delivery is to use the balanced scorecard. The balanced scorecard is a simple but extremely effective approach to providing customer satisfaction by concretising organisational visions and missions in a balanced and measurable way. It places the emphasis firmly on customer satisfaction, claiming that whatever we do, whatever structures, systems and processes we may put in place and whatever human, financial and physical resources we may deploy, must be informed at all times by the single consideration: “Does it provide customer satisfaction?”

This approach is illustrated in the following diagram and the similarity with the *Batho Pele* framework discussed above, is not

The scorecard works as follows:

- 1st Quadrant: In consultation with all stakeholders, especially customers, the vision is translated into service delivery objectives, with appropriate standards, to provide customer satisfaction.
- 2nd Quadrant: Structures, systems and processes are put in place, with relevant standards, to facilitate delivery against service delivery objectives.

- 3rd Quadrant: Human resources with the relevant competencies are recruited and/or trained and/or developed to man the structures and drive the systems and processes to deliver the agreed services at the required levels.
- 4th Quadrant: The necessary financial resources are made available, within approved budgets, linked to the MTEF, to fund the process of service delivery.

What the balanced scorecard makes very clear is that service delivery is a continuum. It is continuous and flows smoothly from one quadrant to the next without interruption.

8.7 Context of service delivery

8.7.1 The Regulatory Framework

Since 1994 the South African government has produced a substantial body of enabling legislation to promote the transformation of the public service from the old, bureaucratic, rules-bound organisation into a dynamic, results driven entity, focused on service delivery.

This body of enabling legislation is called the Regulatory Framework. It is informed by the Constitution of 1996 and includes the following Acts, Regulations, White Papers and bargaining council decisions, among others:

Public Service Act, No 103 of 1994

This remains the principal piece of legislation governing the public service, as required by the Constitution. It has been amended and amplified by the following legislation:

The Public Service Commission Act, No 46 of 1997

- ❑ *The Public Service Laws Amendment Acts, Nos 47 and 93 of 1997 And No 86 of 1998)*
- ❑ *The Public Service Amendment Act, No 5 of 1999*
- ❑ *The Promotion of Administrative Justice Act, No 3 of 2000*
- ❑ *The Public Service Regulations*
- ❑ *The White Paper on the Transformation of the Public Service, 1995*
- ❑ *The White Paper on Transforming Public Service Delivery (Batho Pele), 1997*

- ❑ *The White Paper on Human Resource Management in the Public Service, 1997*
- ❑ *The White Paper on Affirmative Action in the Public Service, 1998*
- ❑ *The White Paper on Public Service Training and Education, 1998*
- ❑ *Collective Agreements and Management Guides*

Other Legislation applicable to the public service, such as the:

- *The Public Finance Management Act, 1999*
- *Labour Relations Act*
- *Basic Conditions of Service Act*
- *Employment Equity Act*
- *Skills Development Act*

Every organisation operates within a specific legislative framework that defines its operational behaviour. For example, a factory in the private sector that produces chemicals, operates within a framework of laws and regulations that circumscribe its activities, spelling out what its responsibilities are to prevent pollution, ensure the safety of its workers and the community around the factory, etc.

This framework will also contain policies relevant to the particular industry, which mandate the nature and quality of the services and products produced by the company. In short, the framework defines the context within which the factory operates.

The Public Service Management Framework

The Regulatory Framework is supported by an integrated system of management functions, including strategic planning, human resources planning, service delivery improvement planning, financial planning, performance management and compensation management. These are the tools of transformation and the tools included in the *Batho Pele* Handbook or toolkit are part of this support system, which is known as the Public Service Management Framework (PSMF).

The body of enabling legislation or the Regulatory Framework, together with the support provided by the Public Service Management Framework, constitute the context of public service delivery.

Note that the relationship between the Regulatory Framework and the transformation thrust represented by the central arrow, is "Service Delivery" – that is what the framework has been designed for and it is the nature of that service delivery that *Batho Pele* intends to interrogate and define.

