

TRAINING MODULE 5: STRATEGIC PLANNING LED BUDGETING

Slide 1

The World Bank notes that 'In the absence of effective decision-making processes, policy making and planning are disconnected from each other and from budgeting, and they are not constrained by resource availability or by strategic priorities. Overall, this leads to a massive mismatch between what is promised through government policies and what is affordable. The annual budgeting process therefore becomes more about scrambling to keep things afloat, rather than allocating resources on the basis of clear policy choices to achieve strategic objectives.'

Slide 2

The Importance of Strategy-Led Budgeting

Strategy-led budgeting is a critical dimension of coherent governance. The Built Environment Performance Plan – **BEPP** – Guidance Notes require that “a credible **BEPP** must clearly find expression in the Metro’s budget (the entire budget, not only the grant funded portion of the budget) and in time the **BEPP** should be a driver of the Metro’s Medium Term Revenue and Expenditure Framework (MTREF) decision-making. Strategy-led budgeting is essential if a Metro’s Budget is going to progressively build towards the outcomes of a compact and spatially transformed city.” Consequently **BEPPs** are required to demonstrate “how the Metro’s Budget is strategy led and what the strategy is driving their budget decision-making process.” It is clear that significant steps are being taken by most Metros to establish the foundations for and systems to support strategy led budgeting, within an existing enabling legislative environment.

Slide 3

The Built Environment Value Chain

In the short term, the plans and programmes for implementing spatial transformation will require revenue and demand expenditure, and therefore articulation in the budget. Specifically, the expectation is that the budget is demonstrably, progressively prioritizing funding allocations to the spatially targeted areas and more specifically to catalytic land development programmes identified in the **BEPPs** – in accordance with the guidance provided to Metros to establish a Built Environment Value Chain - in so far as the municipality is responsible for the investments that constitute these programmes; or is responsible for investing to leverage the needed investments of other spheres and organs of government and/or the private sector. Strategy-led budgeting is the enabling environment within which it is possible to realise this value chain.

These plans and programmes must be practical; i.e. affordable to build and operate/maintain. This does not necessarily mean that they must be limited to the funding envelope set out in the budget; but that they must present a business case that is bankable within the affordability and sustainability parameters of the medium term budget and the Metro’s Long Term Financial Plan. If well thought through, the implementation of these plans will create value and efficiencies that can generate returns that could grow the budget or enhance its ability to fund a broader scope of investments. If spatial transformation is not pursued and invested in, costs resulting from urban system inefficiencies will continue to plague municipal

budgets in a vicious cycle . Built environment performance underpins the ongoing sustainability of the municipal budget and therefore should be a core concern of the budget. As a resource prioritization tool, the budget must navigate this iterative relationship within the confines of fiscal discipline.

Slide 4

Multi-year Budgeting

South Africa has a best-practice Medium Term Revenue and Expenditure Framework (MTREF) approach to budgeting that seeks to create multi-year predictability in the budget to support programme implementation within a clear affordability envelope, on a rolling three year basis. This is supported by a municipal service delivery and budget implementation plan. It is clear that there is a legislated expectation that the planning tools required to be deployed by Metros must inform the formulation of the budget and that the budget process itself is designed in such a way to support that it be strategy led towards clearly defined outcomes.

The budget is a prioritisation of programmes and projects identified in the IDP and the sector plans supporting the IDP. The assumption on the part of those administering the budget preparation is that projects to be funded by the budget, identified, prepared and packaged by the sectors in terms of their approved sector plans are aligned to strategy and therefore the short- medium term budget decisions are based on readiness to spend and funding availability/ affordability. Where further prioritisation or choice is needed, this is done politically. At this point all requests on the table should be aligned to strategy. There are points in the process that provide checks in this regard; namely, the Mayoral/ Executive Budget Directive, deliberations of the Budget Steering Committee and possibly other mechanisms unique to a Metro.

Slide 5

Annual Budget Cycle

In the case of the City of Johannesburg (CoJ) and City of Cape Town (CoCT), a centralised process is in place to review budget requests for transversal strategy alignment, through the use of the Johannesburg Strategic Investment Plan (JSIP)⁵ and Project Portfolio Management (PPM) systems respectively. In the case of the JSIP, this process is run by the Development Planning function; in the case of the CoCT, this is run by the Directorate of the Mayor. These systems act as checks on strategy alignment and assist decisionmakers with prioritisation, based on a set of criteria which include those related to strategy alignment, and more specifically, spatial strategy alignment. These annual (or bi-annual, in the case of the CoCT) and routine processes institutionalise an understanding of concerns of the budgeting process and the importance of strategy alignment within these. The Nelson Mandela Bay Metro (NMBM) is working on a simpler capital prioritisation model as a tool for its Strategic Planning Steering Committee (an expanded version of the Budget Steering Committee). In the annual municipal planning and budgeting cycle there are points where Metros can review the MTREF for strategy alignment, there are related activities where alignment can be pursued and there are supporting processes that can inform such review. The adjustment budget could present a risk to maintain strategy alignment, at the same time, it could be used as the basis for the preparation of the next year's draft budget providing more time for review. The diagram on screen attempts to summarise this.

