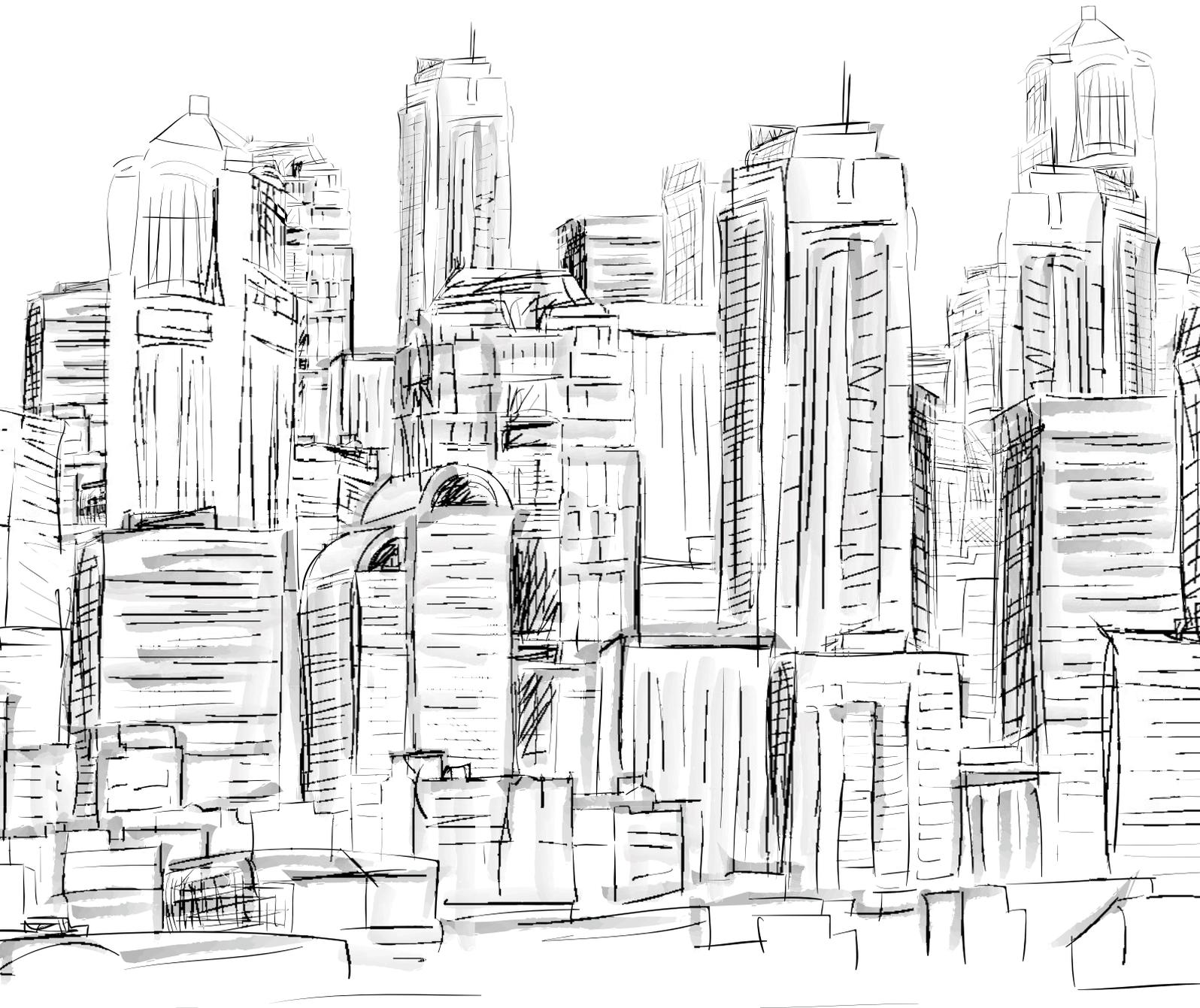


# Section 3: Budgeting Reforms

## Section 3.1: Strategic Planning Led Budgeting



## Section 3.1:

### Strategic Planning Led Budgeting

#### Contents

<b>1</b>	<b>Introduction</b>	<b>63</b>
<b>2</b>	<b>Spatial Transformation And The Budget</b>	<b>64</b>
<b>3</b>	<b>Expectations Of Strategy-Led Budgeting</b>	<b>64</b>
<b>4</b>	<b>The Annual Budgeting Process – Is This Too Late?</b>	<b>65</b>
<b>5</b>	<b>Coherent, Integrated Long Term Planning Is Required For Strategy-Led Budgeting</b>	<b>66</b>
<b>6</b>	<b>A Bottom Up – Information Led Process Of Progressive Alignment</b>	<b>68</b>
	6.1 Cape Town’s Strategic Management Framework	68
	6.2 Ethekeweni’s Roadmap	68
<b>7</b>	<b>Factors That Challenge Strategy-Led Budgeting</b>	<b>69</b>
<b>8</b>	<b>Lessons In Organisational Practices That Support Strategy-Led Budgeting</b>	<b>69</b>
<b>9</b>	<b>Monitoring The Effective Implementation Of Strategy-Led Budgeting</b>	<b>69</b>
<b>10</b>	<b>Conclusion</b>	<b>70</b>
<b>11</b>	<b>Bibliography</b>	<b>71</b>

---

#### Acknowledgement

The content of this section was first written by Catherine Stone in association with Aurecon for the Planning Reforms Seminar in June 2018. Updates were made in 2021.

# 1. Introduction

*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. (World Bank, 1998)*

