Eastern Cape Provincial Legislature Budget Committee Workshop

05-06 July 2022

The Parliamentary Budget Office

Parliamentary Budget Office

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Outline

- Introduction
- Parliamentary Budget Office in Context
- Establishment of South African Office
- Office Strategy in Context

Introduction

- The Parliamentary Budget Office was established in 2013 by Section 15 of the Money Bills and Related Matters Act 2009, as amended in 2019
- Established to support the implementation of the Money Bills and Related Matters Act; in particular support to Finance and Appropriations Committees in both Houses of Parliament; but other Committees and Members of Parliament (MPs) subject to the availability of capacity
- The Money Bills and Related Matters Act of 2009 guides the approval of money bills, including amending the budget
- The Parliamentary Budget Office offers independent and objective analysis and advice to Parliament on money bills and other bills presented by the Executive; and any other documentation or reports with fiscal implications

Parliamentary Budget Office in Context

- The scale of capability or technical expertise or knowledge of Member of the Legislatures varies across the world. This is also affected by the level of economic and societal development
- On the other hand, governments require and possess skilled human capital and institutional capacity to deliver services and govern their countries
- To keep up with the legislative role of oversight, legislatures also require administrative capacity (human capital and institutions capacity)
- Many legislatures have enacted laws to ensure such capacity is in place, e.g. specialised research units or budget offices or fiscal advisory councils
- The establishment of Parliamentary Budget Office is one mechanism adopted by many countries to ensure better technical capacity to support MPs in their fiscal oversight
- The concept of Parliament Budget Office has been in existence since 1936 with Belgium having the oldest structure, and Uganda having the oldest PBO in the continent 2001

Type Legislature per role

- Level of human capital and institutional capacity requirement in legislatures is largely dependent on whether the legislature is budget making, budget influencing or budget approving

Role	Characteristics	Examples
Budget Making	Capacity to amend or reject the executive's budget proposal and capacity to formulate a budget of its own.	United States of America
Budget Influencing	Legislative authority to amend or reject the executive's budget proposal, but lacks capacity to formulate and substitute budget of its own.	Germany, Philippines, Poland, Hungary, India and South Africa
Budget Approving	Lacks capacity to amend or reject the executive's budget proposal or to formulate a budget of its own. Confines itself to assenting to the budget that is placed before it.	Israel, Namibia, United Kingdom, Canada

Parliamentary Budget Office in Context (cont.)

Post 2008 Global Financial Crisis (GFC):

- Fiscal challenges emerged because governments had to address the economic, fiscal and socioeconomic difficulties
- Many Parliaments established PBOs or similar Institutions to provide much needed technical capacity, analysis and advice, more than 70% of them were established post- GFC
- Parliamentary Budget Offices enhance the role of Parliaments in holding governments accountable on budgets and service delivery post the crisis
- New Offices were also established on the African continent with Uganda (whose PBO was established in 2001) the oldest, many of them established post-GFC
- South African Parliamentary Budget Office was established in 2013, even though the Money Bills Act was promulgated in 2009 (the Act was further amended in 2019)

Global Covid-19 Pandemic PBOs support to their Parliaments include:

- Provide rapid analysis and briefing to their legislatures on the socioeconomic, macroeconomic and fiscal impact of the pandemic
- Monitors the activation and implementation of government escape clause, as many governments suspended normal budget processes to urgently respond to Covid-19 economic and social impact
- Provided costing estimates analysis on government emergency policies or plans, to determine impact on economy, public finances and providing much needed social relief
- Promoting and ensure that the principles of transparency and accountability are adhered to during governments implementation of emergency procedures

Parliamentary Budget Office in Context (cont.)

International common understanding of the Parliament Budget Office roles and functions?

- Entity set-up within their parliaments to provide members with independent analysis and advice as part of support to fiscal oversight
- Although some parliamentary budget offices are set-up as part of the research function in parliaments, international experiences shows that, most of the PBOs are set-up independently from the legislatures' administration services

PBOs functions in support of legislatures differ internationally	Operations of PBOs are affected by many dynamics	Inherent and Common issues confronting PBOs
a. Provide an alternative budget to that of executive. e.g. CBO in USA b. Amend the budget proposals of the executive; e.g. Kenya and Uganda PBO c. Understand the budget proposed by the executive; e.g. rubber stamping d. Are an extension of the executive, yet report to both the executive and legislature. e.g. OBR in UK	a. Whether they are established by legislation or not b. Provide support to Committees or MPs or publishes its work c. Accountable to Administrators, or Legislature or both d. Publish its work, or share its work to other stakeholders	a. Lack of specific legislation (e.g. Source of mandate or protection from undue influence) b. Governance and reporting structures (Administration vs Parliament) c. Budget or funding of PBOs (direct transfer or not) d. Access to information needed for analysis e. Work flow arrangements and staffing f. Access to Human Capital g. Expectations Management

Establishment of the South African Parliamentary Budget Office

Established in terms of section 15 of the Money Bills and Related Matters Act 2009

Money Bills and Related Matters Act 2009

- Section 73 (2) of the Constitution of the Republic of South Africa about introduction of money Bills in National Assembly:
  - Only the Minister of Finance
- Section 77 (3) of the Constitution state that:
  - An Act of Parliament must provide for procedure to amend money bills before Parliament
- Money Bills Amendment Procedures and Related Matters Act of 2009 (Money Bills and Related Matters Act):
  - Guide Parliament's role in the budget process, the act came into effect in April 2009
  - It gives Parliament powers to amend the budget and other money bills before it
  - Each House must establish a committee on Finance and Appropriations to consider specific budget instruments
- Section 15 Act established a Parliamentary Budget Office to support the implementation of the Act

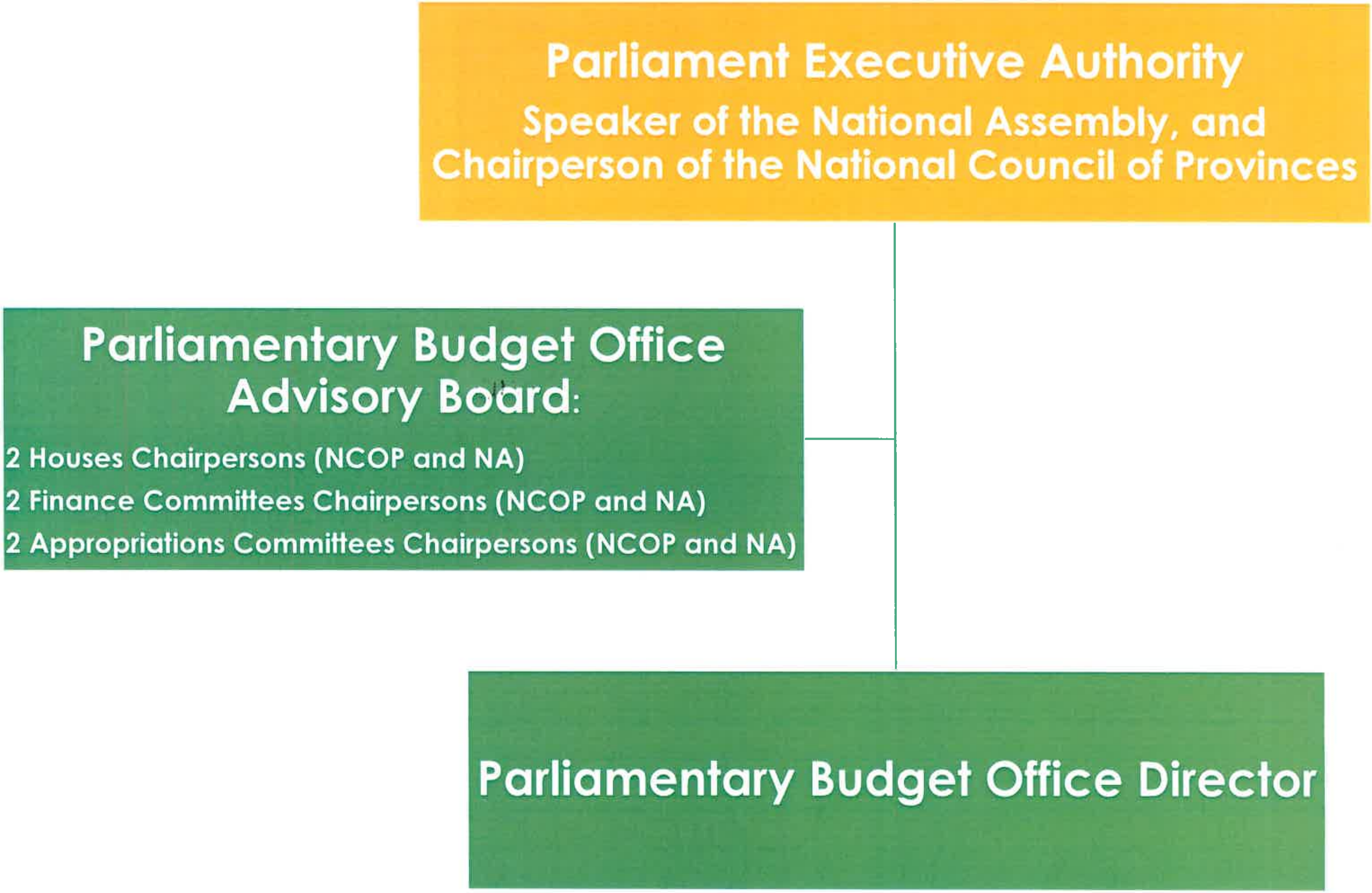
Money Bills and Related Matters Act 2009

