

# Joint Standing Committee on the Financial Management of Parliament (JSCFMP)

21 May 2021



**national treasury**

Department:  
National Treasury  
**REPUBLIC OF SOUTH AFRICA**



# PRES<sup>E</sup>NTATION OUTLINE

1. Parliamentary process
2. 2021 Appropriation Bill
3. Budget process (allocation of budget to the Parliament: Vote 2)
4. 2021 MTEF allocations, including 2020 AENE (i.e. Cabinet approved reductions)
5. Impact of the budget reductions
6. Strategies to manage the compensation budget
7. Concluding Remarks

# PARLIAMENTARY PROCESS

- Money Bills Amendments Procedure and Related Matters Act sets out **Parliament's** role in the budget process and enhances stakeholder participation and coordination
- The MTBPS, is discussed in **Parliament**
  - Report issued before Executive finalises the budget
- The Budget is dealt with by the **Standing Committees on Finance and Appropriations** comprising members of both houses
- Individual **Portfolio Committees** dissect the budget and strategic plan for each national department
- **Parliament** votes first on the Fiscal Framework, then Division of Revenue and then Appropriation Bill
- **Public Accounts Committee** deals with post-facto issues raised by Auditor General

# THE RELATIONSHIP BETWEEN THE SCOA COMMITTEE

## AND OTHER COMMITTEES IN ENSURING SERVICE

### DELIVERY

- Committees are the places where members of the public can express their opinions directly and try to influence the outcome of Parliament's decisions
- Committees monitor and oversee the work of national government departments and hold them accountable
- The SCoA Committee and other Committees are both used to exercise oversight and monitor government actions; by detecting and reporting issues that need to be referred to Parliament in order for the Executive to answer to any anomalies on how public funds are spent
- This ensures that government operations are more transparent to enable increased public trust in the government
- In addition the committees support each other:
  - They take care of domestic parliamentary issues
  - They consider bills and amend them, and may initiate bills
  - They consider private members' and provincial legislative proposals and special petitions
  - They consider international treaties and agreements

# 2021 APPROPRIATION BILL

- The Money Bills Amendment Procedure and Related Matters Amendment Act, 2018 requires that after the tabling of a national budget:

Section 8(3) – Committees on finance must within 16 days or as soon as reasonably possible thereafter, submit a report to the National Assembly and the National Council of Provinces on the fiscal framework and revenue proposals

**Step 1: fiscal framework was approved on the 10 March 2021**

Section 9(3) – The Division of Revenue Bill (DORA) must be passed within 35 days after the adoption of the fiscal framework by Parliament, or as soon as reasonably possible thereafter

**Step 2: Division of revenue Bill was adopted 19 March 2021**

Section 10(7) – Parliament must pass the Appropriation Bill with or without amendments, within four months after the start of the financial year, namely 31 July 2021

**Step 3: the appropriation bill considerations**

# 2021 APPROPRIATION BILL

- The Appropriation Bill is the legislation that provides for the appropriation of money by Parliament from the National Revenue Fund in terms of section 213 of the Constitution, 1996 and section 26 of the Public Finance Management Act (PFMA), 1999
- Spending is subject to the PFMA and the provisions of the Appropriation Bill itself
- For transfers to sub-national government, the 2021 Division of Revenue Bill also contains provisions in terms of which specific spending must take place
- The committees on appropriations may not consider amendments to the Appropriation Bill prior to the passing of the Division of Revenue Bill
- Any amendment to the Appropriation Bill must be consistent with the adopted fiscal framework and Division of Revenue Bill passed by Parliament
- The Appropriation Bill was tabled in Parliament at the time of the Budget – 24 February 2021.

