Parliament and the Budget

One of the main functions of Parliament is to discuss and pass the Budget. Every year, the Minister of Finance introduces the Budget in Parliament. It is discussed in committees, debated in the two Houses, and a vote is taken.

What is the Budget?

The Budget is an annual plan for what government wants to achieve and how it will spend money to achieve those goals. It is the most important economic instrument of the government. It is used to:

- make sure that the state has the resources it needs to do its work
- create conditions which stimulate economic growth
- clearly indicate the priorities of government.

A budget has two sides: revenue (income) and expenditure (what will be spent). Budgeting is about balancing the available resources (money) with meeting the needs of the people. The state raises money through various taxes.

Every day we all make choices about how to spend our money. Because the money we have (or expect to be able to earn) is limited, our choices involve trade-offs – if we spend it on one thing, we will have to do without something else. In the same way, the government cannot raise the money it needs to meet all the needs of the people. The choices and trade-offs it makes in the Budget clearly indicate it real priorities. If the government plans to spend more money than it can raise through taxes, it must borrow this money. This is called deficit spending. Deficit spending has an impact on future budgets because interest must be paid on loans, meaning less money is available for other things.

The Budget cycle

Although most of us hear about the year's Budget when it comes to Parliament, it has taken 14 months of work to prepare. In other words, by the time a Budget is introduced, the Budget for the following year has been in preparation already. The process takes so long because a number of time-consuming processes must be completed first. Each Budget is part of an ongoing three-year plan called the Medium-Term Expenditure Framework (MTEF). Planned expenditure for the year immediately ahead (year 1 of the MTEF cycle) is fixed while the two years after that (years 2 and 3 of the cycle) are revised in the next budget cycle.

The fiscal framework

To be able to budget for spending, the government needs to know how much money it will have available. The Department of Finance and the Reserve Bank create three-year projections of what is likely to happen in the economy to estimate how much tax revenue the government can expect. On the basis of this study the Department of Finance, which is ultimately responsible for the budget, prepares a fiscal framework. The South African Revenue Service is responsible for collecting the taxes proposed in the Budget.

Proposed expenditure

National and provincial departments assess what the needs are and how they plan to meet these needs. They then prepare budget proposals which link goals for service delivery (providing for the needs) to expenditure (what will have to be spent to provide for the needs). Once budgets have been approved, the departments are responsible for making sure that the plans are implemented

Division of revenue

The way the available money will be divided between the national, provincial and local spheres of government is negotiated. The provincial share is divided among the nine provinces according to a formula that takes various factors into account, including population and poverty levels. Within each province the executive council (provincial cabinet) allocates money to its various departments. The Fiscal and Financial Commission is a body created by the Constitution to make recommendations about the equitable (fair) division of revenue.

Bringing it all together

The next step of the budgeting process is bringing together the fiscal framework (how much money is available), the budget proposals (how the departments thing the money should be spent), and the division of revenue proposals (how the money should be divided up). Choices are made, taking into account the policy priorities of the national and provincial governments, and the budget policy statement is released. Departments then refine their budget proposals to fit in with the budget policy statement and the Budget bills are finalised. An amount of money is included in the Budget for expenditure which could not be foreseen.

Parliamentary control

Control over the budget has always been important in democracies. One of the first ways in which people challenged the old kinds in Europe was refusing to pay tax unless they had a say in how the money would be spent. This is the origin of the saying ‘no taxation without representation’. Government can only spend money if Parliament approves. The Auditor-General, who makes sure that public money is properly spent, is accountable to Parliament.

Tabling the Budget

The Minister of Finance introduces the budget proposals for that financial year and tables three bills in the National Assembly:

- the Division of Revenue Bill which specifies how money will be equitably divided among the spheres of government and the various provinces during the year

- the Appropriation Bill which sets aside money for national government and says how it will be divided among the various national departments and state institutions during the year
- the Income Tax Laws Amendment Bill which amends the various tax laws to make sure the government can raise the money it needs to spend during the year

After portfolio committee deliberations the bills are debated in the National Assembly and a vote is taken. They are then sent to the National Council of Provinces (NCOP) for consideration. Because the Division of Revenue Bill affects the provinces, the NCOP must be involved in the final decision on whether it passes into law.

The role of committees

As with other bills, the budget bills are discussed in the relevant parliamentary committee, in this case the Portfolio Committee on Finance. The committees may organise public hearings and receive submissions from the public. The budgets of specific national departments are discussed in the committees which oversee those departments. Once a committee has finished its work it may submit a report on its findings to the relevant House of Parliament. In their oversight of government departments, committees can hold departments accountable by comparing the budget plans that Parliament has approved with what has actually been done.

Amendment powers

The budget bills are money bills (ones which appropriate money or impose taxes, levies or duties). Although the Constitution says an Act must be passed to allow Parliament to amend money bills, this has not yet been done. At present, Parliament can only either accept the bill as it is, or reject it entirely.