

# Developing appropriate financing models to enable the scale-up of ECD services

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## EXECUTIVE SUMMARY

What financing models would be appropriate to enable the scaling up of early childhood development (ECD) services to achieve population coverage on a sustainable basis? This paper looks at how national and provincial budget processes impact on the funding of ECD services, and at the mechanics of preparing credible plans and budgets that will enable government to effectively finance and deliver them.

Currently, donor funding plays an important role in ECD provision, but this contribution would be insufficient to finance the large-scale provision of ECD services. Parents and caregivers also make an enormous contribution to the financing of ECD services, but to rely on the private financing of ECD services is to perpetuate existing social inequalities and their intergenerational impacts. Public provision of ECD services can on the other hand help minimise these.

Ilifa Labantwana's overall objectives promote an extended definition of ECD (beyond centres, and across a development continuum from conception) promoting access to an Essential Package of ECD services to all the country's children, *especially the most vulnerable*. Key events in the annual division of revenue process and the national and provincial budget processes must therefore be clearly understood, so that entry points for influencing budget allocations can be identified.

During the budget process, ECD competes for resources with other national and provincial priorities. Because the national government currently regards ECD as a priority, it is possible that additional resources could be made available to enable provinces to fund it. Alternatively, a case could be made for funds to be added to the Department of Social Development's budget to fund an 'ECD conditional grant' to provinces, but there are other challenges related to their management.

Another approach might involve a consolidated ECD conditional grant, covering a number of provincial functions, which provinces could then allocate to specified ECD services according to their own preferences. Such a consolidated conditional grant would have the advantage of setting a minimum budget for ECD in each province.

To ensure sustained value for money from resources allocated to ECD, an approach based on outputs and service standards should be adopted. However the legislative framework would have to be amended in order to achieve this – well-defined, achievable national norms and standards for ECD services would need to be in place.

At the present juncture, the mechanisms required for the delivery of ECD programmes are still relatively poorly defined. Until government has formulated a position on the core content of ECD services, it will not be in a position to formulate national norms and standards.

The lack of clarity that currently prevails around the definition of ECD services has made it difficult for provincial departments of Social Development to prepare credible and detailed budgets for ECD. The absence of national norms and standards has also limited their ability to motivate for ECD budgets within their respective provincial budget processes.





An important aspect of Ilifa Labantwana's current work is thus to define the content of the service delivery programmes and management structures that the government needs to put in place in order to deliver on the Essential Package of ECD services. Once this work has been done, it will lay a valuable foundation for defining national norms and standards, and, in so doing, provide a basis for preparing credible budgets for ECD.

While the funding of ECD services is non-mandatory, ECD is a key government priority, therefore the national government is inclined to favourably regard well-motivated budget bids for additional funds for ECD. These require convincing implementation plans and costed budgets. Budget bids supported by credible implementation plans are more likely to be funded.

Budgeting in government is a complicated process involving a range of ingredients, thus there is scope for more deliberate strategising about how to influence key processes and people directly related to budget processes. Knowledge about the costs of ECD programmes can help ensure that when national policies promoting ECD are developed, they are properly funded through the equitable share so as to avoid the situation where ECD obligations placed on provinces and municipalities are underfunded.

To cost the Essential Package of ECD services there need to be clear 'models' of service delivery that describe in very concrete terms what government needs to do. Ilifa Labantwana's ongoing development of the required service delivery models is thus essential for the costing of ECD services.





## 1. INTRODUCTION

This paper explores the context for Objective 4 of the Ilifa Labantwana Work Programme. The aim of Objective 4 is to develop appropriate financing models to enable the scaling up of early childhood development (ECD) services to achieve population coverage. Developing a costing model for ECD services is relatively easy; the real challenge is to get the large-scale provision of ECD services financed on a sustainable basis.

Essentially, there are three options for financing the large-scale provision of ECD services on a sustainable basis:

- Parents/caregivers pay for the provision of ECD services
- Government pays for the provision of ECD services
- ECD services are paid for by both parents/caregivers and government.

Currently, donor funding plays an important role in the provision of ECD services. However, this source of funding is not sustainable in the medium term, and would be insufficient to finance the scale-up of such services to achieve population coverage.

Parents and caregivers make an enormous contribution to the financing of ECD services. Often this is by choice – because they can afford to purchase the services, and want to give their children a good start in life. Very often it is out of necessity – because parents are working they need to pay someone to look after their children, and ‘playschools’ or ‘day mothers’ are affordable options.

The reality of poverty in South Africa means that only a small percentage of parents can afford to finance ECD services for their children. The rest can't. To rely on the private financing of ECD services would therefore serve to perpetuate existing social inequalities, with children from relatively better-off families receiving ECD services of quality, and children from poor families and backgrounds receiving services of poor quality or no services at all.

Various arguments can be advanced as to why the government should take on the responsibility of financing the provision of ECD services. These include rights-based arguments, moral arguments, economic arguments, human capital arguments, public health arguments and so on. In the South African context, the most persuasive arguments revolve around the contribution that the public provision of ECD services can make to minimising the intergenerational impacts of current income inequalities, thus helping to give all children a more equal start in life, and thereby contributing significantly to equalising South African society.

However, the focus of this paper is not on why government should take responsibility for financing ECD services, but rather on the mechanics of preparing credible plans and budgets that will enable government to effectively finance and deliver ECD services. To this end, the paper explores how the division of revenue process and the national and provincial budget processes impact on the funding of ECD services. The discussion seeks to highlight entry points for influencing budget allocations for ECD, emphasising the importance of properly costed plans and budget proposals.





## 2. THE ILIFA LABANTWANA PROGRAMME AND OBJECTIVE 4

Currently ECD services, as they are defined in the Children's Act (Act 38 of 2005) and as they are being funded and provided by government, refer primarily to services for children three to six years old provided at ECD centres and Grade R. The government does provide a range of other services that fall within the scope of an Essential Package of ECD services (for instance the *Road to Health Programme*), but currently these are not seen by the government as part of ECD.

In this context, Ilifa Labantwana's overall objectives are firstly to assist the government in extending its definition of what constitute ECD services, and secondly to assist it in extending access to this broader definition of services to all the country's children, *especially the most vulnerable*.<sup>1</sup>

The Essential Package of ECD services, as conceptualised by Ilifa Labantwana, consists of five components:

- Nutritional support
- Primary level maternal and early child health interventions
- Social services
- Support for primary caregivers
- Stimulation for early learning.