- Preceded by national and international broader consultation process
- Established the Parliamentary Budget Office as a *juristic person (amended in 2019)*
- The Office provides research and analysis on the macroeconomic and fiscal policy and other policies in support of MPs to fulfil their oversight role over the Executive
- The Director is the Accounting Officer, and accountable to Parliament (defined in terms of Section 42 of the Constitution)
- The Director, in consultation with the Advisory Board determine the structure and conditions of service of the Office
- The transfer of funds to Office to fulfil its mandate from Parliament budget baseline, to prepare 3-year rolling budget
- In performing our mandate, the Office may obtain information from any organ of state or person that derives funds from the National Revenue Fund

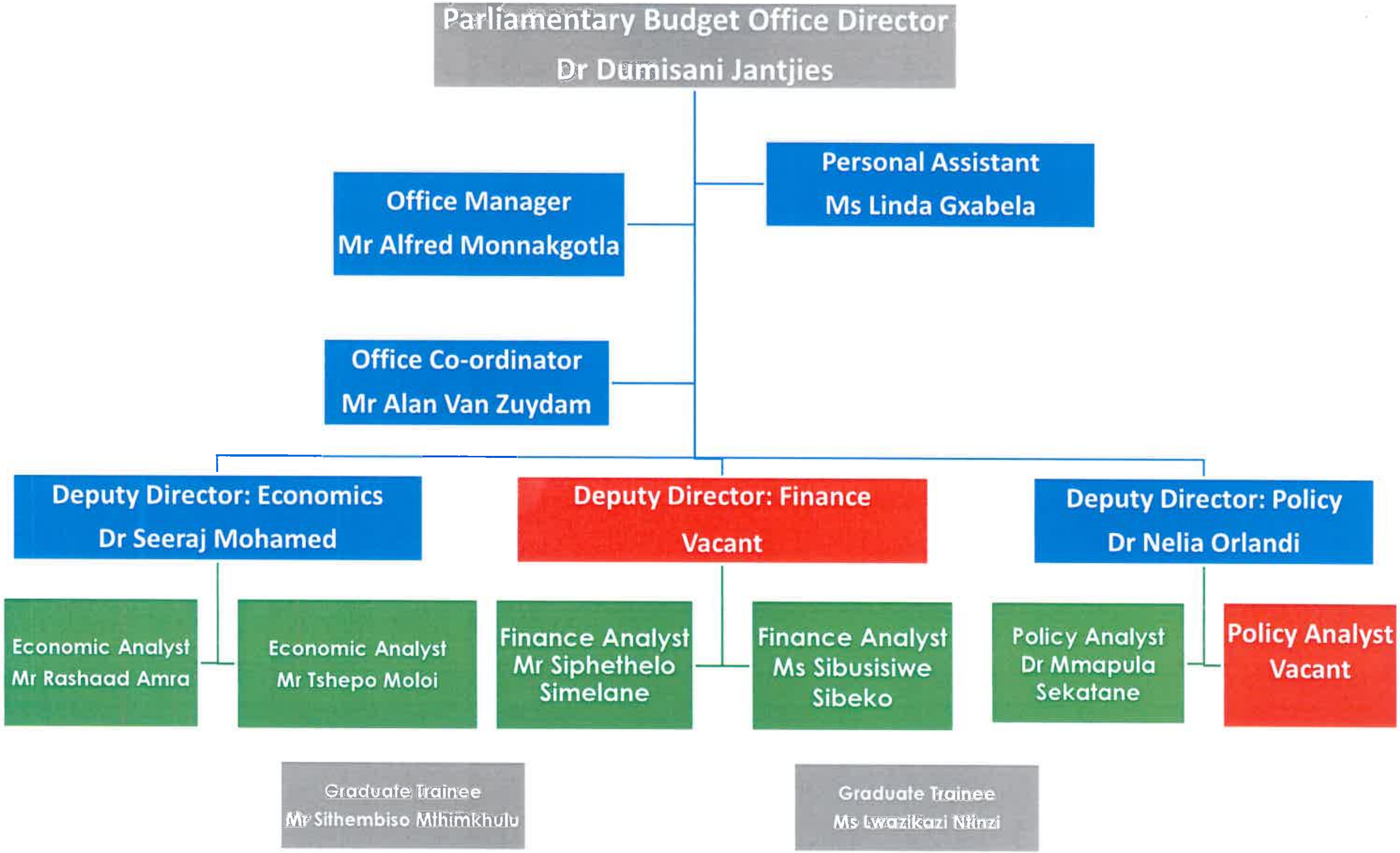
Money Bills and Related Matters Act 2009 - Core functions

- Undertaking research and analysis for the 4 committees (2 Finance and 2 Appropriations)
- Annually providing reviews and analysis of the documentation tabled in parliament by the Minister of Finance
- Providing advice and analysis on proposed amendments to the Fiscal Framework, Division of Revenue Bill and Money Bills and on policy proposals with budgetary implications
- Monitoring and synthesising matters and reports tabled and adopted in a House with budgetary implications, with particular emphasis on reports by other committees
- Keeping abreast of policy debates and developments in key expenditure and revenue areas
- Monitoring and reporting on potential unfunded mandates arising out of legislative, policy and budgetary proposals
- Undertaking any other work deemed necessary by the Director to support the implementation of the act

Accountability line for the Director (Accounting Officer)