The purpose of this section is to outline and consolidate our understanding of what the Metropolitan municipalities (hereafter referred to as 'Metros') are doing to effectively implement and sustain strategic-led planning budgeting (hereafter referred to as 'strategy-led budgeting'). This section seeks to do this by reflecting on the activities and experience to date of the Metros grappling with this challenge. In doing so, it may also therefore serve to assist Metros and other municipalities to learn from one another and consider how they can better meet the expectation of strategy-led budgeting initially set out explicitly in the National Treasury's Built Environment Performance Plan (BEPP) Guidance Notes, MFMA circulars and elsewhere.

Strategy-led budgeting is a critical dimension of coherent governance (World Bank, 1998). The BEPP Guidance Notes require that "a credible BEPP must clearly find expression in the Metro's budget (the entire budget, not

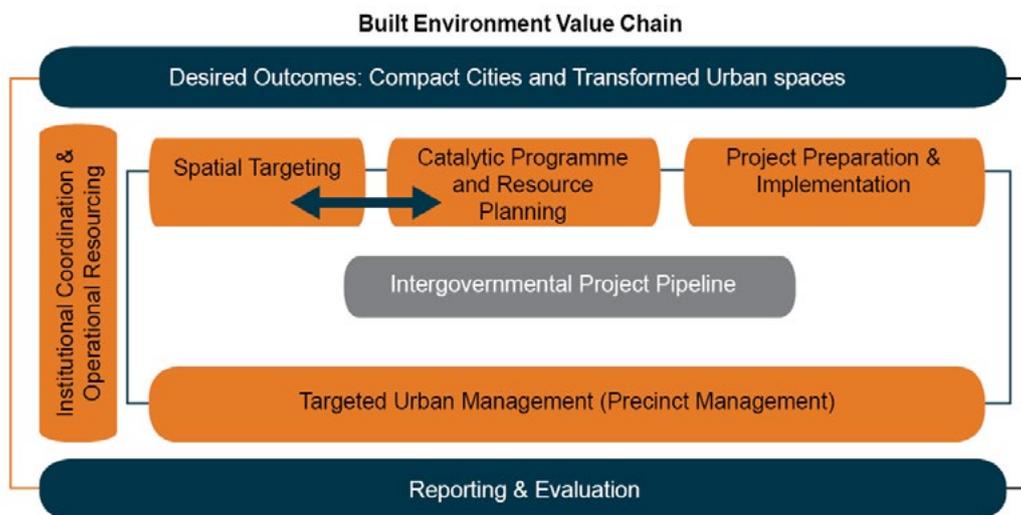
only the grant funded portion of the budget) and in time the BEPP should be a driver of the Metro's Medium Term Revenue and Expenditure Framework (MTREF) decision-making. Strategy-led budgeting is essential if a Metro's Budget is going to progressively build towards the outcomes of a compact and spatially transformed city."<sup>1</sup>

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."