Ilifa Labantwana's current work and partnerships with the government focus primarily on those elements of the Essential Package that the provincial departments of Social Development are responsible for delivering. Ilifa recognises that the Department of Social Development (DSD) is the legislated duty bearer for services to children aged between 0 and 4, as such, its implementation model engages with DSD. At the same time, the programme recognises that getting ECD right begins during pregnancy and extends until children enter formal schooling. Provision for support to mothers, primary caregivers and young children is thus an inter-sectoral responsibility. The focus of the programme is therefore not limited to DSD, but also includes the department of health (DOH) and the Department of Basic education (DBE). Ilifa therefore seeks intersectoral engagement with DSD as the central agency of support.

At present, these are services aimed at providing access to an Essential Package of services and support to children before they enter Grade R. In practice these services are provided through a range of modes of delivery, including:

- ECD centres
- home-based visiting (e.g. family and community motivators (FCMs))
- ECD playgroups
- toy distribution and lending schemes (such as toy libraries).

<sup>1</sup> The government seems to have bought into the idea of expanding the definition of ECD services. This is reflected in its recently released zero draft of an Integrated Programme of Action for Early Childhood Development. However, this policy shift still needs to be approved by Cabinet and the practical implications worked out in legislation, budgets and the actual delivery of services.





The Ilifa Labantwana programme seeks to develop models to cost the above ECD services with a view to facilitating better understanding of the management systems within government departments required to deliver the relevant services. It also seeks to support the development of norms and standards for these services.

Implementation of this objective would involve assisting provincial departments of Social Development (and possibly others) to develop budget bids to fund the elements of the Essential Package for which they are responsible. Part of this process would be to explore the usefulness of adjusting the budget programme structures of certain national and provincial departments to make budget information relating to ECD services more transparent and accessible. Another task would be to look at how the overall allocation of resources to ECD services could be increased through the division of revenue process and national and provincial budget processes.

In addition, there is a component of this work that requires an evaluation of the extent to which the above initiatives succeed in mobilising additional resources and other processes to facilitate the implementation of the essential package of ECD services, in addition to reflecting on the lessons learned and developing a strategy for going forward.

### **3. ECD SERVICES IN THE CHILDREN'S ACT**

This section looks at issues that are relevant to the planning, funding and management of partial care and ECD services in the Children's Act. The Act is the responsibility of the Minister of Social Development and the national Department of Social Development is therefore responsible for translating policy on partial care and ECD programmes into regulations, norms and standards.

Most of the processes related to the management, funding and provision of partial care and ECD services are allocated by the Act to the provincial MECs for Social Development. The provinces are thus responsible for planning, funding and monitoring the provision of these services. However, the Act makes ECD a non-mandatory service that provinces 'may' fund and provide, thus limiting the legal mechanisms that national government (and advocacy groups) can use to force provinces to expand the funding and provision of ECD services.

Local government also has a role to play in ensuring the compliance of partial care facilities, including ECD centres, with health and safety regulations.

The Act provides a lot of detail about the processes that provincial departments of Social Development must follow when registering partial care and ECD programmes, as well as the information that applicants must provide and the timeframes involved. It also requires the heads of the provincial departments to 'authorise a suitably qualified person to assess applications for the registration of partial care facilities and the provision and content of ECD programmes'. In both instances, the partial care facility or ECD programme must comply with prescribed national norms and standards.





There is a lack of detail, however, about how the activities envisaged by the Act should be funded and performed. While this lack of detail is not unusual in legislation<sup>2</sup>, it does leave us with certain anomalies that need to be taken into consideration. For example, while the Act specifies registration procedures in considerable detail, it does not require departments to put in place the capacity to process registrations. Similarly, while the Act requires the heads of provincial departments to authorise capable persons to assess partial care facilities and ECD programmes, it does not require the departments to establish the capacity to carry out these assessments.<sup>3</sup> The Act also does not require the Minister to specify through norms and standards the organisational capacity that provincial departments will need to put in place in order to carry out their responsibilities in relation to partial care and ECD programmes.

#### 4. ECD IN THE DIVISION OF REVENUE AND BUDGET PROCESSES

One of Ilifa Labantwana's key objectives is to persuade both national and provincial governments to allocate additional resources to the provision of ECD services. In order to accomplish this, it is vital that the key events in the annual division of revenue process and the national and provincial budget processes are clearly understood. Based on this understanding, entry points for influencing budget allocations can be identified.

Government funding for the provision of ECD services by the provincial departments of Social Development can potentially come from two sources. A province can allocate a budget from its own equitable share and revenues, or a conditional grant may be allocated to the province from the national budget, usually through the national Department of Social Development.

The following processes are involved in making decisions to allocate funding to ECD services through either of these channels:

1. A province, based on its own specific priorities, may choose to allocate funds to ECD services from its equitable share and own revenues. Such a decision would need to be processed through the province's annual budget process and the allocation would need to be approved by the provincial EXCO and, ultimately, the provincial legislature when it passes the provincial budget.
2. National and provincial government can jointly agree to prioritise ECD services and, in the course of the annual division of revenue process, agree to allocate additional funds to the provincial equitable share of nationally collected revenues. These additional funds would flow to the provinces as part of their equitable share, and provinces would be expected to allocate the funds to the provision of ECD services in their provincial budgets, in line with the agreed national priorities. However, equitable share funding is 'unconditional' – a province may choose to use these additional funds elsewhere in its budget. The national government can only exert 'moral suasion' to get provinces to allocate the additional funds as intended.

<sup>2</sup> Parliament, through legislation, instructs Government *what* it must do. It is then left to Government to decide *how* to fund and organise itself to carry out the specified responsibilities.

<sup>3</sup> Neither does the Act require the provincial departments to support partial care facilities, or ECD providers to improve the quality of their facilities and programmes, or even to establish their capacity to provide such support.





3. The national government may choose to prioritise ECD services and allocate funds from its share of revenue to a conditional grant which would then be transferred to the provinces for spending. The conditional grant would have to be approved through the division of revenue process, the national budget process and the respective provincial budget processes. This approach to funding ECD would enable the national government to force its prioritisation of ECD services onto the provinces. However, as discussed below, this approach to funding a service is not without its risks and drawbacks.

#### **4.1. The division of revenue and national / provincial budget processes**

During the budget process, ECD competes for resources with other national and provincial priorities. If the national government regards ECD as a priority (which it currently does), then additional resources may be added to the provincial equitable share to enable provinces to fund it. Alternatively, funds may be added to the national Department of Social Development's budget to fund an 'ECD conditional grant' to provinces. If a province regards ECD as a priority it may allocate additional funds to the provincial department of Social Development to fund ECD. These funds would come from the province's discretionary funds (i.e. its equitable share and own revenues).

