A budget does the following:
- Shows how much it costs.
- Reflects policy choices.
- Sets in motion implementation.
- Reflects what monies will be collected (revenue) and what monies will be spent (expenditure).
- Provides the framework by which the DMT accounts for performance.

5.1 The Role of a Budget

A budget reflects the service priorities. It is the framework for spending money and for assessing financial performance.

Once the Service Plan has been designed, the process of drawing up the Financial Plan starts. The Financial Plan shows:
- How much and what type of inputs are required
- How the inputs will be managed to get to the required outcome
- What the targets are for effectiveness, efficiency and equity.

5.2 The Items that make up a Budget

The budget is made up of line items covering all the input needs to render a service. These are called line items. For each of the cost centres in the district the budget is structured according to line items such as:

- **Personnel** - costs for all the staff requirements, such as salaries, overtime, bonuses and employer contributions for medical schemes.

- **Administration** - administration costs such as telephones, postage, travel and subsistence, study expenses and transport costs.

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5 Cost centres can be defined as units of service delivery for the purposes of this document.
- **Stores and Livestock** - costs related to the purchase of consumable items such as stationery, drugs, protective clothing and fuel.

- **Equipment** - costs to purchase or hire equipment and items such as furniture and hospital equipment.

- **Land and Buildings** - costs to hire office space.

- **Professional and Specialised Services** - payments for professional type of services such as municipal services, laboratory services and consultancy services.

- **Transfer Payments** - payments transferred to people outside government who render goods and services per special agreement as well as subsidies.

These line items are further unpacked as minor items. Each minor item also has an identity code that is used for purposes of budgeting and recording transactions. A minor item in personnel, for example, is medical aid or housing schemes. Minor items for operational costs such as stores will include cleaning materials or drugs. For a detailed list of items applicable to a district, see: ‘Financial Management: Building muscle in Mount Currie, KwaZulu-Natal’ (Technical Report #12, HST, 2000).

### 5.3 Preparing to draw up a Budget

#### 5.3.1 Budgeting for inputs

Budgeting follows some important steps. The inputs required flow from unpacking the Service Plan. This is demonstrated by working backwards:

<table>
<thead>
<tr>
<th>Service outcomes</th>
<th>Service outputs</th>
<th>Activities</th>
<th>Inputs</th>
<th>= Budget</th>
</tr>
</thead>
</table>

**STEP 1:**

List the amount and type of inputs required for each cost centre.

Prepare the list according to all the applicable line and minor items. Differentiate between current inputs that require continuation and new inputs that are required.

For personnel, therefore, there will be a list for filled posts and one for vacant posts, as shown in the example below.
STEP 2:  
**Cost the inputs.**
The costing process could follow different approaches, as demonstrated below.

**Personnel**

- Make sure that all the staff working in the cost centre appear on the personnel list.
- Make sure that staff numbers and staff mix is appropriate for the service activity.
- Identify key posts that need to be filled if there are any vacant.
- Make sure at the end that the added cost will fit your expenditure framework.
- Determine all costs related to personnel as is demonstrated in the example below.
  (See also Addendum 2 for a demonstration of a formula to determine the personnel costs.)

### EXAMPLE

<table>
<thead>
<tr>
<th>Cost Centre:</th>
<th>Simunye Clinic</th>
<th>Responsibility:</th>
<th>Objective:</th>
<th>Total:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Line Item:</td>
<td>Personnel</td>
<td>1403</td>
<td>448 234</td>
<td>R 213 661.00</td>
</tr>
</tbody>
</table>

#### Filled posts:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Total number of posts</th>
<th>Filled posts</th>
<th>Notch</th>
<th>Bonus</th>
<th>Housing subsidy</th>
<th>Medical aid fund</th>
<th>Pension fund</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional nurse</td>
<td>3</td>
<td>1</td>
<td>50 868</td>
<td>3 942</td>
<td>10 656</td>
<td>8 064</td>
<td>10 485</td>
<td>84 015</td>
</tr>
<tr>
<td>Clerk</td>
<td>1</td>
<td>1</td>
<td>23 526</td>
<td>1 823</td>
<td>11 400</td>
<td>4 032</td>
<td>4 849</td>
<td>45 631</td>
</tr>
<tr>
<td>Cleaner</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Vacant posts:**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Number of posts vacant</th>
<th>Number of vacant posts budgeted for</th>
<th>Notch</th>
<th>Bonus</th>
<th>Housing subsidy</th>
<th>Medical aid fund</th>
<th>Pension fund</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional nurse</td>
<td>2</td>
<td>1</td>
<td>50 868</td>
<td>3 942</td>
<td>10 656</td>
<td>8 064</td>
<td>10 485</td>
<td>84 015</td>
</tr>
</tbody>
</table>