Built environment transformation is an inherently long term, incremental process that requires sustained strategy, policy and resource alignment. While the nature of built environment transformation required manifests in different ways across the Metros, the common history of urban development in South African means that there are common policy directives relevant to all of the Metros set out in, amongst others, the NDP, Integrated Urban Development Framework (IUDF) and Spatial Planning & Land Use Management Act No 16 of 2013 (SPLUMA). The specific long-term Metro strategies to achieve spatial transformation are articulated in their Municipal Spatial Development Frameworks (MSDFs) and flowing from those, their BEPPs. The IDP and the MTREF are the key shorter term or Term of Office implementation planning and prioritisation tools to progressively bring about or catalyse the envisaged change.

In researching this section 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.

Figure 1: Built Environment Value Chain (National Treasury, 2017)



<sup>1</sup> Spatial transformation can be defined as follows; the legacy of apartheid – communities segregated from one another based on race (and class) – as well as the impacts of the legacy of the modernist trend of city building based on the automobile and functional separation of land use - have left South Africa with cities that are inefficient, inequitably developed and expensive – environmentally, socially and fiscally - to live in and to manage. The National Development Plan (NDP) states that a national focus on the spatial transformation of our cities should, by 2030 ensure that a larger proportion of the population should live closer to places of work and travel distances and costs should be reduced, especially for poor households. Urban systems – hard (physical structures and networks) and soft (such governance systems including urban management and land use management) that facilitate and enable compact cities and transformed urban spaces of social and economic inclusion on an equitable basis are key levers to overcome the debilitating impact of distance and separation on the fortunes of the individual, household, business and the state, as well as the environment and the resilience of the system as a whole. The equitable redistribution of resources within cities, as well as building systems that facilitate affordable and safe access to the full ambit of resources that makes urban living productive are critical to spatial transformation (Cities Support Programme, National Treasury, 2017).

## 2. Spatial Transformation And The Budget

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<sup>2</sup> 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

To see the light, 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.

## 3. Expectations Of Strategy Led 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 (World Bank, 1998), on a rolling three-year basis. This is supported by a municipal service delivery and budget implementation plan. The intention that budget formulation is strategy-led is clear in the process set out in the Municipal Finance Management Act No 56 of 2003 (MFMA) for preparing and approving the budget – the Mayor (as the centre of the policy development process) provides political guidance to the preparation of the budget and tables it with Council for approval following a public participation process. Furthermore, the MFMA requires that the Mayor must ‘...determine how the integrated development plan is to be taken into account or revised for the purposes of the budget’ (MFMA s.53(1)(b)). In the adoption of a single, inclusive and strategic plan (the Integrated Development Plan or IDP) for the development of the municipality, the Council must ‘align the resources and capacity of the municipality with the implementation of the plan’ (Municipal Systems Act 32 of 2000 s. 25(1) (b)) (MSA). Furthermore, the IDP must “form the policy framework and general basis on which annual budgets must be based” (MSA s.25(1)(c)).

While an IDP must reflect the municipal Council’s “vision for the long term development of the municipality” (MSA s26 (a)) it must also reflect the Council’s “development priorities and objectives for its elected term” (MSA s26 (c)). In practice the IDP has become a term of office plan which is not necessarily couched within a clear long-term development (transformation) path. As such budget alignment to the development plan is oriented towards the term of office.

The SPLUMA however, attempts to mitigate this by requiring that a MSDF (a core component of an IDP in terms of the MSA s.26 (e)) must include a longer term spatial development vision statement for the municipal area which indicates a desired spatial growth and development pattern for the next 10 to 20 years” (s.21(c)) which is to be reinforced with a 5 year spatial development plan (s21(b))

---

*2. Development patterns play a key role in driving municipal finances – capital and operating costs, maintaining the balance between these costs and generating the income to pay for these costs. For example, if the projections suggest that indigent households will be greater than rate paying households in the future, how are projects housing these households located to enhance the efficiency of existing services rather than extend the operating burden of the municipality? Also, allowing the municipality to increase spending on repairs and maintenance as opposed to new capital investments. Or perhaps, what kind of value generating investments could be located within settlements that could realise their potential to become rate paying areas? Another example is the need to reduce pressure on municipal own revenue to subsidise public transport by directing investment to promote densification, and land use mix that enhances public transport operational efficiencies.*

and a capital expenditure (investment) framework<sup>3</sup> for the municipality's development programmes, depicted spatially' (s21 (m)). A logical interpretation is that the Capital Expenditure Framework is aimed at better linking the vision and plan set out in the MSDF with the budget – in so far as this relates to the capital budget – in that the purpose of an MSDF is to provide direction to development and investment decisions (s.12 (1) (d) (g)(k) (6)) – in space, in pursuit of the social, economic and environmental outcomes sought by the Metros. A 2021 Review of Longer-Term Planning Instruments provides greater detail on this debate that is as yet unresolved - [Review of Longer-Term Planning Instruments 2021](#).