During the 2008 economic crisis, despite a significant reduction in total national revenue, the government continued to increase the provincial equitable share and conditional grants in real terms over the 2010 MTEF. Since then, national allocations to provinces have continued to grow faster than inflation, despite only a moderate recovery in national revenues. This has contributed to a rapid growth in government debt over the last four years, which is now approaching unsustainable levels. This has forced government into a period of austerity at least beyond the 2013 MTEF (which ends in 2016). As a result, funding for new policy initiatives is now very limited.

Another complicating factor is that wage negotiations have resulted in above inflation wage agreements for government employees. Because the total cost of personnel has increased as a proportion of total budgets, expenditure on employees is almost impossible to bring down in the short term. While mechanisms do exist for reducing the number of non-core personnel, this is extremely difficult and costly. Processes to bring personnel costs down over the long term (such as freezing new appointments) have to be handled very carefully otherwise they become extremely disruptive to service delivery.

It is therefore quite clear that, over the 2014 MTEF and for a few years beyond it, budgets at all levels of government will be under pressure, and it will be very difficult for provincial departments to increase the number of people they employ. This will also apply in the case of ECD provision, where the government is short on capacity to implement new programmes.

It will also be difficult to motivate for larger non-personnel operational budgets. In these challenging circumstances, if provincial departments are to succeed in getting additional funds allocated for new policy initiatives such as ECD provision, they need to be very careful to prepare budget bids based on accurate and credible costings. In order to do so, it is necessary to have a good idea of the annual division of revenue process and budgeting in national and provincial government.





This is provided in the summary below.

The Public Finance Management Act (PFMA) requires the Minister of Finance to table the annual Division of Revenue Bill and an annual national budget before the start of the annual financial year. The MECs of Finance of each province are required to table the respective provincial budgets within two weeks of the Minister tabling the national budget. This is the only formal deadline with respect to the preparation of budgets. The actual date of tabling changes every year. In recent years the Minister of Finance has tabled the annual budget on the second last or last Wednesday of February. However, when it comes to influencing budget allocations, these tabling dates are largely irrelevant. If one has not succeeded in influencing allocations before these tabling dates, it is virtually impossible to do so after the budgets have been tabled.

The annual budget process officially starts when National Treasury releases the Medium Term Budget Guidelines. This should happen in May of each year, but recently these Guidelines have only been released in July. The Guidelines detail the processes that national and provincial departments must follow when preparing their budgets for the upcoming financial year. The Guidelines identify growth rates that departments must apply when preparing their budgets, and suggest areas of expenditure that should be prioritised (such as capital expenditure) or reduced (such as catering).

Three-year budgets are prepared over the Medium Term Expenditure Framework (MTEF). At the start of the budget process, the provisional budget contained in the last year of the previous MTEF is increased by a growth rate specified in the Budget Guidelines. For example, to prepare the 2014 MTEF, the 2014/15 and 2015/16 budget projections from the 2013 MTEF are carried over and increased by the growth rate specified in the Guidelines. These then become the new MTEF baseline, and an additional year of the MTEF is projected.

Since 2010, the National Treasury has followed an approach known as 'function budgeting'. This involves grouping similar government programmes into a 'function group'. The function group process is outlined in the 2012 Guidelines. There are usually either eight or nine function groups, which may be divided in turn into sub-function groups.

A National Treasury official is assigned to lead each function group. The function group leader is responsible for coordinating meetings of national departments, national entities, provincial departments and representatives from local government relevant to the function group. Typically meetings are held at sub-function group level, where the economic and fiscal outlook is shared with the function group members.

The economic and fiscal outlook is prepared by National Treasury. Forecasted levels of government revenue are used to calculate the budget envelope (the total resources) available for allocation through the division of revenue and budget processes. Until 2009, discussions in the budget process were primarily about what priorities should be funded from additional resources, with function groups discussing 'how the additions to baseline' should be used to fund the expansion of existing services or the funding of new priorities. Since 2009, however, because government revenue has been under pressure, function group discussions have tended to focus on how departments can implement savings, so as to free up resources that can be allocated to government priorities.





Function groups meet a number of times before they present their budget bids to the Medium Term Expenditure Committee (MTEC), an interdepartmental committee consisting of senior officials which evaluates the various budget bids. After reviewing all the budget bids, the MTEC will agree on what is to be presented to the Ministers Committee on the Budget (MinComBud). The MinComBud is a committee of 10 Ministers and is chaired by the Minister of Finance, which considers budget proposals from the MTEC and makes recommendations on them. Proposals usually go through a number of iterations before the key budget decisions are presented to Cabinet.

The division of revenue runs parallel to the function group processes and determines what shares of nationally collected revenue will go to national government, to the provincial equitable share and to each province's equitable share, as well as provincial conditional grants, the local government equitable share and local government conditional grants. The division of revenue process starts in May each year with the Fiscal and Financial Commission (FFC) submitting its recommendations on the division of nationally collected revenues to Parliament. This is followed by meetings of the Budget Council (the Minister of Finance and the nine MECs of Finance) and the Budget Forum (which includes representatives of local government). They discuss the changes to the division of revenue impacting on provinces and local government respectively, and make recommendations to Cabinet regarding the division of revenue for the upcoming financial year

In October, Cabinet is presented with a set of provisional numbers for the division of revenue, as well as changes to the national and provincial budget baselines over the MTEF. Once Cabinet has approved these provisional numbers, they are presented by the Minister of Finance to Parliament in the form of a Medium Term Budget Policy Statement (MTBPS), usually tabled in the last two weeks of October.

Usually by the beginning of November National Treasury will send allocation letters to national departments and the provinces that discuss the issues that informed the decisions reached by MinComBud and Cabinet. The letters will discuss in detail how the provincial equitable share should be prioritised and any changes to provincial conditional grants.

Based on the information contained in these allocation letters, the national departments then 'firm up' their budgets during November and December.

Parallel to the above events the Technical Committee for Finance (TCF) meets on a regular basis. This is a meeting between the National Treasury and the nine provincial treasuries. The content of the discussions in the Function Groups are shared with the TCF (provincial treasury representatives also attend certain of the Function Groups). The TCF, considers the main conclusions arrived at during the function group discussions, as well as technical budgeting and reporting issues. It may also give time to policy priorities affecting provinces that have not been adequately addressed by the Function Groups. An important purpose of the TCF is to help the provincial treasuries understand which issues are being prioritised by national government, how these are being funded and what this means for the provincial budgets. In this way, the TCF helps ensure that resources added to the provincial equitable share and/or conditional grants are allocated appropriately to the provincial budgets.