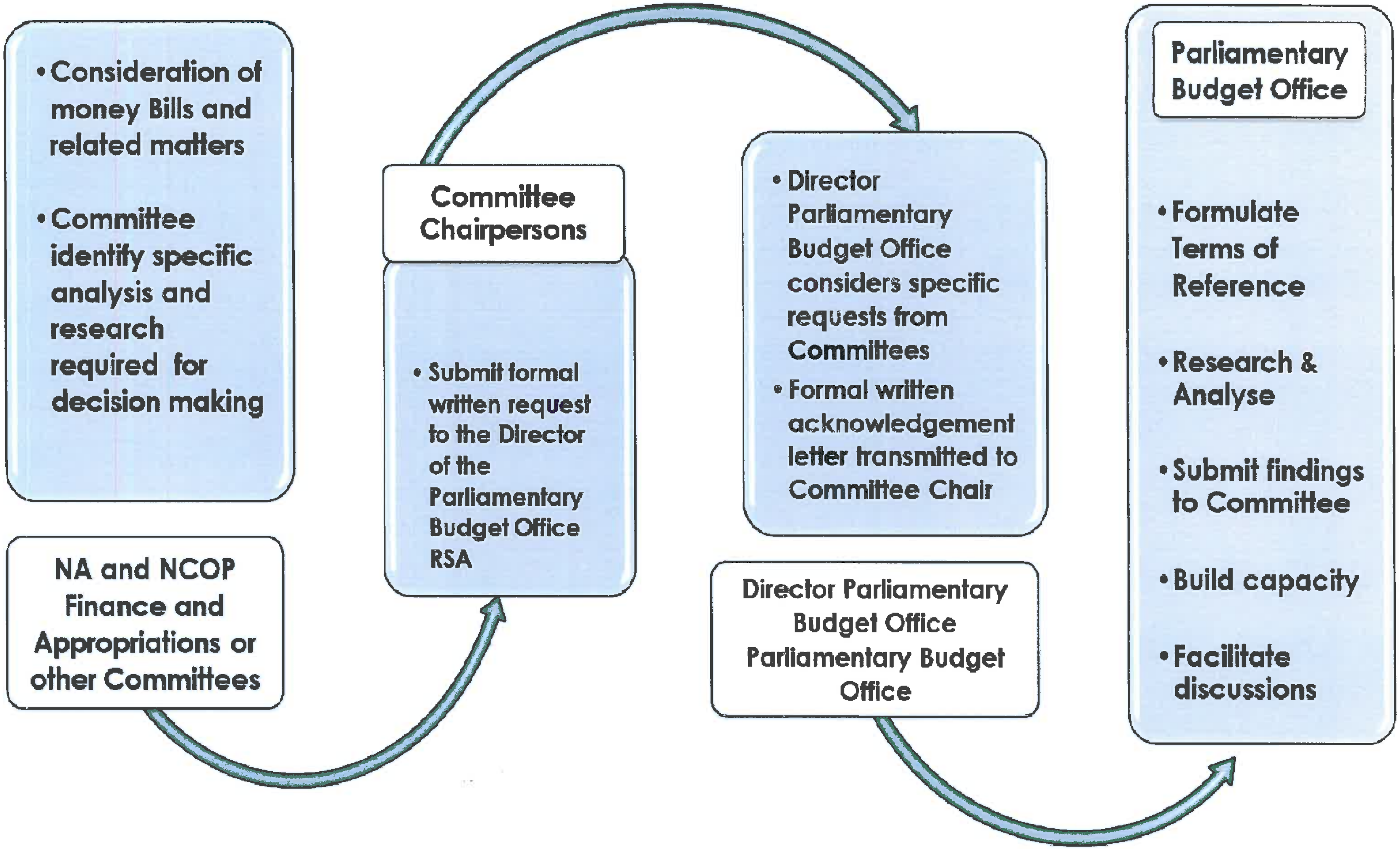
Current Positional Structure



Human Capital and Technical Capability

- Globally, the need for heightened legislatures oversight with technical capabilities and capacity has grown over the years, hence many legislatures are establishing PBOs or IFIs or Research Units
- Therefore, the oversight models are required to guide legislatures on their oversight, including:
  - What is the role of the legislature in the oversight or what does it mean?
  - What kind of information (research or analysis) is required for the purpose of oversight?
  - What does the legislature do with the information once it has it?
- International experience shows that many legislatures strive to distinguish between the Administrations Researchers and Budget Offices; More African Parliaments are establishing separate Budget Offices within their legislatures
- In preparing budgets and related instruments, governments make use of various expertise; therefore to certain extent legislatures have to take these into account
- Globally Budget Offices or IFIs human capital comprise of researchers or experts with following background or expertise:
  - Trained Economists (Macroeconomists and Macroeconomists)
  - Finances Specialist, Public Finance Specialists
  - Public and Policy Specialises
  - Accountant and Auditors
  - Legal advisors, Engineers and
  - Content specialist, Educations, Health and etc
- Some of the research and analysis include, forecasting or economic performance and tax revenues, costing of legislations and policy, socio economic impact analysis, monitoring and evaluation of government programes and expenditure and etc

Research and Analysis Requests Workflow Process



Continuous Stakeholder Engagement

- The Parliamentary Budget Office has a broader pool of stakeholders to keep abreast with socioeconomic issues, macroeconomic and fiscal policy developments, and strengthen the Office technical capabilities
- Regular engagements with other research units in various Parliaments, and with civil society during public hearings and other platforms
- Engagement with Provincial Legislatures, over the years we made contributions for consideration in Gauteng, KwaZulu-Natal, Eastern Cape and Western Cape considerations towards their Money Bills processes
- Regular engagement and use of the work of fellow governance supporting bodies including, AGSA, DPME, NT and other stakeholders
- Led the established African Network of Parliamentary Budget Offices (AN-PBO) at continental level
- Engagements with other PBOs through the Global Network of PBO and the OECD Network of PBOs and Independent Fiscal Institutions
- Further engagements with Multilateral Institutions involved in establishing and capacitating PBOs

Strategy in Context

Strategic Execution from Conceptualisation

National Level

Government Budget Addresses the Country's Socio Economic Developmental Needs that improve the quality of life- 2021 to 2024- The 2019-2024 Medium Term Strategic Framework has set-out seven Outcomes to be realized by 2024. Government will use the budget another policy instruments to realize these MTSF Outcome

Parliament Level

Parliament' oversight process in terms of Money Bills and Related Matters Act assess how government' proposed budgets contribute to the realisation of national aspirations (Increase Government's responsiveness and accountability). During this budget oversight process Parliament is required to take into account inputs from various stakeholders

Parliamentary Budget Office Role

Provide and advise based on research and analyses outputs to support Parliament's process of assessing the societal potential, economic and developmental impact of the budget. The PBO research and analyses outputs aim to provide relevant and necessary knowledge and insights that support and Empower MPs in their oversight role

Research and Analysis and Parliament Fiscal Oversight

Office to remain a strong and independent voice within the budget process in support Parliament's role of fiscal oversight, to ensure four fundamentals are attained and maintained

1. Our research, analysis, reports and briefs are reported and presented in a form that is accessible (readable) or understandable by an average MP
2. Good balance between responding to Committees' or MPs research or analysis requests, and ability for the office to initiate own analysis or research
3. The Office has a fair, clear, transparent and practical workflow and analysis methodology in doing its analysis and research work
4. Office continues to be highly respected and remain independent, objective and professional; include the Director and the team members, in particular by the Executive and MPs

Enkosi, Siyabulela!

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http://www.parliament.gov.za/live/content.php?Item_ID=7207

The National Fiscal Framework and the Division of Revenue Bill - Eastern Cape Legislature

National Fiscal Framework and DORA

National Fiscal Framework
05-06 July 2022

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Outline

- Introduction
- Central role of the budget framework
- Government's contribution to gross domestic product (GDP)
- Budget deficits and surpluses
- Economic reasons for running a deficit
- The budget balance
- Sources of government revenue
- Personal income tax (PIT)
- Corporate income tax (CIT)
- Value added tax (VAT)
- 2022 Budget Proposals
- Allowing for debt stabilisation and improved expenditure composition
- Division of Revenue Bill
- Division of Revenue Bill and the Parliamentary processes
- The Division of Revenue Bill and the Intergovernmental system
- 2022 Division of Revenue
- Legislative mandate of the three spheres of government
- Equitable share formula
- Developmental Indicators: Eastern Cape

Introduction

- An important component of the Money Bills Amendment Procedure and Related Matters Act is the fiscal framework, which must be scrutinised when Parliament considers whether or not to amend a money Bill
    - Section 8 of the Act provides, amongst others, for the adoption of the fiscal framework in accordance with stipulated principles
- The fiscal framework serves as an important guide to the whole budget process by providing the foundation upon which detailed budget decision-making depends
- It represents a way of shaping the financial, social and economic landscape of a country through the budget process
- Through clearly laid down rules, the fiscal framework assist in setting target levels for the funding available for a variety of social and economic objectives the government wishes to pursue
- *The fiscal framework is reviewed periodically in light of changing circumstances and budgetary decisions*

Central role of the budget framework

- The fiscal framework refers to the broad budgetary aggregates of total revenue, expenditure and borrowing for a given year
- The interaction of these variables, and their impact on the broader economy, make up fiscal policy
- The fiscal policy objectives translate into the budget framework, which in its various forms presents a comprehensive and transparent aggregate picture of all revenue and all expenditure in general government at national and provincial level
- All allocations at national level are made from the available expenditure envelope in the budget framework, including funding the national departments and the unconditional and conditional grants to the provincial and local spheres of government
- The nine provincial budget frameworks, therefore, reflect the national framework, with any differences being a function of provincial own revenue

Government's contribution to gross domestic product (GDP)

- The scope of a government's regulatory influence is difficult to measure, and so is the extent of incentives like tax breaks
- It's easier to determine the scope of government's narrower role as a provider of goods and services
- This is usually given as a share of the total output in the economy, that is, as a share of gross domestic product (GDP)
- GDP is the total value of goods produced and services provided in a country during one year
- National Treasury expects real GDP to grow by 2.1 per cent in 2022 and average 1.8 per cent over the medium term
- According to government, a more rapid implementation of economic reforms, complemented by fiscal consolidation will ease investor concerns and support faster recovery and higher levels of economic growth over the long term

Government's contribution to gross domestic product (GDP) (cont.)

- However, government and state corporation are also required to invest in the economy to create jobs and support the economy
- The reduction of regulatory constraints, providing effective services, and coordinating and sequencing economic interventions will bolster public and private investment, which will increase resilience and support economic transformation
- Significant risks to the economic outlook include:
  - Global supply chain disruption and geopolitical tensions, Russia and Ukraine war in particular
  - New COVID-19 variants leading to new waves of infection
  - Continued interruptions in power supply
  - Rising inflation and fiscal risks
  - Lack of investment by both government and private sector
  - Continue climate change impacts or changes in weather patterns

Budget deficits and surpluses

- Government' goal is that, government spending should be in line the total amount of income that comes from tax and other, non-tax revenue sources (also know as primary surplus)
- This because, in the longer run, government wishes to only spend what it raises through tax
- Over the short and medium terms, however, deficits (shortfalls) may be financed through borrowing, and budget surpluses may even occur
- A negative budget balance (deficit) means that, for a given year, planned expenditure is higher than anticipated revenue, and borrowing will be required
- A positive budget balance (surplus) means that planned expenditure is less than anticipated revenue, and government is contributing to total savings in the economy

Economic reasons for running a deficit

- Governments may run deficits for many reasons, but there are two main economic reasons for doing this:
- **Macroeconomic stabilisation**: Governments can spend more or less at different times to help moderate fluctuations and stabilise aggregate demand in the economy
    - This mean higher deficits in recessionary periods and lower deficits, or even surpluses, in expansionary periods
- A budget deficit increases debt and the costs of servicing that debt, which may change because of interest rate changes
    - This will need to be taken into account in future budgets
- **Inter-generational equity:** Government spending tends to generate benefits for many generations of people
- Debt-financed infrastructure, repaid through taxes, is one way of doing this, especially if there is a significant drive for infrastructure

The budget balance

- There are different ways of looking at the budget balance, depending on what is and what is not included:
  - The **conventional budget balance** is the difference between total expenditure and total revenue
  - The **current budget balance** is the difference between current, non-capital expenditure and current revenue
- If the government is borrowing funds mainly for capital spending, the current budget balance may be in surplus even though there is a deficit in the conventional budget
- The budget is a plan, and plans are not always realised, we therefore refer to budget outcomes when we talk about what actually happened
- In the case of the budget balance, the outcome may be different from what was proposed because expenditure and revenue are larger or smaller than anticipated
- Expenditure differences may happen because of challenges with budgetary control or poor implementation capacity