Furthermore, the National Treasury's expectations of the BEPPs to reinforce this necessary link between strategy, planning and budgeting specifically with regard to spatial transformation is reflected in the Introduction to this section. In the case of the Metros, the BEPPs can be considered to be implementing the vision and plan set out in the MSDF and as such, can be understood to be the

Capital Expenditure (Investment) Frameworks for these municipalities<sup>4</sup>.

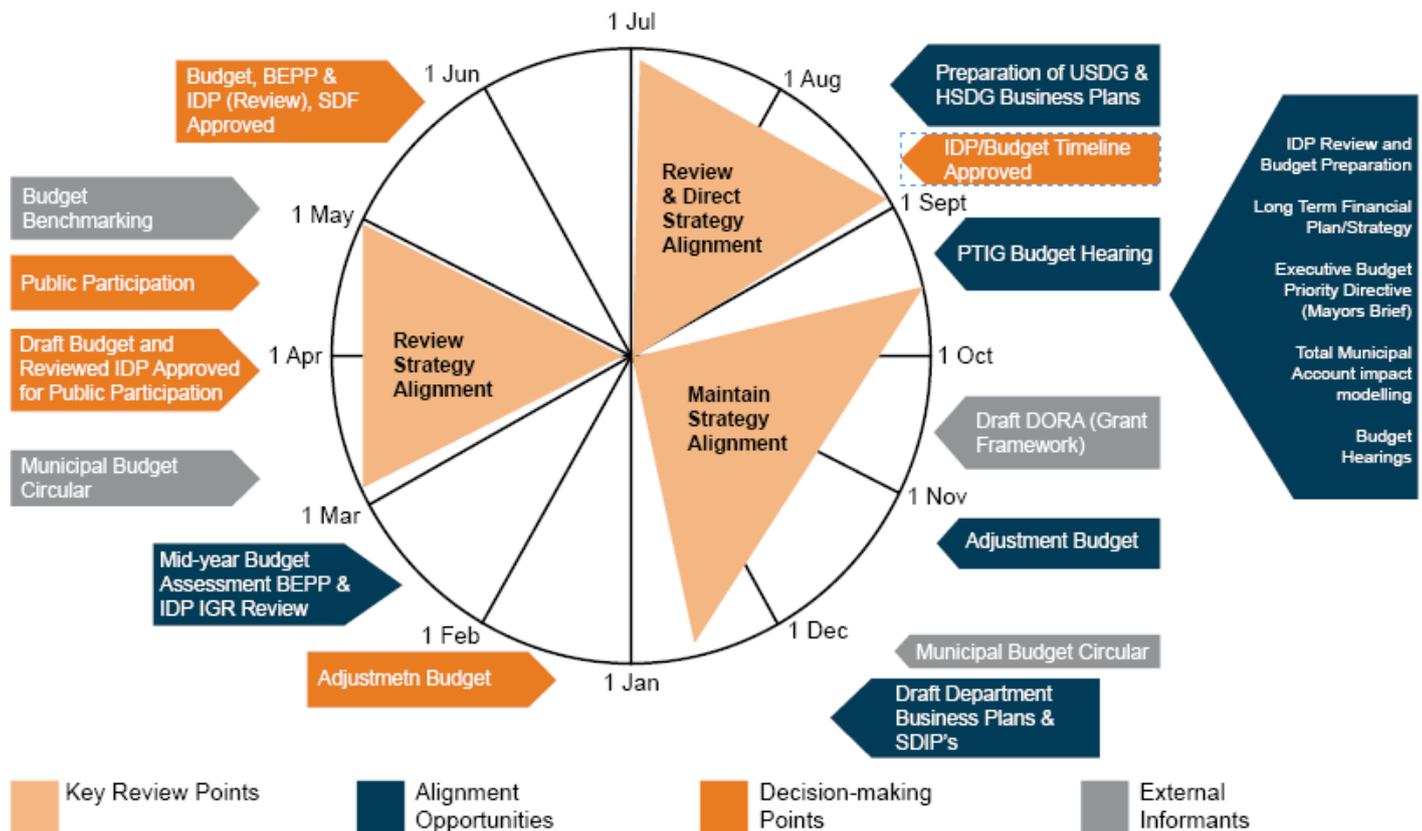
So far, it is therefore clear that there is a legislated expectation that the planning tools required to be deployed by Metros must inform the formulation of the budget and that the budget process itself is designed in such a way to support that it be strategy-led towards clearly defined outcomes.