During the same period (September through December) the provinces run their own budget processes, which may differ quite substantially from province to province. They are usually required to submit draft





budgets to the National Treasury by the beginning of December, after which these budgets are subjected to the scrutiny of its budget analysts. General analyses conducted by budget analysts from the Treasury's Intergovernmental Relations branch are undertaken to ensure that issues highlighted in the Guidelines and raised at the TCF have been addressed. The budgets may also be examined by analysts from some sections of the Public Finance branch, especially Health and Education, whose job it is to see that sector policy issues are properly catered for. These general and sector specific analyses are quite rigorous, with all items in the budgets being analysed.

In January each provincial treasury has to present their budget to National Treasury during the 'Provincial Budget Benchmarks'. This is a closed event between provincial treasuries and National Treasury. Here the assessments of the National Treasury budget analysts are presented, and the provincial treasury is advised on changes that need to be made in order to better align the provincial budget with national priorities. Following this benchmarking process, each provincial treasury is given a report recommending the changes it should make before its final budget is tabled in the provincial legislature.

The responses of provincial treasuries to these recommendations are mixed; some implement the recommendations whereas others appear to ignore them. It is difficult to establish the precise reasons for this: either the provincial treasury itself ignores the recommendations, or it may be that the MEC for Finance or the provincial EXCO does not allow it to implement the recommendations.

As can be seen from the above summary, there are literally hundreds of processes, activities and events that precede the decisions which inform the annual Division of Revenue Bill, the national budget and the nine provincial budgets. A schematic summary of these processes, provided in Annexure A, shows how the budget process is punctuated by 'decision gates'. Once these gates are closed, the budget cannot be influenced, until the next year. However, some gates have been known to open unexpectedly, usually as a result of direct political intervention in the process.

In the next section, the use of conditional grants to fund provincial services, as well as the value of budget structures and how they can be used to influence priorities in budgeting, are discussed.

## 4.2. Conditional grants

Conditional grants have in the past been used by national departments to force provinces to allocate funds towards specific priorities. This mechanism has become increasingly popular in recent years. However, if one looks at the way intergovernmental fiscal relations are set up under the Constitution, it becomes clear that, ideally, the use of conditional grants should be limited.

Provinces are a separate sphere of government with constitutionally assigned service delivery responsibilities set out in Schedules 4 and 5 of the Constitution. Since the relationship between the spheres of government is not intended to be hierarchical, the capacity of the provinces to exercise discretion over how they carry out their responsibilities is protected. This includes deciding how to prioritise the allocation of funds between different services. Provincial governments need to be held accountable by their own electorates for the choices they make, especially where these impact on service delivery. The problem with conditional grants is that they effectively remove this discretion. In so doing, they reduce provinces to becoming 'implementation agents' of national government.





These caveats aside, there are certain instances where conditional grants are useful:

- Where provincial services, such as tertiary health services, extend across provincial borders and employ a concentration of skilled people and specialised technology, they are often better located in fewer provinces, while remaining accessible to all citizens of the country. Conditional grants are an efficient means of compensating provinces for the provision of specialist services for the benefit of all.
- Where a new function is being introduced, or where a function is shifted away from a province, the budget for the function needs to be protected. In the case of a new function, the funds usually need to be ring-fenced until the province has established the institutional capacity to perform the function. In the event of a function being taken away from a province, national government needs to protect budgets allocated to the service. Conditional grants have been used to manage such transition processes.
- Infrastructure expenditure involves a unique set of incentives, it comes with cost drivers that are different to those affecting other provincial programmes. Conditional grants can be used to ensure that specific processes are followed and a long-term approach to managing infrastructure portfolios is adopted.
- Where short-term priorities, such as capacity building or incentivising job creation, need to be addressed, conditional grants may be used to achieve a pre-determined set of objectives within a fixed time frame.<sup>4</sup>

Of the four instances mentioned above, only conditional grants that address infrastructure or the extension of services across provincial boundaries should exist for extended periods. The transitional grants should end once the transfer of the function has been completed. Objectives such as capacity building can be more effectively managed over the longer term through appropriate national norms and standards.

The rules governing conditional grants are detailed in the annual Division of Revenue Act. These rules include how the funds can be used, the information that must be included in business plans and the information that provinces must report to the relevant national department. The Act also identifies the roles and responsibilities of the relevant national and provincial departments.

Currently, only a few national departments use conditional grants strategically and, thereby, actually derive value for money through them. In most cases, the grants simply ensure that funds are allocated to a designated provincial budget programme, but do not bring about any further added value. Indeed there are numerous examples of the allocation to a particular function being reduced once a conditional grant has been introduced, with the net effect that the budget for the designated functions remains the same, or in some instances may even decrease.

Very few national departments have developed the capacity they need to properly manage and monitor how conditional grants are used by provinces. Even fewer assist or build the capacity of provincial departments to implement conditional grants properly. Despite their growing popularity, there is little evidence that conditional grants provide added value.

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<sup>4</sup> In addition to these four instances, South Africa also uses conditional grants for funding disaster responses. These grants are exempted from certain administrative requirements and this enables the quick release of funds. They are necessary in South Africa to get around certain clauses in financial management legislation. However, that is not a good public finance motivation for their existence.





Shifting focus from conditional grants in general to the question of conditional grants for ECD, the above points would apply. There are however specific considerations that need to be looked at. ECD is a stated priority of national government, and a case could be made for an ECD conditional grant on this basis. However, the Essential Package of ECD services, as conceptualised by Ilifa Labantwana, encompasses a number of quite varied components involving a range of provincial and sectoral functions.

One way around this would be to posit five different ECD conditional grants, one for each component of the Essential Package. Such an arrangement would be difficult to co-ordinate at the national level, however, as it would require national government to estimate and prescribe through the division of funding between the grants the appropriate mix of ECD services each province should be implementing.

Another approach might involve a consolidated ECD conditional grant, covering a number of provincial functions, which provinces could then allocate to specified ECD services according to their own preferences. Such a consolidated conditional grant would have the advantage of setting a minimum budget for ECD in each province. Whether or not this would be a good thing is debatable, however, given the range of possible services that the Essential Package encompasses. For example, there would be a very real possibility that such a grant could result in provinces allocating the grant to ECD services they already fund – resulting in no gain. Because the focus of such consolidated grants is on the allocation of funds rather than on the achievement of results, their effectiveness has in the past proven difficult to monitor.