# 2021 APPROPRIATION BILL

## 2020 MTBPS:

- Government's medium-term policy priorities are economic recovery and fiscal consolidation
- The social compact agreed to between government, business, labour and civil society prioritises short-term measures to support the economy, alongside crucial structural economic reforms
- The economy is expected to contract by 7.8 per cent in 2020, recovering to real GDP growth of 3.3 per cent in 2021. Economic growth is expected to average 2.1 per cent over the three-year forecast period
- Fiscal measures – primarily reductions to the wage bill – will narrow the budget deficit and stabilise debt over the next five years to return the public finances to a sustainable position
- Relative to the 2020 Budget, main budget non-interest spending (excluding technical adjustments) is reduced by R60 billion in 2021/22, R90 billion in 2022/23 and R150 billion in 2023/24, with constrained spending growth in the following two years
- The largest share of reductions falls on compensation. Other non-interest spending items are also reduced, while funding for buildings and other fixed structures, provincial and local capital grants, and the Infrastructure Fund is protected
- The consolidated deficit narrows from 15.7 per cent of GDP in 2020/21 to 7.3 per cent by 2023/24. Gross national debt is projected to stabilise at 95.3 per cent of GDP by 2025/26.

# 2021 APPROPRIATION BILL

## Budget 2021:

- South Africa's fiscal challenge is to balance the immediate need for support to the economy during the pandemic with ongoing efforts to close a large, pre-existing budget deficit. In this context, the fiscal strategy aims to:
  - Narrow the deficit and stabilise the debt-to-GDP ratio, primarily by controlling non-interest expenditure growth
  - Provide continued support to the economy and public health services in the short term, without adding to long-term spending pressures
  - Improve the composition of spending, by reducing growth in compensation while protecting capital investment
- Efforts to reduce growth in the public-service wage bill remain on course, with the Labour Appeal Court of South Africa confirming that the National Treasury must certify the affordability and sustainability of wage agreements prior to their implementation
- Significant risks remain. The global outlook is highly uncertain, with the economic recovery largely dependent on responses to COVID-19. Several state-owned companies are requesting additional funding. Negotiations on a new public-service wage agreement are set to take place this year

# 2021 APPROPRIATION BILL

Department	2021 ENE2021/22	2020 ENE2021/22	Difference	Projection to 2021/22
Planning, Monitoring and Evaluation	454,0	524,3	-70,3	-15,5%
Public Service and Administration	526,2	606,6	-80,4	-15,3%
Correctional Services	25 218,1	28 565,6	-3 347,5	-13,3%
Police	96 355,5	108 208,8	-11 853,3	-12,3%
Public Service Commission	282,4	316,3	-33,9	-12,0%
Civilian Secretariat for the Police Service	149,0	166,3	-17,4	-11,7%
Home Affairs	8 690,5	9 659,9	-969,5	-11,2%
Justice and Constitutional Development	19 119,8	21 168,8	-2 049,0	-10,7%
Office of the Chief Justice	1 211,8	1 335,9	-124,1	-10,2%
Employment and Labour	3 505,7	3 857,2	-351,4	-10,0%
Defence	46 268,7	50 852,5	-4 583,8	-9,9%
The Presidency	592,3	648,8	-56,5	-9,5%
International Relations and Cooperation	6 452,4	7 038,5	-586,2	-9,1%
Parliament	2 144,1	2 331,5	-187,4	-8,7%
Military Veterans	654,4	711,0	-56,6	-8,6%
Independent Police Investigative Directorate	348,3	377,7	-29,4	-8,4%
Statistics South Africa	4 474,6	4 843,9	-369,3	-8,3%
National School of Government	210,2	227,3	-17,1	-8,1%
Traditional Affairs	171,4	184,7	-13,3	-7,8%
Women, Youth and Persons with Disabilities	763,5	821,5	-57,9	-7,6%