So, how are Metros rising to the challenge of meeting this expectation and more specifically, being led by imperatives to achieve inter alia spatial transformation through their budgets?

#### 4. The Annual Budgeting Process – Is This Too Late?

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

Figure 2: Annual Budget Cycle and strategy alignment opportunities, adapted from (City of Cape Town, 2017) and (Cities Support Programme, National Treasury, 2014)



3. SPLUMA refers to a 'capital expenditure framework'. In light of what SPLUMA expects of MSDFs, it is preferable to understand it as a 'capital investment framework'. This is argued comprehensively in the DRDLR 2014 SDF Guidelines: Review Recommendations from the Perspective of the BEPPs, 2017

4. For further explanation in this regard refer to the DRDLR 2014 SDF Guidelines: Review Recommendations from the Perspective of the BEPPs, 2017

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. In other words the short to 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 (Jacoby, 2018).

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.

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)<sup>5</sup> 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 assists decision-makers 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 (Kesson, 2018). The diagram below attempts to summarise this.

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, such as inter alia:

- 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

The result is not always a strategy led budget or a budget that is gearing a Metro towards delivering on its strategy over the medium to long term, considering the long-term process of built environment transformation. The time pressure on the annual budget preparation process suggests that it is certainly not the time to initiate conversations on how to finance game changing investments that could steer development in the city in a different direction with the intent of influencing the immediate budget. The short-term expenditure focus also overwhelms bringing a longer-term revenue lens to resource prioritisation decisions.

## 5. Coherent, Integrated Long Term Planning Is Required For Strategy Led Budgeting

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.

5. Refer to the accompanying knowledge product, 'Best practice for aligning Planning, Budgeting and Capital Expenditure in South African Municipalities'

Several Metros, with the support of the National Treasury, have realized that this is a gap and have processes underway to address this.

In 2016-2017, both the City of Tshwane and Nelson Mandela Bay Metro (NMBM) initiated processes to formulate Long Term City Strategies – designed in such a way as to be coordinated with the process of preparing the current BEPP, IDP (Review) and budget (Cities Support Programme, 2017). Core components of these strategies 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 inter-disciplinary 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 (research)-based planning process.
- A research-based external multi-stakeholder involvement (Hunter, 2016).

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. The CoCT has also implemented a standardized set of data that should be used across planning activities and Ethekweni too is paying attention to this, including setting a corporate view on climate change that should frame the Metro's decisions (Peters, 2018).

Ethekweni is also working on a long term City Development Strategy and a long term Infrastructure Plan, which in turn should inform the long term financial plan. While Ethekweni, as with CT, has used the Municipal Services Financial Model, this is seen as a tool within a hierarchy of planning tools that need to be deployed from strategic to project level decision-making (Peters, 2018). Cape Town has also prepared a Medium Term Integrated Infrastructure Framework to support decision-making on the nature and sequence of infrastructure investment that will support the objectives of its MSDF and BEPP.

Investment programmes and projects identified by a coherent, integrated long term spatial transformation plan need to be assessed in terms of their financial impact – costs and revenue – and matched to funding or financing instruments that do not compromise but support

the financial sustainability of the Metro (Cities Support Programme, National Treasury, 2018). This is inter-disciplinary preparatory work needed to understand the nature of support required in the medium-term budget and is not limited to the function of the Chief Financial Officer of the Metro.

Work is therefore underway in NMBM, Ethekweni, Tshwane and the CoCT to develop Long Term Financial Strategies (LTFS). 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. (Cities Support Programme, National Treasury, 2018)

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 (Placeholder1). 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 (Cities Support Programme, National Treasury, 2018).