To ensure sustained value for money from resources allocated to ECD, it would be better to adopt an approach based on outputs and service standards. In order to achieve this, the legislative framework would have to be amended so that there is clearer accountability for ECD services: well-defined, achievable national norms and standards for ECD services would need to be in place. Assuming that additional funding enabling provinces to implement ECD services would be provided through the provincial equitable share, it would be up to the national government to monitor the spread and quality of ECD services against the national norms and standards. Provinces would thereby have to account for ECD results, rather than just the allocation of funds to ECD.

### **4.3. Budget programme structures**

For a decade and a half or more, the budget reform process in South Africa has been moving strongly towards developing a system of performance-linked budgeting. This implies a system of budgeting that reflects the ‘purpose’ (or mandate) for which funds are being allocated, linked to a set of performance measures that indicate whether the specified purposes are being realised.

While this approach to budgeting assumes a logical link between budget allocations and specified performance measures and targets, it stops well short of being a ‘performance budget’, which is essentially a set of production functions showing how budget allocations are converted into specified performance outputs.

Within the overall framework of performance-linked budgeting, there are a range of ways in which budget information can be organised and presented. Each provides a different ‘picture’ of the budget, and thus enhances our overall understanding of how the government is proposing to use public resources. The Standard Chart of Accounts (SCOA) provides technical definitions for these different ‘pictures’ of the budget allocations (and of expenditures when they occur).





The SCOA provides seven ways of arranging budget information:

1. By funding source
  - three spheres of government
  - department/vote
  - general versus dedicated funds
2. By objective (mandate or function)
  - constitutional mandate (programme purpose)
  - GFS function (IMF classification of government functions)
3. By responsibility
  - organisational unit and cost centre
4. By item (type of revenue and expenditure)
5. By asset class
6. By project
7. By the region that benefits from the expenditure.

When the budget information is presented to Parliament and the provincial legislatures for debate and approval, the format of the budget information is designed around the ‘funding source’ and ‘objective’ perspectives supported by ‘item’ information. The primary organising principle is however, the ‘objective’ perspective which is reflected in the budget programme structure.<sup>5</sup>

The central aim of this approach to budgeting and presenting budget information is to show how funds are being allocated to realise the mandates or objectives of the government. As such, the focus of the budget programme structure is to facilitate thinking around the allocation of funds between the competing constitutional and legal mandates and objectives of the government (within the macro-parameters required to achieve fiscal discipline).

This provides the basis for the following definitions that underpin programme budgeting:

- A **budget programme** is a main division within a department’s budget that funds a clearly defined set of objectives based on the services or functions within the department’s constitutional and legislative mandates
- A **sub-programme** is a constituent part of a programme, which defines the services or activities that contribute to the achievement of the objective(s) of the programme of which it forms a part
- A **programme purpose** is a statement that focuses on the legal mandate behind the expenditures reflected in the programme or sub-programme.

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<sup>5</sup> See the National Treasury *Guideline on budget programme structures (2010)*





Within the context of provincial government, budget programme structures are standardised across provinces so as to serve the very important role of ensuring comparability, and to facilitate the aggregation of provincial budget information. Each year National Treasury issues a guideline document that sets out the agreed provincial budget programme structures for the upcoming budget. Currently there are standard budget programme structures for 15 provincial sectors, including the provincial departments of Social Development.

The standard budget programme structure for a sector is determined jointly by the relevant national department, National Treasury and the sector provincial departments. To change the structure, one of these parties needs to prepare the relevant proposals, and in workshops convened through intergovernmental forums such as the TCF, initiate discussions on the proposed changes. Once the new format has been agreed, the national department would then request National Treasury to make the relevant changes to the budget programme structure templates. Any such changes can only be implemented from the start of a new budget year.

Within the Education sector, ECD is a separate budget programme: Programme 7. This programme covers all funds allocated to the roll-out and provision of Grade R, which makes it very easy to track how much is being budgeted by the provinces for this aspect of ECD services. Given this lead, a new programme structure for provincial departments of Social Development was introduced for 2014/15. It places services to children and families in a separate programme, and ECD services in a sub-programme within this programme. This is a very positive development and in future will greatly assist the analysis of government spending on ECD services by provincial departments of Social Development.

Table 1 presents the new budget programme structure, introduced in 2014/15, for provincial departments of social development.

**Table 1 New Budget Structure for provincial departments of Social Development**

<b>1. ADMINISTRATION</b>
1.1. Office of the MEC 1.2. Corporate Management Services 1.3. District Management.
<b>2. SOCIAL WELFARE SERVICES</b>
2.1 Management and support 2.2. Services to older persons 2.3. Services to persons with disabilities 2.4. HIV and AIDS 2.5. Social relief.
<b>3. CHILDREN AND FAMILIES</b>
3.1. Management and support 3.2. Care and services to families 3.3. Child care and protection 3.4. ECD and partial care 3.5. Child and youth care centres 3.6. Community-based care services for children.





<b>4. RESTORATIVE SERVICES</b>
4.1. Management and support
4.2. Crime prevention and support
4.3. Victim empowerment
4.4. Substance abuse, prevention and rehabilitation.
<b>5. DEVELOPMENT AND RESEARCH</b>
5.1. Management and support
5.2. (New) community mobilisation
5.3. Institutional capacity building and support for NPOs
5.4. Poverty alleviation and sustainable livelihoods
5.5. Community-based research and planning
5.6. Youth development
5.7. (New) women development
5.8. Population policy promotion.

While this is a positive development, there are inconsistencies in how different provinces map historical and future spending to the new structure, and in all likelihood it will take at least another year to get meaningful data out of the new budget structure.

In the previous budget formats (applicable until 2013/14), ECD was one element of a package of responsibilities allocated to social workers. An individual social worker working on substance abuse, caring for the elderly and ECD, for example, would incur travelling costs falling under three separate sub-programmes within Programme 2: Social Welfare Services. Given the structure of the budget, this did not cause a problem because the social worker’s time and travelling expenses were accounted for at the programme level. This was reflected by the fact that the budget for Programme 2: Social Welfare Services was only broken down by ‘economic classification’ at the programme level. Payments and estimates by economic classification are demonstrated in Table 2.