# 2021 APPROPRIATION BILL

Department	2021 ENE2021/22	2020 ENE2021/22	Difference	Projection to 2021/22
Environment, Forestry and Fisheries	8 716,8	9 287,8	-571,0	-6,6%
Tourism	2 429,6	2 586,2	-156,6	-6,4%
Small Business Development	2 538,3	2 696,1	-157,8	-6,2%
Communications and Digital Technologies	3 692,9	3 918,6	-225,7	-6,1%
Agriculture, Land Reform and Rural Development	16 920,4	17 946,9	-1 026,5	-6,1%
Sports, Arts and Culture	5 693,9	6 035,5	-341,6	-6,0%
Higher Education and Training	97 784,0	102 753,0	-4 969,0	-5,1%
Science and Innovation	8 933,3	9 377,8	-444,5	-5,0%
Public Works and Infrastructure	8 343,2	8 757,3	-414,1	-5,0%
Mineral Resources and Energy	9 180,8	9 570,0	-389,2	-4,2%
Trade, Industry and Competition	9 736,6	10 098,3	-361,7	-3,7%
Transport	66 691,8	69 034,6	-2 342,8	-3,5%
Cooperative Governance	100 875,9	104 262,1	-3 386,2	-3,4%
Social Development	205 226,9	211 810,9	-6 584,0	-3,2%
Water and Sanitation	16 910,1	17 270,4	-360,3	-2,1%
Government Communication and Information System	749,7	763,2	-13,5	-1,8%
Basic Education	27 018,1	27 333,0	-314,9	-1,2%
Human Settlements	31 658,0	31 788,6	-130,6	-0,4%
Health	62 543,3	60 638,3	1 905,0	3,0%
National Treasury	41 055,7	35 822,5	5 233,2	12,7%
Public Enterprises	36 291,8	4 637,4	31 654,4	87,2%
<b>Total</b>	<b>980 583,9</b>	<b>988 835,6</b>	<b>-8 251,7</b>	<b>-0,8%</b>

# 2021 APPROPRIATION BILL: IMPLICATIONS

- Filling of vacant posts and operational budgets will be affected
- Peace and security:
  - worsening custodial staff to inmate ratio to 1:7 (norm is 1:5) and worsening police to population ratio to above 1:400 against a norm of 1:220
  - Limited recruitment of young and physically active force
  - Further delays in the implementation of the Defence review
  - Increased case backlog
- Lesser transfers to public entities
- Membership fees to international organisations
- ICT and other infrastructure projects will be affected (infrastructure grants) including road maintenance
- Funding for new, old and poverty surveys will be affected
- EPWP, community works programmes and business incentives/support will be lowered
- Compensation of employees, transfer to NSFAS, university subsidies, infrastructure grants and subsidies to TVET colleges will be affected
- Below inflation increases in social grants
- Funza Lushaka Bursary Programme will be affected
- Reductions in all other programmes and conditional grants (around R4bn in total), with largest (R1.7bn) reduction on HIV/AIDS grant component
- **Funding for the Land Bank and Eskom**

# ALLOCATION OF BUDGET TO THE PARLIAMENT

- Should be in line with the Financial Management of Parliament and Provincial Legislatures Act, 2009 (FMPPLA)
- In terms of section 17(1) of the Act, the Executive Authority:
  - After consultation with the Minister of Finance, determine a process for submitting Parliament's budget and adjustments budget to the National Treasury;
  - Consult with the Minister of Finance before the budget and adjustments budgets are submitted to the National Treasury;
  - Submit the budget and adjustments budget to the National Treasury; and
  - Represent Parliament in any discussions with the Minister of Finance on any aspect of Parliament's budget or adjustments budget

# PAST REDUCTIONS ON COMPENSATION OF EMPLOYEES

Economic classification	2017/18 Rand thousand	2018/19	2019/20	2021/22
Compensation of Members	556,288	493,161	600,518	476,474
Compensation of employees	785,503	895,094	860,737	936,823
Goods and services	507,848	534,721	657,776	611,020
Capital expenditure	3,906	4,136	11,635	13,816
Transfer payment	414,690	438,743	463,312	454,186
<b>Total</b>	<b>2,268,235</b>	<b>2,365,855</b>	<b>2,593,978</b>	<b>2,492,319</b>
<b>Reductions</b>	<b>129,345</b>	<b>180,408</b>	<b>21,664</b>	<b>195,290</b>
<i>Of which:</i>				
Compensation of employees	88,020	136,485	16,640	91,011
Goods and services	41,287	43,887	4,979	104,279
Capital expenditure	38	36	45	0