Sources of government revenue

- There are four main sources of government revenue; *taxes, service charges, grants and loans (borrowing)*
- In South Africa, taxes are by far the largest part of total government revenue (more than 80% of revenue)
- Service charges are paid mainly to local governments for utilities such as water and electricity
- All taxes collected by the national government, through the South African Revenue Service, are paid into the National Revenue Fund
- A tax is generally defined by; *its rate, in percentage terms and its base* (what is actually being taxed)
- Direct taxes are taxes on income and wealth, and indirect taxes are typically taxes on activities, such as consumption
- South Africa' three largest sources of national tax revenue are:
  - Personal income tax (PIT)
  - Corporate income tax (CIT)
  - Value added tax (VAT)

Personal income tax (PIT)

- PIT has a progressive rate structure to contribute to greater equity
  - This means that taxable income is taxed at different rates
  - Higher income is taxed at higher rates
- **The difference between marginal and average personal income tax rates:**
  - To balance the need for revenue with people's ability to pay taxes, governments may choose not to tax some parts of a person's income
  - Or, it may tax them at different rates – this is known as marginal income taxation
  - As a result, the average tax rate will differ from the marginal tax rates in the PIT schedule
- **2022 budget proposal:**
  - The personal income tax brackets and rebates is adjusted by 4.5 percent, in line with inflation
  - The adjustments mean that the annual tax-free threshold for a person under the age of 65, will increase from R87 300 to R91 250

Corporate income tax (CIT)

- CIT is a tax on profit (that is, revenue less expenditure)
- It is currently set at 27%; however, the actual tax rate paid (effective tax rate) by corporates in South Africa varies by sector but generally lower than 27%
- This is because there are tax incentives aimed at enabling corporate investment, profitability and labour demand
- In South Africa, the CIT over the ten years has proven to be particularly elastic with respect to growth
- In other words, high economic growth generated even higher profits that could be taxed, while CIT declined significantly after the global economic crisis

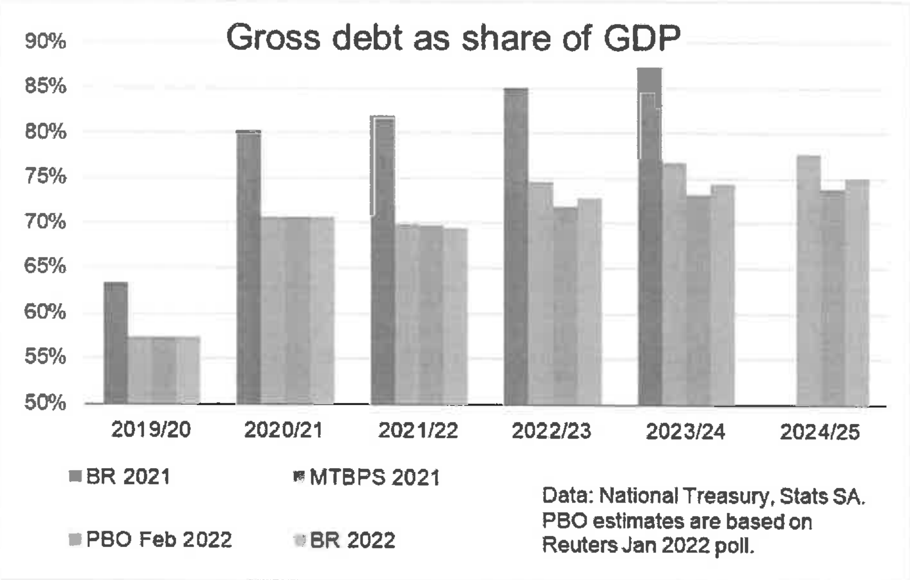
Value added tax (VAT)

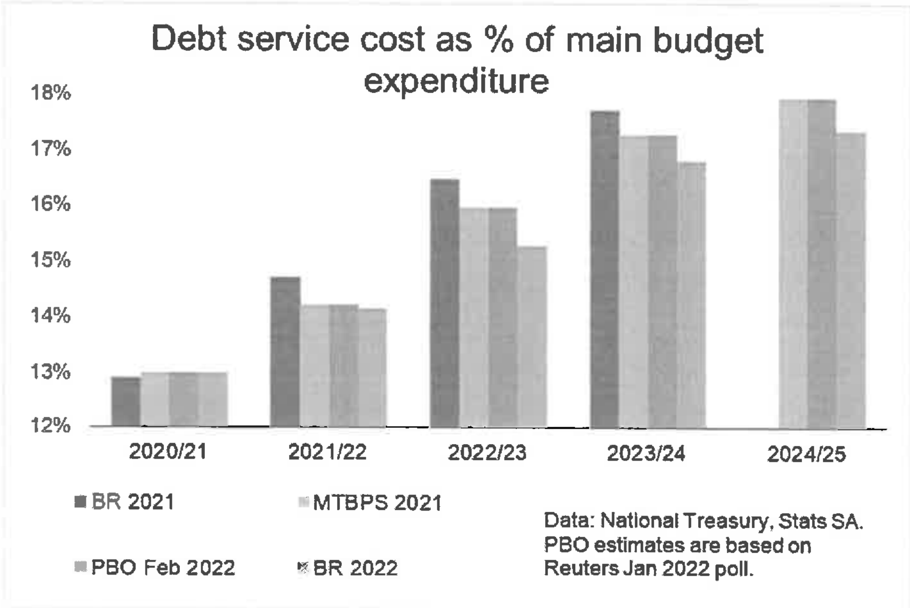
- South Africa's VAT is imposed at a rate of 15%
- The tax is imposed on consumption and is collected and handed over by VAT vendors
- Some VAT goods and services qualify for zero ratings and exemptions
- Some basic food and related items are zero rated in order to reduce the inequitability of the VAT
  - Since poorer households tend to spend a larger share of their income on consumption, a VAT without zero ratings would in effect be imposed at a higher rate on poor households when compared to rich households

2022 Budget Proposals

- The main objective of the 2022 Budget is to restore fiscal sustainability. According to Treasury, this objective requires the slow down in expenditure growth and reforms to support economic growth
- The 2022 Budget proposes:
  - Reducing the budget deficit and stabilise the debt-to-GDP ratio
  - Addressing immediate spending pressures, including extending the special COVID-19 social relief of distress grant for 12 months until March 2023, and increasing provincial transfers for health and education
  - Setting aside a portion of higher-than-expected revenue to narrow the budget deficit
  - Supporting economic growth through a range of reforms, including the infrastructure build programme financed through innovative funding mechanisms and supported by improved technical capabilities
- Significant risks to the fiscal outlook include:
  - The introduction of unfunded spending programmes
  - Another economic slowdown
  - Higher borrowing costs
  - The contingent liabilities of state-owned companies
  - Higher-than-budgeted public-service wage settlements

Allowing for debt stabilisation and improved expenditure composition





- Gross debt as a share of GDP is expected to be steady during the current MTEF, and start to decline from 2025/26
- Significant improvement from BR 2021
- This will allow for a more favourable composition of public spending, with the share of expenditure allocated to debt service costs declining
- However previous projections of realising a primary surplus (allowing for debt stabilisation) have been missed

Possible pressures to the 2022 MTEF

- Global and domestic economic performance
- Cyclical nature of revenue growth
- Wage bill growth
- Financing for a further extension of the SRD/alternate form of universal grant

Division of Revenue Bill (DoRB)

Division of Revenue Bill

- Section 214 of the Constitution of the Republic of South Africa requires an Act of Parliament that ensures a transparent and equitable system to divide the revenue raised nationally between the three spheres of government
- After the adoption of the fiscal framework, the Division of Revenue Bill must be referred to the two Committees on Appropriations within each House for consideration and report as per Section 9 of the Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009)
- The Division of Revenue Bill is not strictly a money bill, as it does not collect money, impose taxes, abolish or reduce grants, or authorise charges (Section 77 of the constitution)
- It is tabled before Parliament at the same time as the money bills as it is directly related to them
- The Division of Revenue Bill should give effect to the priorities articulated by the President in the State of the Nation Address

Division of Revenue Bill (cont.)

- The annual Division of Revenue Bill and its underlying allocations are the results of extensive consultation processes between national, provincial and local government
- By setting out three-year allocations for the equitable share and conditional grants for provinces and local government;
  - the Division of Revenue Bill entrenches the transparency and accountability of the intergovernmental fiscal system
- It allows all spheres of government to plan ahead and to improve service delivery to the people
- The Division of Revenue Bill contains details on each grant, its purpose, criteria for allocating the grant and an account of the performance of each grant
- This information contributes towards deepening Parliamentary oversight over the Executive

Division of Revenue Bill and the Parliamentary processes

- The Division of Revenue Bill must be passed no later than 35 days after the adoption of the fiscal framework by Parliament
- Any amendment to the Division of Revenue Bill must be consistent with the fiscal framework and Section 214 of the Constitution
- In the instance of proposed amendments to the Division of Revenue Bill, the standing rules provide for:
  - Participation by chairpersons of other Committees
  - Public hearings
  - Affected Cabinet member, provinces and local governments to respond to any proposed amendments

Division of Revenue Bill and the Parliamentary processes (cont.)