## 6. A Bottom Up – Information Led Process Of Progressive Alignment

While the annual budgeting process is an important tool to incrementally analyse, assess and orientate the budget towards strategic objectives, and may be the most practical way to “steer the ship” towards strategy alignment, as is the approach of the CoCT (CoCT, 2018) – it is not where the process of strategy and budget alignment should start; i.e. with a coherent, integrated long term city development strategy or plan supported by a long term financial strategy – as is recognised in the processes underway in NMBM and Tshwane, and in the work of the National Treasury, with the support of the World Bank, working with Ethekweni, Tshwane, NMBM and CoCT on Long Term Financial Plans, as discussed above.

It is important to note, however, that spatial transformation strategies are not reliant only on major capital investment programmes. There are many activities in the routine business of Metros that are dealt with by the MTREF that can and should be aligned to spatial transformation objectives.

The Metros are complex and change is necessarily incremental. Top down processes run the risk of isomorphic mimicry (Lawson, 2015), where plans herald significant change but systems tend to be very difficult to turn around and limited transparency or visibility of the detail limits the possibility of review and extent of real alignment possible. Major investment programmes may also distract attention from the harder exercise of aligning day to day business to strategy.

The CoJ, Ekurhuleni and Tshwane have put in place systems to facilitate municipal project preparation, the budget and the IDP formulation process towards achieving built environment performance plan outcomes. These systems are explained in detail in an accompanying dedicated knowledge sharing product. These systems are built around a set of filters designed according to the Metro’s strategies against which budget requests assessed for alignment.

### 6.1 Cape Town’s Strategic Management Framework

Building on the foundation created by an established SAP enabled Project Portfolio Management (PPM) system, the CoCT has put in place a Strategic Management Framework (SMF) (Kesson, 2018). The SMF aims to “integrate strategic planning activities across functions to bring together a shared strategy on the basis of progressive elaboration

to enable integrated decision making” (City tandardiown, 2017). While optimised to support the annual budgeting process, the PPM system has built a long term view of the pipeline of both capital and operating projects identified, planned and under preparation by sector departments. The annual budget preparation process is anticipated by a process of screening projects for implementation readiness as well as for strategy alignment based on a set of qualitative and spatial filters developed with the urban planners responsible for the BEPP and MSDF.

The SMF is designed around 4 stage gates or collective review points through engagement workshops; i.e. points of transversal integrated collaboration across the multiple corporate planning, programming and budgeting cycles:

- Strategic planning/ review (strategic/ enterprise wide)
- Programme planning/ review (Opex, Capex, Operational) (ability to achieve planned outcomes)
- Item planning/ review (Delivery of outputs to meet objectives)
- Budget planning/ Strategy review (Budget and financial alignment)(Feedback loop)

These gates work progressively from a long term to a near term view and from a city-wide to a ward-base location. They are supported by detailed visibility of what is on the budget or intended to be put on the budget, drawn from the PPM system, that enables key strategy alignment conversations to be had; i.e. what is really going on across functions in the Metro based on resource allocation, where is it taking the Metro and is this consistent with what the stated strategies are?

The coordination of this process is undertaken centrally in the administration using the IDP as the process driver working with EMT, a transversal core support team (including the Organisational Policy, Planning & Performance, Finance and BEPP functions), Stream Teams (incl sector departments) and broader Engagement Workshops at the 4 review points. The intention is that the persistent, reiterative nature of this process undertaken annually will more effectively achieve behavioural change and mitigate against incremental decisions undermining strategic long-term intentions. The advantage of this system is that budget expenditure is seamlessly integrated with planning and programming so that expenditure is an informant to successive planning iterations. Further work is being done to build into the system an understanding of benefit in areas of investments.

### 6.2 Ethekweni’s Roadmap

Ethekweni is working to fine tune its roadmap and, similar to Cape Town, move away from treating budget preparation as an annual event and rather to work with it as an ongoing process, as one of 4 processes that need to

happen simultaneously and inform one another, including organisational planning, performance management and asset management. Not dissimilar to what is being undertaken in NMBM and Tshwane, Ethekweni is working to align planning upstream of the budget process perhaps with more emphasis on operational planning activities alongside its process to prepare a CDS. As with Cape Town, Ethekweni is looking to inculcate a working method with set milestones and routine interactions that allows enough time for cross pollination across workstreams.