Slide 6**Timing Considerations**

The assumption that where budget is requested, the required investment emanates from a sector plan that itself has been formulated and approved in a manner that is directly supporting the implementation of strategy is logical. It assumes that sector plans, and their implementation programmes, are drawn up within an integrated, long term strategic planning framework and reviewed within a coordinated or corporate system of inter-disciplinary sectoral planning approval. The project requesting funding can therefore be understood to sit within a long term roadmap for transformation of our cities, where the sequencing and trade-offs have been worked out. These are fair assumptions to make, but not fool proof. This suggests that, notwithstanding the mechanisms in place and available to check for strategy alignment in the budget preparation process, strategy-led budget requires a robust long term development strategy supported by a long term financial strategy (the nature of major municipal investments means that financing them is a long term exercise, with long lead times). Arguably, the scope for robust engagement on strategy alignment in the annual budgeting process is limited and constrained by many other short term considerations – technical and political.

Notwithstanding the 'medium term', 3 year perspective of the MTREF, budget preparation is a short term process that operates within limited time and significant constraints that may mitigate against strategy alignment, especially if there is not a longer term plan supporting decision-making that addresses short term concerns. Once in the budget preparation process, a number of short term matters become overriding concerns:

- spend readiness
- whether the budget is funded or not
- politically acceptable rates and tariff adjustments
- political or crisis projects
- getting the basics right
- whether there is operational funding to support the capital investment

Slide 7**Attributes of Successful Strategies**

The starting point for strategy led budgeting therefore needs to be a coherent long term vision and development path mapped out to achieve this vision which provides a clear frame within which resource allocation decisions are made and a value proposition that can attract alternative resourcing arrangements. Core components of strategies introduced in Johannesburg and Nelson Mandela Bay were identified as organizational and financial performance, spatial structure, housing, public transport and economic development. Importantly, the intended process was characterized by:

- A centrally, corporately, coordinated process within the Metro Administrations led by an interdisciplinary Strategic Planning Committee led by the City Manager.
- Strategic Orientation and Planning with the political leadership to enable informed, strategic choices to be made.
- An evidence-based or research-based planning process.

- A research-based external multi-stakeholder involvement.

The value in centrally coordinated planning processes is not only in a shared vision with agreed and clearly defined outcomes, which provides the frame and common language for policy choices, more detailed sector planning and programme prioritization and project selection – but also that the exercise of planning is working off a common set of evidence and assumptions in respect of demographic, economic and fiscal trends and growth projections, providing the basis for more coherent and relevant strategy.

Slide 8

Introducing Long-Term Financial Strategies

The objective of the Long Term Financial Strategy is to create a more sustainable and integrated, bankable infrastructure development programme for the Metros. It aims to enable the Metros to implement a longer term, more integrated investment planning process across departments that can attract finance; and should result in a feedback loop into the adjustment of policies to enable the chosen strategy to be implementable. As opposed to the budget, which is a short term statement of the municipality's income and expenditure plan, to implement projects based on existing available resources. Building on existing municipal long term financial planning models, practically the LTFS aim is to link planning, programme preparation and actual funding together. The problem is not the lack of supply of capital to fund projects, its establishing the business case for the programmes/ projects. Source increased longer term competitively priced project funding from the debt capital markets. Match the long term nature of infrastructure related projects with long term funding.

Long Term Financial Strategies are tools integral to long term development planning. Long term financial planning models used to undertake such planning have to date typically been done on an isolated basis within the financial sector, or are outsourced. They are based on a set of assumptions, variables and indices that are financial, economic and demographic in nature, policy choices typically relate to service levels and meeting benchmarks and are not articulated spatially or with a particular spatial agenda although it may be, albeit not safely, assumed that investments have been identified on this basis. Typically demand is modelled as opposed to policies, particularly proposed built environment interventions. They are automated models that are not typically undertaken in the context of an inter-disciplinary conversation which might find a solution for one sector's challenge in another sector. The work underway on Long Term Financial Strategies should play a more active role in the preparation of bankable spatially transformative investment packages that can attract finance but also be seen through into grant funding applications and successive budgets. The LTFS will also consider amendments needed to Metros' policies (such as rates, borrowing, asset management and human settlements policies) so that they can better support innovating financing approaches and aligns these policies to the overall transformation strategy.

Slide 9

Challenges in Strategy-led Budgeting

While it is tough enough to facilitate coherent, integrated long term development strategies backed by implementable financial strategies supporting a medium to short term programme of investments, there are other challenges to strategy-led budgeting.

Inter-governmental alignment in strategy, planning and investment programming is key. The lack of it can compromise the ability of a Metro's budget to maintain alignment to strategy.

The Metros own strategic objectives need to work within the context of national grant conditionalities. This is important given the extent to which many Metros' capital budgets are made up of grants. The grant reform process underway in the National Treasury suggests that the flexibility for Metros to align the grants to their strategies will improve. Be that as it may, long term planning in the Metros needs a long term view of likely changes to the grant frameworks.