- The standing rules also requires that each respective Committee on Appropriations prepare a report that indicates that:
  - Proposed amendments are consistent with the adopted fiscal framework
  - Motivates amendments in terms of service delivery improvements
  - Demonstrates that the impact of the proposed amendments on the service delivery obligations of affected departments, provinces and local government have been considered
- The Committees on Appropriations must also:
  - Consult the Financial and Fiscal Commission
  - Allow the Minister of Finance the opportunity to respond to any proposed amendment at least three days prior to the submission of the report to the relevant House
- The report submitted by the Committees on Appropriations to the respective Houses must contain the response by the Minister to any proposed amendments

The Division of Revenue Bill and the Intergovernmental system

- The Division of Revenue Bill details the respective shares of the three spheres of government in nationally raised revenue;
    - and, together with the Intergovernmental Fiscal Review, is the key public document in the intergovernmental system
- It sets out how the provincial and municipal shares are to be divided horizontally
- Details conditional grants to the two subnational spheres
- Provides for various procedural matters regarding the management of intergovernmental finances and the responsibilities of Treasuries, accounting officers (individuals responsible for financial management in government departments and public entities) and the Auditor General

The Division of Revenue Bill and the Intergovernmental system (cont.)

- It also legislates a number of rules of co-operative governance, including:
  - What must happen if actual revenue falls short of anticipated revenue,
  - Under which circumstances allocations to sub-national governments may be withheld or delayed or a payment schedule changed
  - Under which circumstances, and how, funds may be reallocated from one horizontal unit of government to another
- It determines sanctions and consequences for individuals if the provisions of the bill are not met
- The annexes to the bill include a framework analysis of each conditional grant, detailing its conditions, rationale, criteria for allocation, monitoring mechanisms, past performance, allocations, projected life and payment schedule

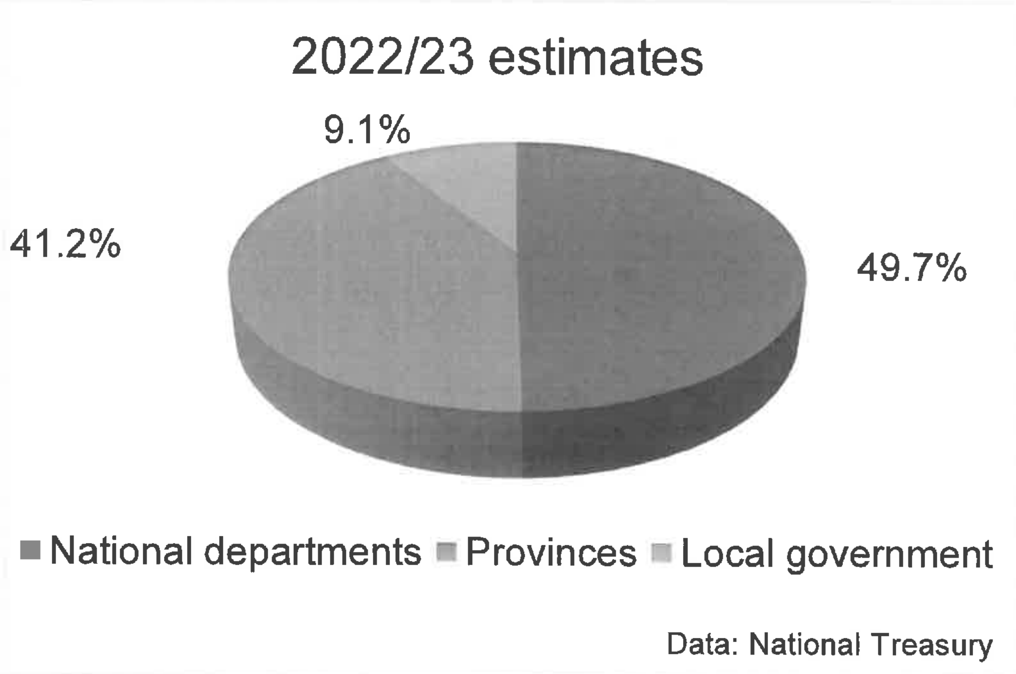
The Division of Revenue Bill and the Intergovernmental system (cont.)

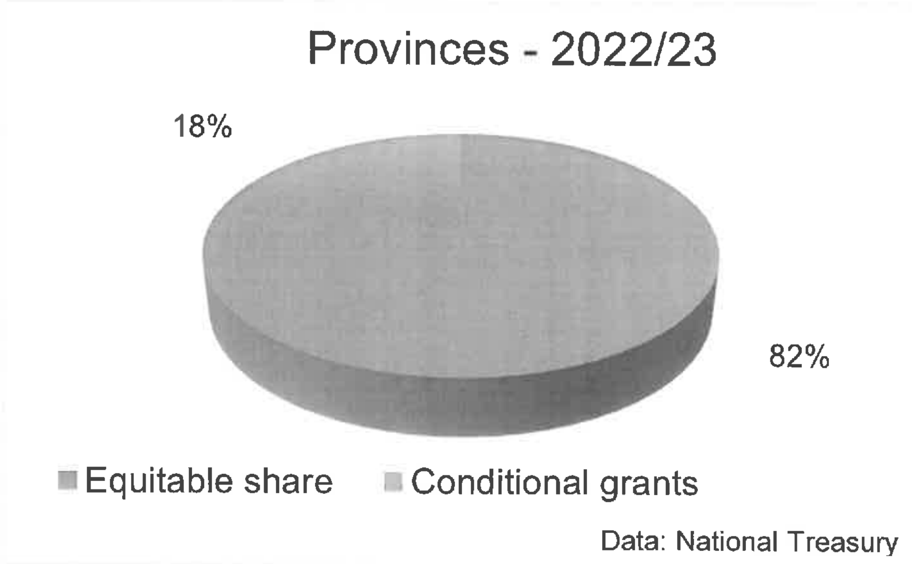
- The framework is published to provide clarity and certainty on the complex system of conditional grants to stakeholders, and for budget implementation and monitoring purposes
- Departments are expected to report against the Division of Revenue Bill and its schedules, covering both financial and non-financial performance
- The Auditor General audits compliance with the bill, in both the transferring national departments and the receiving provincial departments and municipalities
- In the intergovernmental system, the Division of Revenue Bill is supported by the annual Intergovernmental Fiscal Review, first published in 1999
- Intergovernmental Fiscal Review *is a compilation of expenditure and service delivery trends and financial issues in the nine provincial governments and local government*

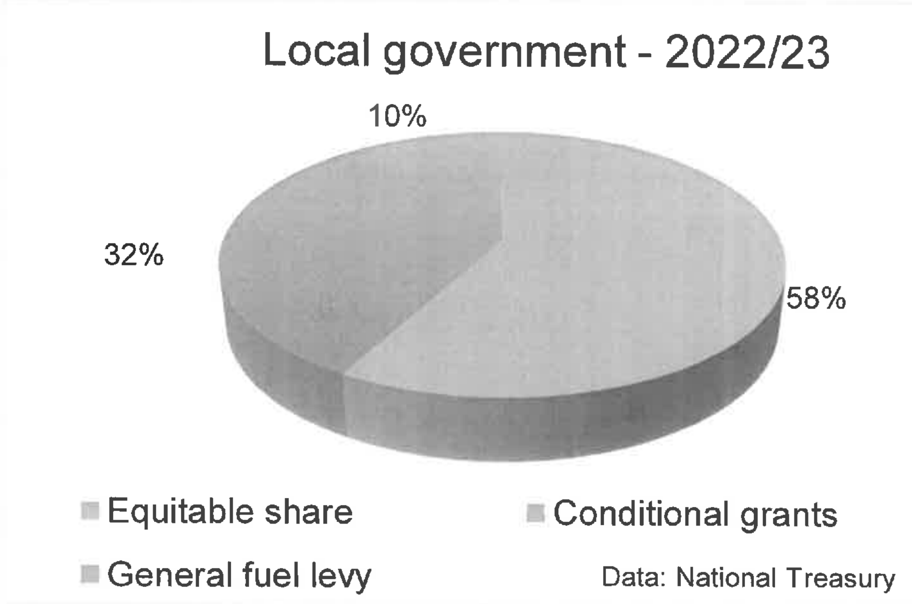
The Division of Revenue Bill and the Intergovernmental system (cont.)