The relationship between the Public Service Management Framework and the central arrow of transformation is "Innovation" and this is the challenge to all public service managers – to be innovative in delivering services that meet the needs and expectations of citizens. The Regulatory Framework only defines "What" should happen, not "How" it should happen.

8.8 Service delivery system

Part of the "The Machinery of Public Service Delivery" national departments, such as Health and Education, set the frameworks for the delivery of relevant services by their provincial counterparts. The provincial departments then develop the necessary structures, systems and processes to enable them to meet their strategic objectives, which will include delivering specific services, making use of institutions such as hospitals, clinics and schools.

Within each department there are such institutions, divisions and/or components, each tasked with a particular aspect of the department's service delivery commitment. Each of these units, in turn, develops its own strategic objectives, in line with the departmental strategic objectives. And each of them is tasked with developing a Service Delivery Charter to facilitate customer satisfaction.

Each unit utilises, teams and individuals to help it achieve its strategic objectives. Where considered necessary, in order to promote efficient and effective service delivery, a component may decide to "outsource" certain activities. For our purposes we shall simply assume that these outsourced activities are handled by a Private Public Partnership or a PPP. It is these individuals, teams and PPPs that do the actual service delivery. They are the public interface of public service delivery.

The performance of the individuals, teams and any PPPs must be monitored against the relevant standards and strategic objectives, to ensure quality service delivery. In the case of individuals, their performance can be appraised by implementing a performance management and development system, while the performance of teams can be monitored by employing internal and external assessments, namely:

- Self-Assessments (internal)
- Peer Reviews (external – “outside-in”)

Outsourced projects and activities are monitored in terms of their respective service level agreements. All the different elements of the Service Delivery System intermesh like cogs in a machine, providing a system to deliver the services that have been identified. If any one of the cogs jams, the whole system seizes up and there can be no service delivery. Every system needs some form of lubrication to ensure that it does not seize. No machine or system can run smoothly without lubrication and *Batho Pele* is the oil that lubricates government’s service delivery systems.

In the heat of day-to-day service delivery at the coalface, frontline staff often may not have a clear idea of where a particular process fits into the service delivery system. For example: “Is the formulation of a Service Delivery Charter the function of a department or of a component within a department?” Or “How do Self-Assessments relate to Performance Appraisals?”

In order to help staff “in the trenches” grasp the significance of a particular intervention and locate the activity and themselves within the “map” of service delivery, a schematic representation of a Service Delivery System is provided. This should assist, not only with orientating oneself within the service delivery environment, but with having a better understanding of the broader picture of service delivery and how it relates to the ultimate transformation objectives of government.

8.8.1 Planning phase

Within the diagram, the planning phase for operational managers will tend to occur just before components/institutions/divisions set their strategic objectives and this is where we have positioned the following two planning exercises:

- ❑ Translating strategic plans to operational plans; and
- ❑ Delegating.

8.8.2 Implementation phase

When the planning has been completed and the delegations formalised, it is time to move on to the implementation phase of service delivery. One of the first things that has to be done in providing services is to formulate a Service Delivery Charter.

In the diagram, formulating a Service Delivery Charter is located immediately beneath the strategic objectives of departmental components, as each component or institution has to develop and publish its own Service Delivery Charter, in line with the department's main charter.

While each component is at liberty to develop its own Service Delivery Charter, these must at all times be aligned to the departmental charter. The service standards set in a component's charter may be better than those of the department, but they can never be lower than the department's service standards.

In formulating a Service Delivery Charter, one has to identify the component/unit and the services it offers and one has to explain where the component/unit is located, what standards of service can be expected and how the component/unit will deal with customer complaints. Thus the following service delivery processes are directly related to developing a Service Delivery Charter and are positioned adjacent to it:

- ❑ How to consult on public services;
- ❑ Way-finding and signage;
- ❑ Setting service standards; and
- ❑ Complaints handling.

8.8.3 Monitoring phase

Once the plans have been implemented, progress needs to be monitored. Two of the most useful ways of monitoring the performance of a team or component are to conduct a Self Assessment and/or a Peer Review. The latter tends to be more objective as it provides input from people outside of the project being assessed. However, handling complaints effectively is a very useful means of monitoring performance on an ongoing basis.