**Table 2 Payments and estimates by economic classification – Programme 2: Social Welfare Services**

Estimated classification R'000	Outcome			Main appro- piation	Adjusted appro- piation	Revised estimate	Medium-term estimate			
	Audited	Audited	Audited				% Change from Revised estimate			
	2009/10	2010/11	2011/12	2012/13	2012/13	2012/13	2013/14	2012/13	2014/15	2015/16
<b>Current payments</b>	300 534	345 669	379 704	450 028	411 770	411 770	<b>485 352</b>	17.87	513 144	539 801
Compensation of employees	223 416	253 264	277 554	340 653	307 133	307 133	<b>383 344</b>	24.81	409 242	430 797
Salaries and wages	195 031	221 998	239 271	296 171	270 172	270 172	<b>321 969</b>	19.17	342 926	360 994
Social contributions	28 384	31 266	38 283	44 482	36 961	36 961	<b>61 375</b>	66.05	66 136	69 803
Goods and services of which	77 055	92 309	102 026	109 270	104 637	104 637	<b>102 008</b>	(2.51)	103 902	109 004
Administration	222	129	61	145	104	104	<b>31</b>	(70.19)	32	34
Travel and subsistence	8 989	11 718	14 545	16 299	16 299	16 299	<b>12 805</b>	(21.44)	13 903	14 527
Training and development	363	139	108	120	93	93	<b>126</b>	35.48	133	139
Operating expenditure	211	41	135	135	219	219	<b>142</b>	(35.16)	159	168
Venues and facilities	1 048	560	240	295	264	264	<b>310</b>	17.42	324	339





It should be noted that the allocations to ‘compensation of employees’ and ‘goods and services’ are for the entire programme. Most provincial departments of Social Development follow a similar methodology when allocating personnel and other spending within the new budget programme structure.

When analysing the budget of a provincial department of Social Development, it is therefore not possible to see how much of the salary budget or costs involved in supporting activities (travel, subsistence, stationery etc.) have been allocated to a sub-programme. While it is clear how much is budgeted for travel and salaries in the programme, it is not clear what proportion of those salaries are for staff that will be involved in providing the sub-programmes (e.g. ECD services). Similarly, it is not clear how much of the travel budget has been allocated, for example, for use by social workers to visit ECD centres.

In the new budget formats provided for provincial departments of Social Development, National Treasury is pushing for personnel spending to be allocated by sub-programme, which would make it possible to identify how much each province is spending on personnel in the delivery of ECD services. It will however take some time for this new allocation of personnel spending to take effect on a consistent basis across provinces.

As noted above, one of the aims of this project is to explore ways in which the current budget programme structures for provincial departments can be made more effective so as to make budget allocations to ECD services more transparent and accessible to the public. Given the progress that has been made on this front, the focus of this project will be on supporting the consistent implementation of the formats, and exploring the scope for using SCOA to classify spending on ECD services on a consistent basis.

#### 4.4. National norms and standards

Provincial equitable shares and own revenues are unconditional. This means that provinces are free to choose (through the provincial EXCO and provincial legislature) how to prioritise the use of such funds. But while the national government cannot prescribe directly to provinces how these funds should be allocated, it can use service delivery norms and standards to strongly influence the content of provincial service delivery programmes, and therefore the budgets for those programmes.<sup>6</sup>

This distinction – between national government not being able to determine provincial budget allocations directly and national government being able to use national norms and standards to influence allocations – is significant. But it’s a distinction that is not well understood by national departments or other relevant role-players. National Ministers and senior officials of national departments have often been heard to complain that they cannot influence provincial budget allocations, but this may simply be because they are not making sufficient use of national norms and standards to influence budget allocations indirectly. This betrays insufficient understanding of how the respective roles of national and provincial government are structured under the Constitution.

Section 146 of the Constitution sets out the framework governing the relationship between national and provincial legislation. It enables the national government to pass sector-specific legislation and supporting regulations that prescribe national norms and standards for services that fall within Schedule 4 (i.e.

<sup>6</sup> These service delivery norms and standards are the national legislative ‘norms and standards’ envisaged by section 146(2)(b) of the Constitution. Reference to them is also made in section 100(1)(b) of the Constitution.





functions where provinces have legislative competence). Provinces are required to comply with such national norms and standards. In the event of a province not complying, the national government can, in terms of Section 100, intervene in the affairs of the province.

However, in the absence of effective national norms and standards, the national government can only intervene once provincial departments have reached a state of near malfunction. Thus the more objective and measurable national norms and standards are, the easier it is for a national department to uphold the standards of service delivery of provincial departments.

The national government can also prescribe to provinces the minimum organisational structures and competencies they must have in place in order to deliver certain services. Such prescriptions would come as directives from the Minister of Public Service and Administration.

National norms and standards and minimum organisational structures are thus 'objective measures' that can be used to estimate the cost of providing various services in a sector, and as such bring a range of benefits. They enable the resource requirements of policy implementation to be estimated, and they are very useful in preparing credible budgets, bearing in mind that budget bids backed by credible budgets are more likely to be successful. Credible budgets have the additional benefit of enabling the cost-effective use of resources during programme implementation.

At the present juncture, the mechanisms required for the delivery of ECD programmes are still relatively poorly defined. Role players have yet to agree on the practical content of various services encompassed by the Essential Package and how such services should be managed within departments. While there is clarity on certain elements, such as the services provided to children by provincial departments of Health and the Grade R provided by provincial departments of Education, there is very little standardisation when it comes to ECD services provided by provincial departments of Social Development. The per child subsidy paid to ECD centres has recently been standardised, but unfortunately the basis on which the payments are made has not. In short, until government has formulated a position on the core content of ECD services, it will not be in a position to formulate national norms and standards.

The lack of clarity that currently prevails around the definition of ECD services has made it difficult for provincial departments of Social Development to prepare credible and detailed budgets for ECD. The absence of national norms and standards has also limited their ability to motivate for ECD budgets within their respective provincial budget processes.

An important aspect of Ilifa Labantwana's current work is thus to define the content of the service delivery programmes and management structures that the government needs to put in place in order to deliver on the Essential Package of ECD services. Once this work has been done, it will lay a valuable foundation for defining national norms and standards. In so doing, it will provide a basis for preparing credible budgets for ECD.





## 4.5. Summary of factors impacting on the funding of ECD services

In light of the preceding discussions, this section summarises the main factors impacting on the funding of ECD services:

### 4.5.1. ECD services are non-mandatory

The different usages of the words ‘**may**’ and ‘**must**’ in the following extracts from the Children’s Act are instructive with reference to the funding of various categories of services to children:

- **s.105. (1)** The MEC for social development **must**, from money appropriated by the relevant provincial legislature, provide and fund designated child protection services for that province.
- **s.146. (1)** The MEC for social development **must**, from money appropriated by the relevant provincial legislature, provide and fund prevention and early intervention programmes for that province.
- **s.193. (1)** The MEC for social development **must**, from money appropriated by the relevant provincial legislature, provide and fund child and youth care centres for that province.
- **s.93. (1)** The MEC for social development **may**, from money appropriated by the relevant provincial legislature, provide and fund early childhood development programmes for that province.
- **s.215. (1)** The MEC for social development **may**, from money appropriated by the relevant provincial legislature, provide and fund drop-in centres for that province.