R 129 646

R 84 015

**Administration**

Determine the administration costs for the cost centre. These include costs for telephone calls, hiring of telephones and post boxes and transport costs. A critical evaluation of previous expenditure history will assist. If a manager knows that s/he has to attend monthly meetings requiring subsistence and travelling, these can be calculated.
It is often difficult to budget items such as postage and stationery, and it is useful to have an idea of past expenditure trends. The example below shows how the minor items: travel, accommodation and subsistence can be approached.

**EXAMPLE**

**Cost Centre:** Simunye Clinic  
**Responsibility:** 1 403  
**Objective:** 448 234  
**Line Item:** Administration  
**Minor items:** Travel, subsistence & accommodation  
**Total:** R 5 400.00

<table>
<thead>
<tr>
<th>Item</th>
<th>Frequency</th>
<th>Unit cost</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel</td>
<td>10 x 80km = 800km</td>
<td>R 3 per km</td>
<td>R 2 400</td>
</tr>
<tr>
<td>Subsistence claims</td>
<td>20</td>
<td>R 25</td>
<td>R 500</td>
</tr>
<tr>
<td>Accommodation</td>
<td>10</td>
<td>R 250</td>
<td>R 2 500</td>
</tr>
</tbody>
</table>

**Equipment**

Prepare a list of new equipment required. Number the list. This will ensure that purchases during the financial year are made according to an approved list. Estimate the cost of each piece of equipment.

**EXAMPLE**

**Cost Centre:** Simunye Clinic  
**Responsibility:** 1 403  
**Objective:** 448 234  
**Line Item:** Equipment  
**Total:** R 17 500.00

<table>
<thead>
<tr>
<th>Number</th>
<th>Item</th>
<th>Amount</th>
<th>Unit cost</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Desk chair</td>
<td>1</td>
<td>R 500</td>
<td>R 500</td>
</tr>
<tr>
<td>2</td>
<td>Computer (complete desktop, software, internet cabling)</td>
<td>1</td>
<td>R 15 000</td>
<td>R 500</td>
</tr>
<tr>
<td>3</td>
<td>Printer</td>
<td>1</td>
<td>R 2 000</td>
<td>R 2 000</td>
</tr>
</tbody>
</table>

**Other items**

Follow similar processes for each of the other items and minor items of your financial system. It is important to remember that any capital spending such as building a new clinic has financial implications for running the facility in the future. This document does not deal with capital prioritisation or budgeting.
A special note about budgeting for pharmaceuticals: pharmaceuticals have a high risk in financial terms, and yet districts have to rely on historic expenditure data to assist them to draw up a budget. This data can only really help when the DMT feels confident about internal control measures.

**STEP 3:**

**Combine the costs.**

Once every cost centre has compiled a budget, the District Management Team needs to examine and verify the budget before incorporating all the cost centres’ budgets into a single district budget.

The final district budget needs to reflect district priorities and ensure that more resources are distributed to communities in more need. Not all funds should be locked in fixed costs such as staff, but there should be sufficient funds for operation.

**5.3.2 Budgeting for revenue**

Districts need to budget for the revenue they will collect. The revenue could come from subsidies (from the provincial department of health), from other sources such as donor and patient fees or from own revenue, such as from the municipal revenue system.

Each cost centre and the district management team need to estimate the expected revenue they plan to generate.

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**Good performance in this phase**

**The following measures would indicate a good budgeting process:**

✓ Having a picture and understanding of financial performance for the previous year and using this information for financial planning in the forthcoming year.

✓ Clearly identifying input items, prioritising them and listing them.

✓ Having available equipment inventories to support decisions on maintenance and replacement.

✓ Having estimates for each applicable minor and line item.

✓ Setting revenue targets.

✓ Completing an estimated expenditure and revenue report (the Budget) which is accompanied by supporting documentation.