- The Review provides invaluable holistic information on provincial service delivery achievements and obstacles
- The Review is an annual feature in the budget cycle, thereby contributing to a high and continuing level of transparency in a very complex system
- Actual spending information is published in-year on a monthly basis for all national departments by the National Treasury, and on a quarterly basis across national and provincial government, providing vital information to Parliament and other stakeholders to monitor budget implementation
- The information is submitted to the Treasury under the statutory reporting requirements of spending departments;
    - and forms part of the "early warning system" whereby deviation from spending plans can be detected early and addressed by the Treasuries

2022 Division of Revenue







Legislative mandate of the three spheres of government

- National government mainly provides:
  - Central Government Administration
  - Justice & Protection Services
  - Financial & Administration Services
  - Economic Services & Infrastructure Development
  - Social Services
- Provinces are responsible for:
  - Basic education
  - Health services
  - Roads
  - Housing
  - Social development
- Municipalities provide basic services such as:
  - Water
  - Sanitation
  - Electricity reticulation
  - Roads
  - Community services

Equitable share formula

- Provincial and local government receive equitable shares and conditional grants to enable them to provide basic services and perform their functions. Functions may shift between spheres of government to better outcomes
- Provinces have limited revenue-raising capacity and the resources required to deliver provincial functions do not lend themselves to self-funding or cost recovery
- The equitable share is allocated through a formula is as follows:
  - An education component (48%), based on the size of the school-age population (ages 5 to 17) and the number of learners (Grades R to 12) enrolled in public ordinary schools
  - A health component (27%), based on each province's risk profile and health system case load
  - A basic component (16%), derived from each province's share of the national population
  - An institutional component (5%), divided equally between the provinces.
  - A poverty component (3%), based on income data. This component reinforces the redistributive bias of the formula
  - An economic output component (1%), based on regional gross domestic product (GDP-R, measured by Statistics South Africa)

Developmental Indicators: Eastern Cape

Dimension	Indicator	Eastern Cape	National
Population (CS 2016)		6 996 976	55 653 654
Human Development Index (2019)		0.671	0.709
Health Dimension (2019)	Health index	0.646	0.678
	Life Expectancy	62 years	64.10 years
Education Dimension (2019)	Knowledge index	0.685	0.723
	Expected years of schooling	13.7 years	13.8 years
	Mean years schooling	9.1 years	10.2
Income Dimension (2019)	Income index	0.683	0.725
	GNI per capita in thousands of US$ (2011 PPP)	9.1	9.4
Unemployment rate (4Q 2021)		45.0%	35.3%
GDP Contribution to National (2021)		R346 billion (7.7% of National)	R6 112 billion

Thank you

Additional Slides

Financial management & AGSA General findings: Eastern Cape

- AGSA has called for:
  - Decisive action by leadership is required for meaningful improvement in audit outcomes
  - Leadership must also demand greater collective effort in strengthening control environments in order to achieve improved audit outcomes and, ultimately, service delivery to citizen
- Unauthorised expenditure: R2,05 billion (64% of National)
- Fruitless and wasteful expenditure R26,69 million
- Irregular expenditure R3 billion (departments: Transport, Health and Human Settlements)

Financial management & AGSA General findings: Eastern Cape (cont.)

- The Eastern Cape departments of Education and Health, the Free State Department of Police, Roads and Transport have incurred unauthorised expenditure for the past three years, including overspending on their key service delivery programmes, mainly on employee compensation
- The balance for medico-legal claims against the Eastern Cape department escalated to R39 billion
- The department has an approved overdraft facility of R1 billion to help it pay these medico-legal claims, which are not within its budget
- Trend of poor project management at some of the departments where projects are not completed, are not progressing at all or are completed but of poor quality

AGSA calls for action on accountability for the use of public finances

The PUBLIC FINANCE MANAGEMENT (PFMA) ACT. NO. 1 OF 1999 enables accounting officers to manage but, at the same time, holds them accountable for the resources they use. It establishes clear lines of accountability and broad frameworks of best practices that managers can adopt or, where necessary, adapt

Key governance failures that could affect the implementation of the 2022 Appropriation Bill:

- Low levels of accountability among accounting officers and accounting authorities
- Lack of internal controls, in particular the implementation of preventative controls
- Control weaknesses in government's information systems results in project failures and financial loss
- Poor decision-making, neglect or inefficiencies which continues to result in high levels of fruitless and wasteful expenditure
- Lack of oversight, monitoring and assurance
- Lack of material compliance with legislation – not paying creditors on time

Eastern Cape Provincial Legislature – Budget Committee Workshop Money Bills Amendment Procedure

Role of the PBO in the Amendment Process

Parliamentary Budget Office

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Outline

- Provincial Legislature and Oversight Considerations
- Parliament Committees and Parliamentary Budget Office
- Budget Amendments and Money Bills Act
- Research and Analysis Requests Workflow Process

Provincial Legislature and Oversight Considerations

Eastern Cape Provincial Legislature Money Bills Amendment Procedure Act Considerations

Provincial Legislatures and Oversight Considerations

- Over recent years, South Africa as in other countries have seen an increase in demand for a rigorous legislative oversight and governance mechanisms over government service delivery and development indicators
- The form of governance or oversight system (2 or 3-tier spheres) inherently affects or determine state service delivery capabilities and related oversight
- Some of the key issues to note from international experiences:
    - There are currently fewer countries that have three-tier government spheres, e.g. Argentina, Brazil, South Africa and Switzerland
    - National developed policy priorities are not always implemented by other spheres of government; due to in part the contestations around fiscal powers and weaker coordination between the three spheres
    - Capable Local sphere is prerequisite and necessary to realising service delivery goals and objectives set out at National sphere. Therefore, it is necessary that local government has sufficient technical and administrative competence

Provincial Legislatures and Oversight Considerations (cont.)

- Some of the key issues to note from international experiences (cont.):
  - Three-teir governance system requires a great cooperation between the provincial and local government spheres in relation to fiscal powers. This system also reduces service delivery complexity and governance measures
  - Provincial and local government often accounts for significant public expenditure and are major public employers, and grants and subsidies are their (for it is own revenue) key revenue sources
- Key provincial government functions for oversight:
  - Social Services (Education, Health, Social Development)
  - Governance (COGTA, Premier)
  - Economic Development (Finance and Economic development, Agriculture, Public Works, Small Business)
- These functions accounts for more that 80% of government expenditure in the provincial sphere
- Budget or Appropriations Committees to include other functional Committees MPs for better fiscal oversight (budget outcomes)

Provincial Legislatures and Oversight Considerations(cont.)

- Oversight information from various stakeholders are used for recommendations for improvement of government service delivery and accountability, but how useful is the information for oversight
- To strengthen the oversight of the Executive, the Legislatures oversight activities has to emphasise actual budget outcomes and consequences of budgets
- It is important to consider a budget as a tool to enhance well-being in society that supports the achievement of lower levels of inequality and poverty, addresses social cohesion, and increases employment and decent work opportunities
- Ineffective follow-through mechanism on Committees recommendations contribute to unresponsive of government and failed accountability, and failure to use of the budget-cycle processes or enhance oversight
- Meaningful public participation in the legislative budget process is necessary and important for improved oversight

Parliament Committees and Parliamentary Budget Office

Standing Committee on Appropriations (NA):

-Spending issues

-Division of Revenue Bill, Appropriation Bill

-Supplementary Appropriation Bills, Adjustments Appropriation Bill

-Recommendations of the Financial and Fiscal Commission

-Reports or statements on actual expenditure published by the National Treasury

Select Committee on Appropriations (NCOP):

-Spending issues

-Division of Revenue Bill, Appropriation Bill

-Supplementary Appropriation Bills, Adjustments Appropriation Bill

-Recommendations of the Financial and Fiscal Commission

-Reports or statements on actual expenditure published by the National Treasury

PBO Primary Committees as per Money Bills Act

Standing Committee on Finance (NA): Budget Review (February) and MTBPS (October)

-Macroeconomic and fiscal policy

-Fiscal framework, revised fiscal framework

-Revenue proposal (including taxes) and actual revenue published by government

Committee on Finance (NCOP):Budget Review (February) and MTBPS (October)

-Macroeconomic and fiscal policy

-Fiscal framework, revised fiscal framework

-Revenue proposal (including taxes) and actual revenue published by government

Research and Analysis Requests Workflow Process

- Consideration of money Bills and related matters
- Committee identify specific analysis and research required for decision making

NA and NCOP Finance and Appropriations or other Committees

Committee Chairpersons

- Submit formal written request to the Director of the Parliamentary Budget Office RSA

- Director Parliamentary Budget Office considers specific requests from Committees
- Formal written acknowledgement letter transmitted to Committee Chair

Director Parliamentary Budget Office Parliamentary Budget Office

Parliamentary Budget Office

- Formulate Terms of Reference
- Research & Analyse
- Submit findings to Committee
- Build capacity
- Facilitate discussions