Political stability; capacity and appetite for engaging with the long term agenda for spatial transformation; and seeing this through in resource allocation that may demonstrate only incremental impact in the short term – is a very real challenge for Metros.

Directives to and capacity building of elected leaders to understand the importance of spatial transformation to municipal fiscal sustainability and visa versa is needed outside of a reliance on municipal officials to do this. Between officials representing different sectors there needs to be a shared understanding of the bigger picture – the need for spatial transformation and the nature of this transformation envisaged for the Metro. This is an important frame to understand who should lead strategy-led budgeting processes and why, and the context for trade-offs that may need to be made when prioritising and allocating budget. It is equally important to understand one another's business. The interdependence of planning, infrastructure and finance is key to building long term financial strategies. National Treasury's budget benchmarking and other municipal performance initiatives have been a significant contributor to demonstrating to municipal officials the inter-related nature of issues that requires priority, transversal attention. Broad ownership of the need for strategy-led budgeting and participation in the design of the processes and systems is important to establish their legitimacy. Feedback loops that explain budget prioritisation decisions, to roleplayers, be they officials or elected leaders, is also important to maintain transparency and build a degree of trust in the process.

Slide 10

Monitoring and Evaluation

The BEPP (integrated outcome) indicators are the main tool for measuring progress of the Metros towards spatial transformation based on an outcomes led monitoring and reporting framework. The budget is after all a means to the end. Nevertheless, over the short term the spatialisation of the budget through the implementation of **MSCOA**, as well as the GIS enabled functions within the systems used by several Metros, are key to understanding the extent of progressive budget alignment with spatial strategies. The **BEPPs** are furthermore required to indicate the Metro's 'Spatial Budget Mix', which presents the high level allocation of capital budget to each of the three spatial targeting areas from all funding sources that make up the Metro's budget. The Spatial Budget Mix should include allocations for infrastructure upgrades, refurbishments, operations and maintenance. The National Treasury undertakes annual monitoring and evaluation in its local government budget analyses, annual mid-year budget reviews and budget benchmarking meetings with the municipalities to support fiscal discipline and sustainability in the preparation of the budget, using a series of metrics that are financial in nature. This is of course critical to the sustainability of local government and service delivery in our main urban centres. While these benchmarks do not directly assist to reflect on whether the budget is a coherent expression of the Metro's strategy, outside of a specific financial strategy, they can act, to some extent, as implicit indicators of the successful implementation of spatial strategy.

Slide 11

Requirements for public finance reform

There are 3 **requirements for public finance reform** which offer a useful framework for summarising the current state of play amongst the Metros in terms of strategy-led budgeting:

- **Leadership** Initiative to push strategy-led budgeting is, more often than not, being driven corporately within a structured, inclusive process as discussed previously. Political leadership in driving budget decision-making in terms of long term strategies is, in some Metros a work in progress, in others work yet to start. This is an ongoing risk to strategy-led budgeting in pursuit of spatial transformation, particularly as coalition governments become more prevalent and budget allocations become bargaining chips.
- **Policy Space** The policy and legislative space for strategy-led budgeting is robust. Scope for reform of financial policies both at Metro and National level will no doubt emerge as the long term development strategies supported by long term financial strategies mature.
- **Adaptive, reiterative and inclusive processes** All of the Metros considered in this paper have processes that, in principle, seek to facilitate collective and transversal engagement in the strategy formation and habituated processes of regular strategy alignment review embedded in the annual planning and budgeting cycle, enabled by systems that provide visibility and evidence of the pipeline of planned investments and the patterns of expenditure to inform such review. This is a work in progress that must also close the loop through the consistent and sustained measurement of progress in attaining outcomes, as an indicator of the impact of these improvements.

Slide 12

Final Thoughts

Generally, many of the Metros are making progress in building the systems and practices for improved strategy-led budgeting. While they are following different processes, the elements of these processes receiving attention are similar amongst those actively tackling this challenge. There is much shared learning to be gained from tracking these processes, still in their development stage, within a common understanding of what constitutes the enabling operational and/ or institutional building blocks for strategy-led budgeting. It is important that the systems, technology and routines that Metros are testing are monitored as this might give rise to the design of processes and tools that may offer learning, efficiencies and ‘recipes’ for other less advanced Metros and other municipalities to embed strategy-led budgeting. It is also important that the planning reform process tracks these emerging practices to support them to sustain momentum and to continue to develop and progress. This should be accompanied by an ongoing reflection on whether the results that are supposed to be attained using strategy-led budgeting as a means, are indeed visible through measuring outcomes – are we seeing the difference emerging in how the built environments of our metropolitan cities are performing? Planning and the allocation of resources is a contested space and always will be, made more challenging by the dynamic nature of leadership in our Metros. At the level of principle, for it to work, there must be a shared understanding and ownership of the outcome’s sought and the long term commitment needed to turn our cities around.

It is important that the planning reform processes underway do not lose sight of these very powerful, 'softer' spaces that will constantly test coherency in the municipal planning and budgeting environment, and consider how to support Metro officials to gain ground in this space. While also tracking and reflecting on the lessons emerging from efforts to put in place systems and practices, and the results achieved, which may speak for themselves.