The wording of these sections of the Act remind us that ECD services are not a mandatory service that provincial governments are legally required to fund. Given that s.93. (1) and s.215. (1) both employ the use of the word ‘**may**’, it should be clear that there is a question mark around whether ECD would be funded in terms of the current envelope of resources available or allocated to provincial social development departments.<sup>7</sup>

At present, the distinction between ‘**may**’ and ‘**must**’ does not appear to be making any difference to the way the provinces and their departments of Social Welfare are allocating funds between different welfare services. However, this is precisely the subject of a current court action in which the National Association of Welfare Organisations (NAWONGO) is suing the MEC of Social Development in the Free State.<sup>8</sup> Central to this case is the level of funding provided to certain designated services to children (excluding ECD). A finding against the MEC for Social Development in this case could pose a major challenge to the continued prioritisation of ECD in the allocation of funds for welfare services.

### 4.5.2. Priority given to ECD services

National government has identified the provision of ECD as a key priority linked to government Outcome 1: Quality Basic Education, and Outcome 4: Creation of Job Opportunities through inclusive economic growth. This is reflected in the growth in funding for ECD 0 – 4 and Grade R over the past number of years. When it comes to arguing for further funding for ECD this presents both an opportunity and a number of challenges.

<sup>7</sup> See KPMG, 2012. *Social Welfare Service Costing and Allocation Model Report*, para. 4.3.3.1

<sup>8</sup> Case no: 557/2011 in the Supreme Court of Appeal of South Africa.





Given that ECD is a priority, the national government is inclined to favourably regard well-motivated budget bids for additional funds for ECD.

However, the national government will also be looking back at previous allocations to ECD and asking whether they are delivering value for money, and whether allocating even more money to the sector will make a meaningful difference. In addition, the government (both national and provincial) is likely to be conscious of the relative levels of funding going to ECD services versus other welfare services generally, as well as other welfare services to children.

#### **4.5.3. National norms and standards need to be further developed**

The national government is responsible for the development of national norms and standards for ECD services. When such national norms and standards have been introduced in other areas of service delivery they have generally been supported by additions to the provincial equitable share baselines in order to enable the provinces to fund their realisation. However, the funding implications of introducing national norms and standards are usually very thoroughly examined, which raises the importance of defining and costing ECD services.

In 2007 the Department of Social Development issued its 'Guidelines for Early Childhood Development Services'. While this document sets out important norms and standards for centre-based ECD, these are framed as guidelines which carries less weight from a funding perspective than if they were legislative/regulatory norms and standards. More recently, in 2013, the Department of Social Development has sought to standardise the per child subsidy to ECD centres at R15.00. This is an important development. However, a lot more work is needed to develop norms and standards that link to the quality of ECD services and also encompass non-centre-based services.

#### **4.5.4. Convincing implementation plans and costed budgets are needed**

When the National Treasury or a provincial treasury is considering budget bids, an important consideration is the quality of the implementation plans and the credibility of the proposed budgets. After all, treasuries want to be fairly certain that should funds be allocated to a programme, they will be spent. Therefore budget bids that are supported by credible implementation plans are more likely to be funded.

The lack of clarity around the nature of ECD services, and persistent, unrealistic optimism on the part of both the national and provincial departments of Social Development regarding their capacity to implement these, means that budget bids for ECD are often regarded as 'incredible', and so fare poorly in the budget process. The fact that substantial additional funds have been allocated to ECD is more a reflection of the government's commitment to ECD than of the sector's ability to plan and budget.

#### **4.5.5. Departmental implementation records are important**

A department that has a reputation for underspending its budget will find it difficult to convince the role-players in the budget process that it should be allocated additional funds. The provincial departments of Social Development have found it particularly difficult to keep up with the rapid increases in their budgets. As National Treasury observed in the *2009 Provincial Budgets and Expenditure Review*:





Looking at the individual provinces, it is evident that the problem of under-spending is greatest in those provinces whose social development function comes off a very low base, namely North West, Eastern Cape, Mpumalanga and Limpopo. This suggests that these provinces' ambitious plans to rapidly expand social development were thwarted by implementation constraints.

#### 4.5.6. Is the spending making a difference?

If there is clear evidence that a programme is working, in the sense of delivering measurable and meaningful results, it is more likely to be allocated additional funds. Information on the reach of ECD subsidies is important in this regard, but the information on the extent to which subsidies are actually making a difference to children's physical and cognitive development would be even more persuasive. The problem is that such information is either not readily available or is not packaged in a way that it can be easily communicated.

When it comes to funding new forms of ECD services (e.g. home-based FCMs) it will be important to present evidence of the effectiveness of the proposed programmes. Indeed this poses a major risk to the funding of ECD services – unless it can be shown that its spending on ECD services is delivering meaningful results, the government may be reluctant to allocate additional funding.

### 4.6. Entry points for influencing budget allocations for ECD

When considering how to influence budget allocations in favour of ECD it needs to be recognised that budgeting in government is a complicated process involving a range of ingredients. These include:

- technical information about the state of the economy, options, beneficiaries, implementation and costs
- influential officials who have strong views as to what is in the best interests of the country and its people
- politicians promoting the interests of their constituents (as well as other interests)
- the socio-political mood in the country and what is generally seen to be important.

Ilifa Labantwana's current programme, by and large, recognises these different elements, and so provides a good basis from which to work. However, there is scope for more deliberate strategising about how to influence key processes and people directly related to budget processes.

When it comes to feeding technical information into the budget process there are a number of key entry points. Key role-players who are directly responsible for taking proposals regarding the funding of ECD in the Social Development sector into the budget process include:

- Provincial departments of Social Development, which need assistance in preparing credible implementation plans and budget bids for the roll-out of ECD services
- The national Department of Social Development, which needs assistance in motivating for additional funds to be allocated to provinces through the equitable share (or possibly a conditional grant) in order to fund the up-scaling of ECD services
- Officials in provincial treasuries, who are responsible for overseeing the budgets of the provincial departments of Social Development and play an important role in representing the department's interests in the provincial budget processes





- The Chief Director for Health and Social Development in the Public Finance Branch of the National Treasury, and his subordinates.

It is important to have these people onside and to support them with technical planning, costing and budgeting information, as well as information on the effectiveness of ECD.