# IMPACT OF THE BUDGET REDUCTIONS

- A major concern raised was that Parliament will not be able to fill in vacant positions and this will result in Parliament being unable to perform its responsibilities in line with the Constitution which is in the Parliaments mandate (the Oversight, public participation and law-making, etc.)
- The 6% salary adjustment has worsen the impact of the budget reductions for Parliament. It should be noted that the executive has sought to strongly limit the growth in its wage bill, in view of budget constraints.
- The best option to resolve this is to reconsider the 6% increase so that the salary adjustments in the legislature is aligned to government
- Over the year's funds were shifted from the operational budget to make up for the shortfall
- Parliament should ensure that any salary adjustments in the next few years are within the allocated budget
- Most importantly, Parliament's baseline include the Parmed contributions for retired members

# CONSULTATIONS BETWEEN PARLIAMENT AND NT

## Early Retirement exit program

- Parliament wrote to the DPSA asking to be included in the recent ER program but could not be accommodated as it falls outside the Public Service Act as defined. They also approached the Treasury. Few discussions have taken place.
- Parliament was advised to introduce its own ER program for officials/employees of parliament and submit a request to the Treasury. The discussions are ongoing between the two institutions with a focus on:
  - Determining the liability
  - Finding a budget to pay the liability within the Parliament budget
  - Determining the numbers of people eligible vs the number of people interested

# PARMED CONTRIBUTIONS

- Parliament contributes to the Parmed scheme for the retired Members of Parliament (for before and post 1994) and Provincial Legislatures Members (post 1994)
- There has always been a shortfall over the years for Parmed and this shortfall was funded by retained earnings and diverting funds from operations to make up for the shortfall
- Over a period of 4 years, Parliament has overspent budget allocations by R44,378 million on this item

<b>Rand thousand</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2021/22</b>
	<b>Audited outcome</b>		<b>Un audited</b>	
PARMED contributions				
Budget	54,149	56,386	62,000	67,580
Spending	56,149	62,409	81,563	84,372
<b>Available: (-) Overspending</b>	<b>-2,000</b>	<b>-6,023</b>	<b>-19,563</b>	<b>-16,792</b>

# CONSULTATIONS BETWEEN PARLIAMENT AND NT

## Post-retirement medical liability that Parliament wants to offload to the Treasury

- The Treasury responded formally in 2018 and is still awaiting for Parliament (and Parmed) to give consent to take the process forward. The responsible officials in parliament are aware including the current Acting Secretary.
- The Treasury cannot take over the liability. The public service in general is also struggling with such liabilities arising out of the continuation benefits for former employees on GEMS and those on other Schemes. A strategic solution is required and Parmed cannot be sustainable in the long term on current arrangements.
- Minister Nene, responded to the Speaker, proposing a process that should be followed to assist Parliament. The objective of the Treasury proposal is to assist Parliament to ensure that PARMED is sustainable and able to care for former members like all other medical aid schemes.

# HOW HAS THE BUDGET SHORTFALL BEEN ABSORBED IN THE PAST

- Parliament's Budget comprises of the allocations in the Appropriation Bill and retained earning of previous years as Parliament is not required to return to National Revenue Fund any money appropriated but not spent. Therefore, overspending in any budget items allocated over the MTEF period is funded through the retained earnings.
- That is, in terms of section 23(4) of the Financial Management of Parliament and Provincial Legislatures Act, 2009 (FMPPLA) unspent statutory appropriation (i.e. Direct charges) must be surrendered to National Revenue Fund (NRF), and in the same context overspending statutory appropriation must be claimed from NRF.
- Whereas, unspent voted funds under the programmes are not surrendered to the NRF and are available to Parliament for future utilisation in terms of section 23(1) of the FMPPLA. These funds are used to fund the shortfall in Parliament budget programmes or items under these programmes: Strategic Leadership and Governance, Administration, Core Business, Support Services, and Associated Services
- Thus, the underspending becomes part of retained earnings for the next financial year in line with sections 16(2)(b)(iii) and 23(1) of the FMPPLA

# CONCLUSION

- A meeting was held on 17 February 2021 between Minister of Finance and Parliament's Presiding Officers.
- The discussions were mainly on 2021 MTEF budget allocations and reductions, amongst others, and the meeting concluded that prior to the start of the next MTEF process and before the start of the technical process there should be a conversation between national Treasury and Parliament around Parliament's budget.
- National Treasury will always remain fully supportive to Parliament in addressing issues affecting the budget of the Parliament.