Thus the following processes to monitor service delivery have been positioned towards the bottom of the diagram, beneath the monitoring phase:

- ❑ Self assessment (internal);
- ❑ Peer review (external – outside-in); and
- ❑ Handling complaints.

Knowing where these processes fit in within the Service Delivery System will help operational managers orientate themselves in their efforts to improve service delivery by planning, implementing and monitoring effectively.

8.8 Conclusion

Batho Pele is not a quick fix or a miracle cure for poor service delivery. It is not a separate and distinct management responsibility or exercise. It is not a bolt-on activity. It is an attitude and approach to service delivery that needs to be woven into the very fabric of public service delivery. It should pervade every planning session and inform each and every action aimed at providing relevant and appropriate services to the citizens of South Africa. To succeed in significantly improving service delivery, the collective energy of every individual needs to be harnessed. Much rests on the shoulders of operational managers to “make it happen!”.

CHAPTER 9

IMPACT ON TECHNOLOGY ON PUBLIC ADMINISTRATION

OUTCOMES

After studying this chapter you should be able to:

9.1 Introduction

We live in a society which is dominated by a constant need for information. Information technology and the electronic mode of communication are regarded as the nervous system of society. Lay et al. (1989:105) describe Information Technology (IT) as a structured set of procedures for processing, storing and distributing information designed in such a way so as to best serve the goals of the organization.

9.2 Information systems for public management

In the public sector information systems serve a variety of functions such as policy-making, planning, organising, and control in various internal and external functions such as personnel, financing and engineering, health, security and public works. Every system consists of a set of elements or sub-functions which are referred to as sub-systems. For example environmental information systems can be subdivided into national park information systems, regional park information systems and historical monument information systems. Systems and sub-systems obviously vary in their degree of cohesion. However, all systems have generic characteristics, eg. they all have transformation and transmission components. The information system which provides information for strategic planning or policy is referred to as management *information* systems (MIS) and those which provide information on the functional aspects of providing goods as operational *information* services (OIS). Although the components of these types of information systems are the same (transformation and transmission), the attributes of the information which they provide are not and require different formats. Information attributes are measured using the following criteria:

- Source - which can either be internal or external.
- Scope - which can either be highly detailed or summarised through classification, filtering, accumulation or statistical analysis on graphs or histograms.

- **Concreteness** - which refers to the hard versus soft types of information. Hard information is said to be objective as opposed to soft information which is subjective. Both these types are needed in information systems which support managerial decision-making, especially intuition which complements analytical ability.
- **Accuracy** - which refers to the extent to which it is exact or approximate. The degree of accuracy has to be matched to the specific need.
- **Redundancy** - which describes the amount of non-essential information ranging from none to a very high proportion of redundant information, which can be used to compensate for expected errors.
- **Horison** – which refers to the information which ranges on a time scale from past to future. There is often a need to make extrapolations or projections of the future, based on the past.
- **Frequency** - which refers to how often information is needed.
- **Timeliness** - which describes to what extent information which is generated reaches its destination on time, or the time lapse between transformation and transmission. Here the information can be graded as current or delayed. Information should not always be transmitted if no need exists (Taggart, 1980:51-53).

9.3 Information system applications in the public sector

The application of information systems can be classified in several ways. A common division is the application area and the application type. The various application areas in which information systems can play an important role in government are procedure systems, word processing, operational processing and strategic information processing.

Procedure systems stem from the need for any organisation to design and use standard work procedures and methods. These procedures involve data preparation, work flow, filing and specification checking. Without this an organisation will rapidly lose track of its information. In many cases the Organisation and Work Study departments which designed and implemented

work procedures and methods, were forerunners of the typical Information Systems Department.

Word processing which today has one of the largest numbers of users, is an extension of the procedures area. In the computer application, the typewriter is replaced by a processor with a video display terminal (VDT) and a combination of input-output systems such as a keyboard, magnetic disk drive, Compact Disk (CD) Drive, DVD Drive and printer. The cost of preparing a processed document has decreased substantially since the advent of electronic word processors.