Research and Analysis	Description of the Research and Analysis
Pre-Budget and Pre-MTBPS briefs	Provide analysis to Parliament on the status of the economy and public finance and government performance before the presentation of the National Budget (February) and Medium Term Budge Policy State (October)
Budget and MTBPS analysis, Fiscal Framework, Division of Revenue and Appropriations Bill	Subsequent to the presentation by the Minister of Finance and before Parliament adopts or amend or reject the budget and MTBPS proposals, the PBO provides analysis on economic and fiscal issues to be take into account
Policy Analysis on National Development Plan- Policy Briefs	Several analysis on the implementation of the National Development Plan, vision 2030 (NDP) in terms of content, context and progress made with the implementation
Quarterly Economic and Fiscal Briefs	Quarterly Economic Brief, the PBO provide parliament with an analysis of the economic outlook as the economic performance affects public finances outlook Fiscal Brief appraise MPs on the status of the of government's performance in relation to the budget allocated and these updates are given within six months (pre-MTBPS) of the financial year and just after the end of a financial year
In-year revenue forecast and Forecast Audits	In-year revenue forecast, within the first six months of the financial year, PBO provides an estimate of whether government revenue targets for that year will be realised. The PBO estimates are based on historic trend and including first five months of the year's outcomes being forecasted. Forecast Audits, annually provide an analysis of the government growth estimates. This analysis gives indications of the likelihood of realising forecasted growth given historic performance of the forecasts
Briefs on Taxation and Revenue Matters	On request from finance committees, PBO provides an analysis of taxation proposals made during the budget reviews
Research and Analysis Requests from Committees	During the financial year Committees may request an analysis on a particular issue with public finance implication. E.g., Votes budget analysis, SOEs financial analysis, Electricity generation technology choices: Costs and considerations, Public Sector Wage Bill, Free Fee HE Costing Analysis, Business incentives for development

Budget Amendments and the Money Bills and Related Matte Act

- Government Budget Cycle in Context:
  - Government budget process legislated in PFMA and related prescripts
  - The process include, consulting various stakeholders and hosting public hearings before arriving at budget proposals for Parliament
  - Global and domestic macroeconomic conditions and economic growth implications for tax and other government revenue, and fiscal framework
  - According to Budget Review, spending allocations follows priorities from 2019-24 MTSF, and also fulfil Constitution requirements and to fulfil NDP, MTBPS and SONA priorities
  - Government departments and other spheres also updates their performance strategies based on those priorities
  - Therefore, Parliament expect budget proposals to align to these priorities
  - However, Money Bills Act set out process for Parliament to consider and adopt money bills and related instruments
  - In considering money bills, Parliament may also consider their alignment with government strategic and performance plan and annual reports, also through BRRR

Budget Amendments and the Money Bills and Related Matte Act

- According to Section 15(1) of the Act, the PBO should:
  - Provide independent, objective and professional advice and analysis to Parliament on matters related to the budget and other Money Bills
- In terms of Section 15(2) of the Money Bills Act:
  - To support the implementation of the Money Bills Act by undertaking research and analysis for Committees
  - Annually provide reviews and analysis of the documentation tabled in Parliament by the executive in terms of the Act
  - Provide advice and analysis on proposed amendments to the Fiscal Framework, Division of Revenue Bill and Money Bills and on policy proposals with budgetary implications

Budget Amendments and the Money Bills and Related Matte Act

- The Money Bills Act was mainly created for the amendment purpose, hence the title
- For the purpose of this discussion, legislature or Parliament can use the amendment of the budget to enhance service delivery and strengthen oversight
- One of the Former Chairperson of the Standing Committee of Appropriation said:

  "The only way for Parliament to be effective in its oversight is to use the Money Bills and Related Matters Act to amend the budget. Otherwise Parliament oversight will be undermined"
- Another Chairperson further noted that:

  "Failure to amend the budget and request government to allocate funds to priority areas based on the needs of the people, means Parliament will be seen to rubber stamp the Executive money bills"
- It is unclear as to whether there is consensus or common ground amongst committee members (MPs); this matters a lot before there can even be analysis or research on the impact
- Money Bills Act, gives Parliament powers to amend money bills presented by the Executive, but lacks detailed guidance or rules to do so
- Events suggesting the ineffectiveness of powers to amend the money bills in scrutiny, e.g. Commission of Inquiry into Higher Education and Training

Budget Amendments and the Money Bills and Related Matte Act

- Therefore, Parliament was required to consider developing guides or regulations to ensure Money Bills Act is more fully implemented
- Three case studies at the where amendments were contemplated or proposed or initiated
- Fees Must Fall towards the 2015 MTBPS, Parliament requested or considering to amend the budget to make provisions for Free Fee Higher Education
- SCOA MPs proposes to amend the adjustment budget in 2017, 2018 and 2019
- Finance Committees in 2018 considering to reverse the VAT 1% increase, concerned
- PBO response to Parliament requests:
    - Conducted research and analysis on implication (fiscal, macroeconomic, and fiscal) for Free Fee Higher Education, also tabled at the Herher Commission (Costing Estimate Analysis)
    - Analysis of potential implication of 1% VAT increase in households, and shared alternatives
    - Briefed SCOA specifically on considerations for the Appropriations Bills proposed amendments

Budget Amendments and the Money Bills and Related Matte Act

PBO' take on Parliament requests:

- Office Research and Analysis empowers Parliament to also identify areas requiring relook at fiscal policy
- Conducted research and analysis on implication (fiscal, macroeconomic, and fiscal) for Free Fee Higher Education, also tabled at the Herher Commission (Costing Estimate Analysis)
- Analysis of potential implication of 1% VAT increase in households, and shared alternatives
- Briefed SCOA specifically on considerations for the Appropriations Bills proposed amendments
- Specific focus on the Costing and Estimates Analysis to provide details of the impact of policy proposals (including budget) on the economy, society and fiscus
- MPs may use these analysis to proposes amendments to the budget
- Legislature may, in the interim, request Treasury to provide alternative proposals, e.g. 2018 VAT debate during Fiscal Framework

Budget Amendments and the Money Bills and Related Matte Act

- **Other Considerations may include:**
  - **Do proposed amendments constitute an alternative budget:** due to the intent to shift funds within votes, it may be seen as alternative budget. Therefore, the Committee may wish to debate broader policy implication of the alternative budgets
  - **Compliance to the Money Bills Act:** then, the Committee may consider substantive details of the proposals and ensure compliance with Money Bills Act requirement
  - **Implications for Committee or Parliament:** The Committee may also consider the implications for affected and unaffected vote(s), and subsequent oversight process
  - Clear procedures and rules to amend should be in place before; e.g.
    - Only consider amendments to Appropriation Bills once Fiscal Framework and DORA is passed by Parliament; and any amendments must be inconsistent with adopted Fiscal Framework and DORA
    - Other Committees may advise SCOA about conditional allocations within vote(s) and inputs of Minister (s) affected to be taken into account
    - Parliament has 4 months into fiscal year to pass or reject Appropriation Bill
    - SCOA to be guided by standing rules in conducting public hearing about proposed amendments and report to the House about the outcomes;
    - Minister(s) affected by proposed amendments give 10 days to respond, before SCOA report to the House

Procedures for amending the fiscal framework

- The Money Bills Amendment Procedure and Related Matters Act of 2009 met the constitutional requirement and gave Parliament a formalised procedure for amending the budget
- The act gives Parliament unrestricted power to change the fiscal framework, the Division of Revenue (Division of Revenue Bill) allocations, and tax policy
- However, these changes must be made by following a set order of engagements with different parts of the budget. This is to ensure that:
    - Changes to allocations are in line with the fiscal framework
    - A large number of changes does not result in an unsustainable fiscal policy stance
    - The overall sustainability of the budget is not put at risk

Factors to be considered when amending the fiscal framework

- The total amount of revenue raised is in line with the approved fiscal framework and the Division of Revenue Bill
- Principles of equity, efficiency, certainty and ease of collection
- The impact of the proposed change on the structure of tax revenue, both indirect and direct taxes
- Regional and international tax trends
- The impact on development, investment, employment and economic growth

Conclusion

- The Constitution empowers Parliament and Legislatures to amend Money Bills proposed by the Executive
- The legislature requires both the Act and rules guiding the process to amend Money Bills
- Amending the Money Bills have to be seen within the broader policy framework
- BRRR has important role in Parliament or Legislature guiding the budget allocation
- Parliamentary Budget Office is established to support the implementation of the Act
- Research and analysis by the Office has to support Parliament including amending the budget
- Parliament may request the Budget Office to prepare specific analysis in preparation to amend the money

Budget Committee Workshop Money Bills Amendment Procedure- Eastern Cape Provincial Legislature –

BRRRs in the oversight and amendment process

05-06 July 2022

Parliamentary Budget Office

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Introduction

- Section 5(1) of the Money Bills Amendment Act states that 'The National Assembly, through its committees, must annually assess the performance of each national department' and, in
- Section 5(2), that committees must 'annually submit budgetary review and recommendation reports for tabling in the National Assembly for each department
- The Budgetary Review and Recommendation Reports (BRRRs) are a key oversight mechanism
- Help ensure that amendment debates are based on a reliable analysis of departmental performance
- Can be a starting point of the adoption or amendment process
- BRRR should show departmental performance for the previous, completed fiscal year
    - *For example, the 2022 BRRR should show performance for the 2021/2022 fiscal year*

Budgetary Review and Recommendation Reports

- Portfolio Committees are required to annually compile and submit a BRRR for tabling in the National Assembly for each department after the adoption of the Appropriation Bill and prior to the adoption of the reports on the MTBPS
- The BRRR must be informed by a Committee's interrogation of amongst others
  - Service delivery outcomes based on the Department and Committees (e.g. oversights visits or projects reviews) reports
  - National departments' medium-term estimates of national expenditure
  - Strategic priorities and measurable objectives outlined in National Treasury published reports
  - Annual reports, the reports of the Committee on Public Accounts relating to the department
  - Observations made during oversight visits, public participations inputs