The fragmented nature of the processes and the lack of visibility has made spatial prioritisation a challenge. However, drawing on the experience of other Metros, COJ's in particular, an ERP system is being implemented in Ethekweni and feasibility and project assessments of projects are now automated. These systems enable officials to present the information available in a way that is simple and captivating for decision-makers. Cape Town also noted the importance of how information is presented that supports productive conversations on strategy alignment.

## 7. Factors That Challenge 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 and strategy. This is emphasised in the BEPP Guidance Notes and is the subject of an accompanying knowledge sharing product<sup>6</sup>.

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 (Peters, 2018).

## 8. Lessons In Organisational Practices That Support Strategy Led Budgeting

In reflecting on their experiences so far, in the case of NMBM on setting up processes and structures to enable strategy-led budgeting and, in the case of CoJ, on a process and system that is in its second generation, it is clear that relationships matter in successful strategy-led budgeting. Coherent, integrated long-term planning processes play an important role in setting up the right environment for these relationships. How progressive alignment is undertaken in the annual processes is key to building these relationships.

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 (Silimela, 2018). It is equally important to understand one another's business (Silimela, 2018) (McCarthy, 2018). 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 (McCarthy, 2018). 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 role players, be they officials or elected leaders, is also important to maintain transparency and build a degree of trust in the process (Silimela, 2018).

## 9. Monitoring And Effective Implementation Of Strategy Led Budgeting

The BEPP (integrated outcome) indicators are the main tool for measuring progress of the Metros towards spatial transformation based on the outcomes led monitoring and reporting framework. The budget is after all a means to the end.

Nevertheless, over the short term the spatialization of the budget through the implementation of MSCOA, as well as the GIS enabled functions within the systems used by the Gauteng Metros as well the CoCT, 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 budget to each

6. Refer to the knowledge sharing product on Public Investment in Infrastructure-Led Growth in Spatially Targeted Areas in Cities

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. For example:

Measure/Benchmark	Strategic Implication
Money generated locally	Is the built environment transformation enhancing the municipality's revenue generating capacity?
Capex affordability vs demand	Is the MSDF/ BEPP/ LTFS packaging required infrastructure in a manner that makes it possible to finance these
Income and expenditure	Is the expenditure burden exceeding income – are efficiencies easing this burden on the basis that servicing needs are consolidated not spread.

## 10. Conclusions

Lawson (2015) identifies 3 requirements for public finance reform which offer a useful framework for summarizing 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 above. The initiatives underway in NMB and Tshwane are being driven by a political-administrative steering committee based on, but not limited to, the Budget Steering Committee required in the MFMA, supported by technical committees. The central role of the City Manager's office in championing these transversal processes and bringing 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 section 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.

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. Some of which this section seeks to identify as emerging from practice. 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.

## 11. Bibliography

- Cities Support Programme. (2017). Project to assist the City of Tshwane Metropolitan Municipality to develop a long term city strategic in a single co-ordinated process which also generates the BEPP, IDP and Budget for 2018/19.
- Cities Support Programme, National Treasury. (2014). Guidance Note for the Built Environment Performance Plan 2015/16 - 2017/18.
- Cities Support Programme, National Treasury. (2017). Guidance Note: Framework for the formulation of Built Environment Performance Plans.
- Cities Support Programme, National Treasury. (2018). Metro Long Term Financial Strategy Project: Presentation to the World Bank Group.
- City of Cape Town. (2017). Strategic Management Framework Introduction. Cape Town.
- CoCT. (2018, March). (C. Stone, Interviewer)
- Hunter, R. (2016). Generic Process for metro integrated planning.
- Jacoby, K. (2018, March ). Chief Financial Officer, City of Cape Town.
- Kesson, C. (2018, March 15). Executive Director: Office of the Mayor .
- Lawson, A. (2015). Public Financial Management. GSDRC Professional Development [http://gsdrc.org/docs/open/reading-packs/pfm\\_rp.pdf](http://gsdrc.org/docs/open/reading-packs/pfm_rp.pdf)
- McCarthy, D. (2018, April 6).
- Peters, A. (2018, March 26). Chief Strategy Officer, Ethekweni Metropolitan Municipality.
- Silimela, Y. (2018, April 18).
- World Bank. (1998). Public Expenditure Management Handbook. World Bank.