Operational processing provides information that is needed for the daily provision of services and goods to the public. This may include processing supporting transaction (water and electricity payments, licences and taxes), systems which deal with enquiries from the public and systems which provide information on supplies, plant and budget allowances.

Strategic information processing provides information which supports managerial decision-making. Information is compiled and presented in such a format as to provide the necessary answers to public problems at a strategic level - that is usually referred to as policymaking. Apart from policy matters there are the ongoing planning and control functions which managers have to perform in the course of their duties. For instance the planning of the annual budget, physical planning of parks, infrastructure such as bridges, roads and buildings. The monitoring and control of these activities require feedback from information systems in a particular format to evaluate the progress of activities.

Management information systems are designed to provide timeous information in a particular manner to perform these planning and control duties. Information systems in terms of application type have been classified according to various criteria. They have been classified according to response time, elapsed time from data input or inquiry to the output, the number of users, the type and amount of programmes which can be supported and the degree of integration of separate data-processors into one unit or network system.

The following classification will serve as a basis for describing the alternative types existing in government service today:

Off-line and on-line systems

Off-line systems can be defined as those systems in which the input/output devices or any auxiliary equipment (keyboard and terminal, magnetic disk and tape drives, plotters or printers) are not under the direct control of the computer. The input or output data is collected into groups or batches and sorted into sequence before submission to the computer for processing. In off-line system processing where input is batched, batch processing and sequential processing is used where transactions are collected in batches and processed sequentially at the most convenient and economically feasible times. However, batch processing is utilised only for those applications in which the delay between the time that the transaction occurs and its eventual processing does not have an effect on the utility of the information (Martin, 1967:30).

On-line information systems

In on-line information systems, the input and output devices are continually and directly coupled to the CPU, and direct two-way communication between these devices is possible. Data is processed immediately (interactive processing) with more speedy response times than in an off-line system. The CPU controls the processing from the point of origin of input to the output, as opposed to the off-line system which requires a precise scheduling procedure of batches through human intervention.

The concept of on-line information systems has led to the development of a specialised form of on-line information system known as real-time information systems. In real time systems each registered user must have access to any legally required on-line data in the CPU and should be able to alter this data as if the CPU was serving him individually. The response time of a normal on-line and a real time system differ significantly, the former being more tolerant of delayed response time than a real time system. Real time systems provide for the constant and almost instant updating of all files which require adjustment with each transaction. For instance, if expenditure is made on certain

allocations on the budget, the real time system will process the transactions and immediately add the expenditure on to the major budget item to keep track of budget statistics for future budgeting purposes. The installation of real time systems is proving to be essential to provide management with timely, and up-to-date information. These systems are however expensive as opposed to normal on-line systems.

Multiprocessing and multiprogramming information systems

These terms are often confused due to ostensible similarities, however fundamental difference exists between the two. Multiprogramming refers to systems which can execute two or more programmes simultaneously, using the same CPU. This procedure generally consists of a programme concerned with input/output operation while the Arithmetic Logic Unit (ALU) performs other operations. The CPU can perform several operations in various sequences through the application of a "supervisory programme" provided by the computer manufacturer. A multiprocessing system on the other hand utilises two or more interconnected CPU's simultaneously to accommodate the informational needs of the users. Several programmes are loaded and data processed independently. A large central memory is needed, and each processor can access or request access to the programmes stored in the systems memory (Martin, 1967:35).

Time sharing information systems

Time sharing systems consist of the basic characteristics of multiprogramming, on-line interaction and real time response. A time share system can provide a number of users with simultaneous access to one CPU, sharing the available computer time and minimising waste of time. During off-peak periods computer time can be made available at lower tariffs, taking the pressure off operators during peak time.

There are two basic modes of processing in time sharing systems; conversational mode and remote batch processing mode.