Budgetary Review and Recommendation Reports (BRRRs)

- Essentially the BRRR should be a Committee's assessment of the department's performance and service delivery (within the constraints of available resources), as well as the effectiveness and efficiency of the programmes within the department
- Enables committees to integrate and consolidate budgetary oversight with other oversight work related to service delivery implementation by committees
- The report should include:
  - An assessment of the department's service delivery performance given available resources
  - Is the information provide able to show service delivery improvement brought about by the budget
  - The effectiveness and efficiency of the department's use and forward allocation of available resources
  - Recommendations on the forward use of resources
  - How has department budget supporting economic development and growth
- The BRRR must be submitted to the Minister of Finance and the relevant Cabinet Minister responsible for the vote to which the report applies, after its adoption by the NA and prior to the adoption of the reports on the MTBPS
- Ineffective follow-through mechanism on Committees recommendations contribute to unresponsive of government and failed accountability, and failure to use of the budget-cycle processes or enhance oversight

Evaluating efficiency and effectiveness

- A Committee should strive to assess, and should report on, whether a department has been both efficient and effective in its operations
- **Efficiency refers** to what a department has produced (outputs) with the resources it has
  - Waste of all kinds must be avoided
  - Efficiency can be assessed for an entire vote, as well as for a programme or sub-programme
  - For example, improved productivity leads to more efficiency
- **Effectiveness refers** to the relationship between what is produced and the attainment of objectives
  - It assesses whether the right things have been produced, given the challenges a department is trying to address
  - For example, muggings decreased since municipality set-up more street lights
- The BRRR should clearly spell out whether or not the committee, after considering all the evidence, is satisfied with a department's service delivery performance
  - The BRRR can then also make recommendations on future allocations, as noted in Section 5(3)(c) of the Money Bills Amendment Act

Guideline points and questions for BRRRs

- Is there internal coherence in the department? Does the annual report give a clear account of the measurable objectives of the strategic plan?
  - Focus on the extent to which planning, financial management and
  - implementation are aligned
  - If there seems to be an absence of internal coherence, the committee should question the department to find out the reasons for this
- What is the department's audit opinion?
  - This should be included in the BRRR together with a discussion of measures taken, or to be taken, to deal with adverse or disclaimer audit opinions
- Has significant over- or under-spending occurred?
  - If so, get explanations from the department. If necessary, the department should also discuss the steps taken to improve matters
- Does the BRRR assess and report on the efficiency and effectiveness of service delivery?
  - That is, it should assess whether a department was producing or doing the right things and doing so with a minimum of waste
- BRRR used to influence future budget allocation or amendments to the budget?
  - To be tabled before the MTBPS
  - MoF required to action or respond to BRRR, hence Appendix A of Budget Review
  - Committees has to ensure follow through on matters raised in the BRRRs

BRRR Template

Introduction

- The role of the committee
- The department's mandate
- Summary of department's five-year strategic plan

Assessment of annual report, financial statements and related documents

- This assessment looks at the alignment of the annual report and the strategic plan. The department would probably need to answer questions in a session with the committee

Assessment of service delivery

- This assessment looks at the efficiency and effectiveness of what the department has done
- The department would probably need to answer questions in a session with the committee
- In addition, this assessment would probably require the views of experts, civil society organisations and similar non-government stakeholders

BRRR Template (cont.)

Findings

- This section should clearly indicate whether the committee was or was not satisfied with the different dimensions of performance, as listed in the act.

Recommendations

- The Money Bills Act authorises Committees to make recommendations on the future use of resources. That is proposing the budget allocations.
- There is therefore a need to a coordinated BRRR if the amendments are proposed.
- This section should also include recommendations, based on discussions with departments, on improving performance
- Recommendations should be:
    - Clear (who they are directed to, what action is expected)
    - Realistically achievable
    - Linked to specific timeframes
    - Open to monitoring and future evaluation

Eastern Cape Provincial Legislature – Budget Committee Workshop – Money Bills Amendment Procedure

The MTBPS in the Budget Process - Eastern Cape Legislature

05-06 July 2022

Parliamentary Budget Office

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Outline

- Introduction
- What is a budget
- Stages of the budget cycle
- Technical planning and budgeting process
- The Medium Term Budget Policy Statement
- Significance of the MTBPS

Introduction

A budgeting system is arguably the most important component of public service delivery:

- It is a fundamental part of the process by which a government turns its developmental vision, policies and plans into implementable programmes and projects, including the delivery of public goods and services
- Policies or plans cannot be concretised into deliverable government programmes and projects without the availability of capacity to deliver (human and capital)
- Economic success depends on the ability of government to:
  - Employ limited resources with maximum effect
  - Effective management and
  - Economical procurement

What is a budget

- The budget is a plan for a certain time, often a year
- It sets out how resources will be generated and allocated to achieve the government's objectives
- The government's expenditure proposals and revenue-raising intentions are set out in a collection of documents for the budget period
- Key budget documents in South Africa:
    - Budget speech
    - Appropriations Bill/Act
    - Division of Revenue Bill/Act
    - Estimates of National Expenditure
    - Budget Review
    - Medium-Term Budget Policy Statement

Stages of the budget cycle

- **Planning (Drafting)**
  - The budget plan is compiled by the Executive branch of government via National Treasury, with the Cabinet being responsible for crafting policy priorities that inform the macroeconomic and fiscal framework as well as division of revenue across the three spheres of government
- **Legislative (Authorisation)**
  - Once a comprehensive budget proposed by the Executive has been tabled, a process that is mainly driven by the National Treasury, it is debated in Parliament with the involvement of organised interest groups and civil society, the media and the general public
- **Implementation**
  - The implementation phase occurs when the budget has been enacted by Parliament; and is also the phase which permits service delivery
  - The budget is implemented by the Executive through government departments and other SOEs

Stages of the budget cycle (cont.)

- **Evaluation (Auditing)**
  - Involves a review of the final budget documents by independent audit institutions such as the AG, and assessing the consistency of such documents against the legal authorisation
- Each stage falls under the authority of different parts of government, but the stages overlap in time
- At any point in the fiscal year, a future budget is being drafted, the current budget is being implemented, and a past budget is probably being audited

Technical planning and budgeting process

Planning → Formulation → Legislative → Implementation → Audit

Planning
- National Treasury issues Budget Guidelines
- Departments submit draft budgets and Plans
- Medium Term Budget Policy Statement tabled
- Negotiations and final decisions by the executive

Formulation / Legislative
- Budgets and Plans tabled in the Legislature
- **Consideration by the parliamentary committees**
- **Parliament accept, amend or rejects the budget**

Implementation
- Departments start to implement and reporting
- **Oversight bodies monitor spending and performance quarterly**
- Request for adjustments if necessary

Audit
- Supreme audit (AGSA) institution assesses departmental accounts and performance
- **Audit reports published and received by Parliament and considered by the Public Accounts Committee (PAC)**

Before the beginning of the relevant fiscal year → **Fiscal year starts and ends** → **Following end of fiscal year**

The Medium Term Budget Policy Statement (MTBPS)

The Medium Term Budget Policy Statement

- The MTBPS was the first "new" document to emerge (in 1997) from the budget reform process
- The MTBPS is the first public document in the budget process
- It is tabled in Parliament by the Minister of Finance at least three months prior to the tabling of the budget
- The MTBPS sets out the policy framework for the coming budget
- It describes Government's goals and objectives;
    - and explains the economic environment within which those objectives are being addressed, and projects the total level of resources that will be available
- The Policy Statement analyses the trade-offs and choices that the nation confronts in addressing its reconstruction and development priorities
- This public document serves to conclude the broad prioritisation phase of the budget process and consolidate the main budgeting ceilings

The Medium Term Budget Policy Statement (cont.)

- The MTBPS is drawn up after consultations by the relevant National Treasury stakeholders
- National departments submit their medium term expenditure framework as well as the medium term strategic framework and the national development plan
- The team behind the MTBPS includes
  - The finance minister's budget commitee
  - Cabinet and extended cabinet
  - Legislatures
  - Departments
  - Financial and fiscal commission (FFC)
  - Provincial government
  - Relevant entities and donors

The Medium Term Budget Policy Statement (cont.)

- The MTBPS contains macro-economic assumptions underpinning the government's fiscal policy, and the overall aims and objectives for the outer three years. Further, it details:
  - Projected revenue and expenditure for the outer three years
  - The division of revenue among the spheres of government
  - The proposed substantial adjustments to conditional grants
  - The review of actual spending by each national department for the first half of the financial year
- The MTBPS is published ahead of the budget to improve transparency and to ensure that debates concerning the budget are informed
- It provides a good indication of how the government intends allocating resources in the upcoming budget
- The MTBPS also contains a summary of government's goals and objectives, as well as information about how the government expects the economy to perform over the next three years

Significance of the MTBPS

- It improves the quality of long-term planning
- Promotes the political technical interface
- Strengthens intergovernmental fiscal process
- Gives parliament the opportunity to discuss and shape government's approach to the budget
- Allows for a more open and transparent budget process

Thank You