#### 4.7. Rationale for costing ECD services

Costing should not be seen as an isolated process, but rather as something that can support government reforms and programmes aimed at improving processes and productivity. The development of an effective tool for costing ECD services can achieve the following results:

- Information on ECD costs can promote the effective use of scarce resources both within the social development sector, and within government.
- ECD costing can promote the effective implementation of legislation and policy because the factors affecting implementation are better understood.
- ECD costing can assist in demonstrating whether ECD services are affordable and sustainable within the context of the government's current fiscal position.
- ECD costing can be used in strategic planning and budgeting.
- Knowledge about the costs of ECD programmes can help ensure that when national policies promoting ECD are developed, they are properly funded through the equitable share so as to avoid the situation where ECD obligations placed on provinces and municipalities are underfunded.

### 5. NEXT STEPS

*The Essential Package: Early Childhood Services and Support for Vulnerable Children in South Africa* (Ilifa Labantwana, 2013) describes the components of the Essential Package primarily in terms of outputs and outcomes. While this is useful from a policy perspective, it is less helpful when it comes to costing and implementation planning.

To cost the Essential Package of ECD services there need to be clear 'models' of service delivery that describe in very concrete terms what government needs to do, in order to achieve the envisaged outputs and outcomes.

Ilifa Labantwana is in the process of developing the required service delivery models, which are essential for the costing of ECD services.

The cost of something is really just its price multiplied by the quantity of inputs involved in delivering specific outputs. However, there is obviously more to it than this, especially in a case as complicated as the costing of ECD services and support. Understanding how to cost the provision of ECD services requires a detailed understanding of a range of activities, inputs and prices. There are a number of steps involved:

- Step 1: Decide on the purpose for which costing is required. It is at this point that an appropriate approach to costing is chosen.





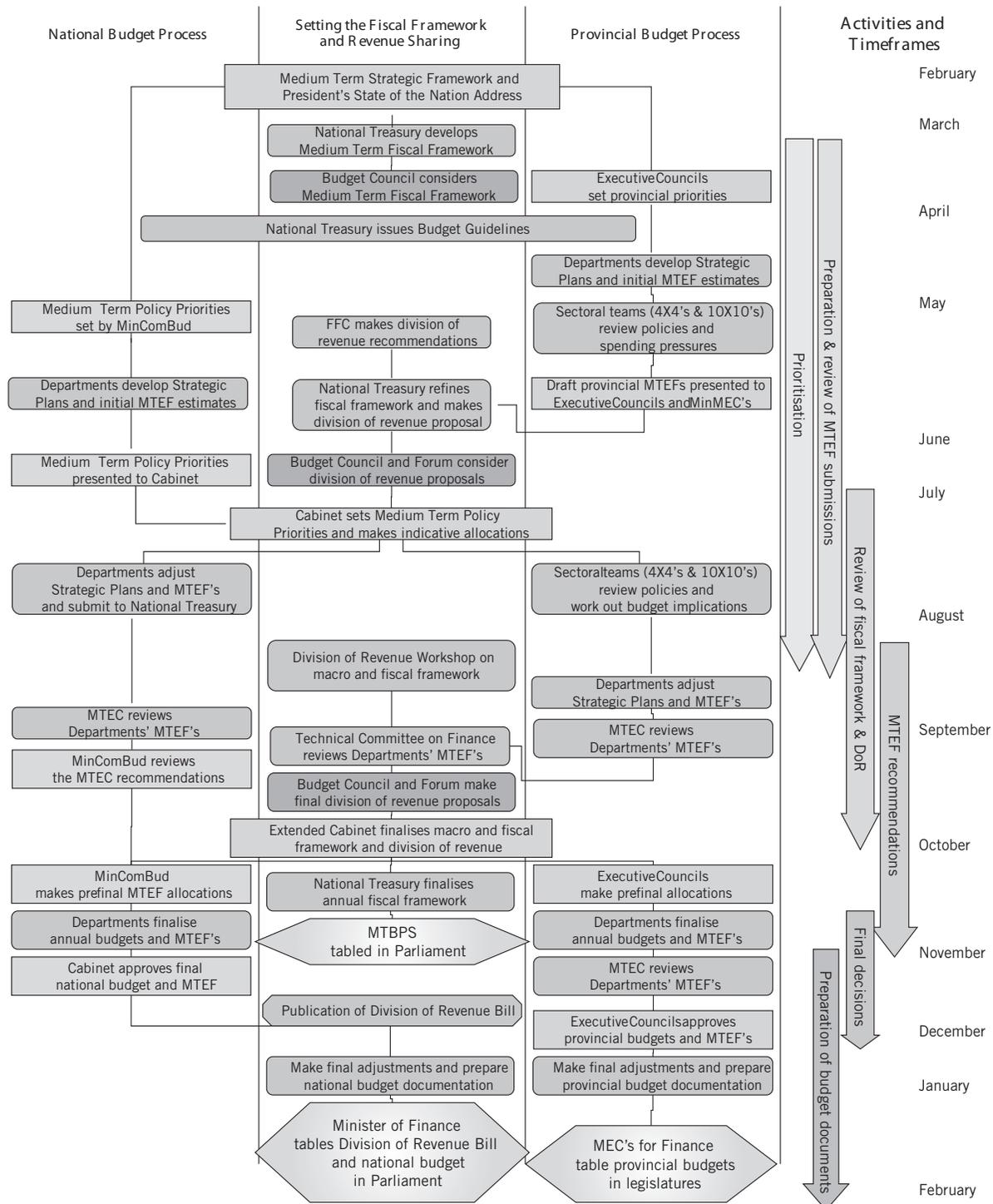
- Step 2: Gather information relevant to costing such as norms and standards, inputs and prices and demand variables.
- Step 3: Develop a 'model' and possible scenarios, define all the activities or items to be costed, and identify who is responsible for providing information on different costs.
- Step 4: Calculate the costs using spreadsheets.
- Step 5: Test the robustness of the costing outcome.
- Step 6: Write up the costing, taking care to be completely transparent about critical assumptions made in the costing process.

As noted above, the aim is to develop costing models that will enable role-players in government to produce credible budget bids for ECD activities at district, provincial and national levels. The format of the costing model will need to be compatible with existing budget templates currently used by provinces in compiling budgets and annual performance plans.





## ANNEXURE A: SUMMARY OF THE REVENUE SHARING AND NATIONAL AND PROVINCIAL BUDGET PROCESSES



**Acknowledgement:** The above figure is a refinement of work by Ronette Engela who first developed this approach to presenting the relationship between the division of revenue and the national and provincial budget processes.











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The aim of Ilifa Labantwana is to provide the implementation evidence, build national capacity and galvanise informed political support to provide quality ECD services at scale, with particular focus on the poorest 40 per cent of the population under six years of age.

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