In the case of **conversational mode** real time communication between users and the CPU is maintained through support and service to remote terminals. In this mode users may communicate with the CPU over great distances. For instance scientists and

engineers work on research projects that require computer support from the field via a video-display terminal and a teleprinter using telephone lines and a computer modem which serves as the communication interface.

A time-sharing information system operating in **remote batch mode**, is also concerned with the shared simultaneous use of the CPU by several users. The difference lies in the fact that input/output devices are required to be in close proximity and directly wired to the computer. The input/output devices usually consists of less sophisticated devices than those of the conversational mode. For example punch card readers are often connected on-line to a small intermediate computer which processes and feeds data to the large processor which performs the essential costly data processing operation (Martin, 1967:38).

Today many government departments and local authorities are hiring services from bureaus or central government computer processing facilities in a time sharing system. In this way any small local authority will be able to afford the processing operations without acquiring the expensive hardware and software technology, and enjoy the computing power of a very large and expensive system at only a fraction of the maintenance cost. One of the most important aspects of time sharing systems is the design of security controls which protect private data from being accessed, used, destroyed or altered.

Integrated information systems

Integrated information systems are formed in the basis of mutual interest in the same software. These programmes are recorded at the source and utilised by the processing systems (CPU's) in the various departments. Integrated information systems minimise the need to convert data into various different forms, media and files, when one standard programme can be utilised (Fuori, 1981:504-506). For instance, if a local government surveyor performs a survey of a proposed new development, various other departments can make use of this data, such as the town planners, the building and engineering section, the parks and recreation planners and various other sections. All these departments will have access to the most up to date data with reduction in expense, time used and effort which is associated with duplication of much data. The data can be

entered through various different devices like magnetic disk drives, punch card readers, magnetic tape readers, data sensors or terminal keyboards, facilitating access from remote terminals and fairly outmoded input devices. Overall processing speed, file updating and a reduction of manual data handling is associated with such an integrated information system.

Distributed data processing systems

Distributed data processing systems combine the advantages and disadvantages of a centralised or decentralised computer system. **Centralised facilities** offer shared benefits to all its users such as larger and more effective hardware and software systems at a lower cost of individual systems. Furthermore, data processing personnel resources can be shared in the light of the importance of having computer specialists such as systems analysts, computer programmers, communication specialists, database administrators, computer operators and maintenance engineers. Centralised computer systems also provide better security, control, coordination and communication amongst key personnel.

Decentralised computer systems provide support in the areas where centralised support is weak, but they have weaknesses of their own. A decentralised system provides better end-user support, local control and less demand on the system resources. In many cases response times can be improved due to a smaller number of end-users, less system complexity and fewer overheads. System resources are not available in abundance and are not easily shared between decentralized departments due to a lack of managerial control over dispersed resources and facilities.

Distributed data processing facilitates the sharing of central resources which includes the design, application and maintenance tasks of information systems. Strong management control is maintained over the distributed sites and growth is structured from the central site in a controlled manner to avoid duplication. The distributed sites can still enjoy a certain degree of independence from the central facility and their operations can proceed uninterrupted for long periods of time and distributed users have the degree of control and responsibility which is commen-

surate with its status as a decentralised user. There are generally two configurations of distributed data processing systems which exist within this concept of DDS, the star or spider network and the ring network. The star or spider network uses a host computer to which several remote computer systems are attached. All communications are routed through the host computer before being rerouted to the distributed hosts. A ring network consists of several computer systems interconnected by a single communications line with no one system acting as a host computer and communication flowing directly between satellite systems.

9.4 The impact of computers on public management

Computers have been in use in public service organisations for almost three decades. However, with the introduction of mini and personal computers, this form of technology became available to almost every workstation. This situation brought about revolutionary change in the work processes and work environment, with many advantages and disadvantages.

9.4.1 Advantages

The introduction of computers have created new *job* opportunities. Posts such as programmers, computer administrators and operators, systems analysts, project managers and data-base managers have been created in the public sector since the advent of EDP. The introduction of EDP has brought about more *effectiveness*. Engineers and scientists especially benefitted. The responsiveness of government information systems has improved and the public sector can therefore provide a more efficient service to the public. Managers can save time on previously elaborate processes, and spend more time on better planning, consultation and personal attention and interaction. The speed at which information can be retrieved at a public service-point such as transport booking offices, motor vehicle and other licencing services, medical services and passport or identity document services has increased at an enormous rate. A dramatic decrease in price with steadily increasing performance has played a vital role in the inevitable acceptance of EDP in almost every field of public service.

The introduction of EDP has improved public safety. EDP is used in traffic control, transport, health services and security.

Computer based education and training systems have simplified the *educational* environment especially in the technical training field. Laboratory conditions and real life situations can be simulated on a screen, and tutoring can be accomplished through highly interactive computer software. Student performance and development can be monitored through computer testing eliminating long and elaborate conventional evaluation procedures. Access to information in libraries and academic data-bases have been computerised. Abstracts of articles and books can be accessed within a few seconds.

The introduction of specific computer programmes (software) in government has brought about significant changes in the productivity of certain functions. For instance word processing, spread sheets and graphic design software have enabled typists and public servants to produce reports of a high quality and to edit or reproduce these reports at the press of a button. The introduction of "expert systems" have eased the tasks of engineers, architects and physical planners (Long, 1987:23). Government officials who perform planning can simulate tasks and schedules to provide information on the status of a project or programme at any particular stage of its development. Database programmes are also crucial. For example environmentalists use databases which can provide information on the spread and migration of animals and endangered species and meteorologists use a global weather data-base to make forecasts of weather conditions.

9.4.2 Disadvantages

Especially in developing countries there exists the danger of creating more work for the computer and less work for human beings. The greater efficiency and reliability of EDP's, particularly in jobs where repetitive tasks are required, threaten *job* opportunities for semi- or non-skilled labour. The computer relies on *human* operators for many of its enabling functions. The feeding of incorrect, inapplicable or unreliable data can lead to dire problems for government administration where the consequences of minor error can be staggering.

Computers are also vulnerable to power supply of electricity. Many cases of *breakdowns* have caused more severe problems for government service delivery through the breakdown of power supply than normal human failure.

Computer hardware is subject to normal operational wear and sudden failure of memory can cause the breakdown of a information system for hours. Computer software is designed to perform particular functions whereas human beings retain the ability to be flexible in situations where the physical or technical support systems fail.

The introduction of the computer in government has introduced a series of peripheral considerations, which has entailed unforeseen *expenditure*. One of these considerations is security. An obvious issue is loss of information through the accidental deletion of data-files and inadequate retrieval systems.

The danger of illegal entry to information systems has highlighted the dilemma of governments handling sensitive information. *Uncontrolled and undetected access* to computerised information systems has opened up a new world of potential fraud and thefts. Computer viruses have created a problem for computer users. A computer virus is a short programme which infiltrates an information system and can destroy large programmes, networks and databases.

Computers are said to depersonalise the organisational environment. People are forced to communicate via electronic message processes rather than the face to face style with which we are familiar. According to Theart (1989:31) this may soon be overcome by fitting a terminal with a camera and a microphone which will enable persons sending or receiving messages to have their voices accompanied by video images.

The introduction of computer-based information systems cannot be evaluated only in terms of the cost of equipment, but on the basis of all the external costs associated with the introduction of computers. When these costs are included, the introduction of computers might not seem as cost-efficient. *External* costs include the training of personnel to overcome resistance and to provide the needed skills,

installation and operational costs, the cost of running two systems simultaneously to reduce the risk of the failure of a newly introduced system and the employment of computer specialists. One of the major cost of computer systems arises because of continual technological development which takes place. Although this development benefits the organisation it requires regular commitment of capital.

9.5 E-Government

E-Government is a global reform movement to promote Internet use by government institutions. E-government creates a huge potential to improve the quality of services in the public sector, stimulate trade and cut internal costs. Governments rapidly modernised in the 1990s. Integrated software systems gave the government back-office a new structure and a new efficiency, and the availability of enterprise resource planning (ERP) solutions helped identify and realise best business practices for government.

Nowadays, every corner of society feels the presence of the Internet. Its effects are felt in business, at home and in government. But Internet business is still widely misunderstood. The stars of the new economy have just a single presence on the Web, even though it may be sophisticated. Most cities and government agencies have a Web site. Portals and marketplaces are springing up everywhere. They offer a wide variety of services to allow government agencies, citizens and companies to communicate with each other.

Portals represent a quantum leap in the level of service for government-to-citizens (G2C) communication, but they do not improve government processes at the same time. As Michael Hammer states:

If you only put web pages in front of poor business processes, then you demonstrate to the whole world how poor your processes really are. First you have to manage an internal business integration before you start to develop cooperative external processes.

Government agencies are looking to close the loop between the service offerings on their portals and their modernised back-offices. That calls for

integrated forms and services that use the latest Internet technology to talk to back-office applications so internal processes can reach out to citizens. Perhaps electronic Government would not have taken off if it had not been for the reforms of the 1990s. The new paradigm services - efficiently managed and delivered to citizens - are critical motivators for government agencies, and Internet communications fit into the concept perfectly.

E-government help, the clients and partners of government agencies to participate in processes across the Internet. The people's representatives, government agencies, and their clients and partners together form a virtual community that shares knowledge, responsibilities and tasks.

E-government is not just e-business on a larger scale. One of the most fundamental differences between e-government and e-business is that, whereas businesses can by and large choose their customers, government cannot. The debate over the so-called 'digital divide' is the ghost at the e-government feast. For e-government to succeed fully, the dream of Internet access for all has to become a reality. The digital divide is not so much a question of access as a question of education. Governments need to think of incentives for those on the wrong side of the digital divide to take the leap. For example, if the most convenient way of receiving welfare benefits is online, many people who never thought of using the Web will 'have a go at it'.

E-government moves government agencies up to a new level of customer service and customer care. Citizens, partners and government employees can access the government agency anytime, anywhere. In addition to offering increased availability e-government also means faster processing, with far fewer errors. It is easier for citizens to complete forms, and they are spared the journey to an office and the waiting time spent there.

E-government solutions exploit all the possibilities offered by modern customer relationship management. The service offerings of government organisations can be collected together in contact centres. This allows efficient processing of all transactions between government agencies and the citizens and organisations they

serve. Call centres are also an important element. They provide help and information to citizens. They also allow government agencies to log all contacts systematically. Analysts expect spending on government-related Internet ventures - and public information technology projects generally- to soar in the years ahead. Public agencies can save money, improve customer service and streamline operations by offering online services. The US state of Arizona drastically cut the waiting-line times in its motor vehicle department by moving some services, such as registration renewals, online. This push to online governments also making public officials more brand conscious as a way of building customer relationships.

Process re-engineering and efficiency

Most e-government projects begin modestly. Typically, governments pursue those issues whose transfer to the Web can make a noticeable difference without needing big changes in existing work practices or IT infrastructure. These issues mostly fall into one of three categories:

1. Internet applications that allow data to be gathered
2. Extranets that link government to business suppliers
3. Public Web sites to give citizens and businesses a self-service channel for their dealings with government.



ACTIVITY

Investigate the types of technological innovations used in the public sector.

9.6 Conclusion

In the private sector, tight budgets for information technology spark innovation. But bureaucrats are suckers for over-priced, over-promised and over-engineered systems. The contrast is all the sharper given some of the successes shown by those using open-source software: the District of Columbia, for example, has junked its servers and proprietary software in favour of the standard package of applications offered and hosted by Google.

One ground for hope is that bureaucracies can piggyback on the private sector's experience. Rather than invent new online security systems for the public sector, why not use those already developed by banks, as in Scandinavia?

Interestingly, the examples of good e-government have a common factor: a tough-minded leader at the top, willing to push change through against the protests of corrupt or incompetent vested interests. It would be nice to think that democracy would do that, concentrating voters' preferences for good government and creating an electoral ratchet in favour of modern, efficient public services.

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