RESEARCH UNIT
PO Box 15 Cape Town 8000 Republic of South Africa
Tel: 27 (21) 403 8273 Fax: 27 (21) 403 8118
www.parliament.gov.za

Oversight of the National Budget

28 October 2009

1. Introduction: The Budget Process

The transition to a democratic state contributed to the development of a new budget management system that changed the management of public finance in South Africa. This transition occurred not in the context of policy stability, but simultaneously with the major transformation of government policies. The government succeeded in introducing the new budget system called the Medium-Term Expenditure Framework (MTEF) in 1998.[1] The MTEF is a transparent planning and budget formulation process within which the Cabinet and central agencies establish credible contracts for allocating public resources to their strategic priorities while ensuring overall fiscal discipline. The process entails two main objectives: the first aims at setting fiscal targets, the second aims at allocating resources to strategic priorities within these targets.[2] To achieve these objectives, it is necessary for relevant role-players to engage in the budget process.

A budget process or budgeting refers to the process by which governments create and approve a budget.[3] The purpose of budgeting is to provide a forecast of revenues and expenditures and also to enable the actual financial operation of the business to be measured against the forecast. A number of entities (government departments, bodies and other role players) are involved in the budget process. These include the National Treasury, National and Provincial departments, Budget Council, Cabinet and Provincial Executive Council, Financial and Fiscal Commission (FFC) and National and Provincial Legislatures. This chapter discusses the various elements, activities, role players and timeframes of the budget process.

The budget process is a cycle of sequential and inter-related budget activities regularly recurring within a fiscal year. It has been described as a fairly complex process, since new fiscal objectives are established each year which require several fiscal years to work out. In general, there are three essential elements of the budget process: planning, management and control. It is important to understand the process by which budgets are drawn up. The timetable for the process provides clues as to the most effective points for intervention. These intervention points will not be the same for all stakeholders.

Key players in the Budget Process

The following role-players are involved in the budget process:

- The **National Treasury** is responsible for the government's overall macroeconomic and fiscal policy. The National Treasury coordinates with provinces (particularly provincial treasuries)

1 Folscher, A., (2007). Chapter 15: Country Case study: South Africa in Budgeting and Budgetary Institutions. The World Bank.
2 World Bank. What is MTEF? [Online]. Available: http://www1.worldbank.org/publicsector/pe/MTEFprocess.doc
3 Wikipedia. Budget process. www.wikipedia.org

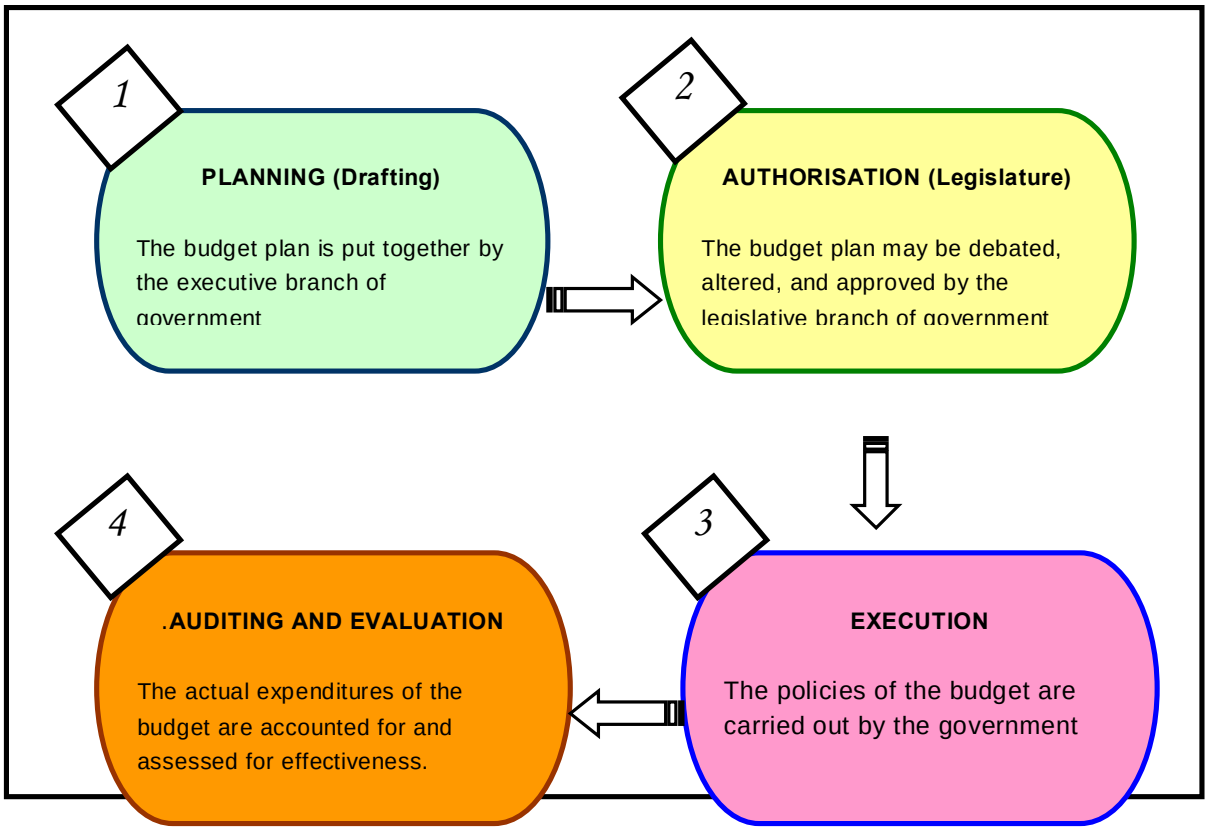
and other departments to compile the national budget, and is also responsible for fiscal discipline and debt management.

- **National and Provincial Departments** are responsible for drawing up expenditure plans providing departmental goals, policy and spending options, as well as projected inputs, outputs and outcomes. Once approved, departments develop and implement these plans.
- The **Budget Council** is made up of the provincial Members of the Executive Council (MEC) for Finance, the Director Generals (DGs) of Finance and State Expenditure, Heads of Treasuries, the Minister and Deputy Minister of Finance and their advisors. The Council advises Cabinet on the division of revenue between provinces.
- **Cabinet and Provincial Executive Councils** through their political oversight of the budget process, decide on the division of revenue between departments and provinces. On the advice of the Budget Council, they also set the policy priorities for the budget. The Executive Councils set spending priorities for provincial departments.
- The **Financial and Fiscal Commission (FFC)** is an independent, advisory body created in terms of the Constitution. It makes recommendations to Cabinet and the Budget Council on the division of revenue between the different levels of government.
- **National and Provincial Legislatures** are responsible for reviewing the budget after it has been tabled, and monitoring departmental expenditure once the budget is approved. They facilitate public participation in the budget process. Important structures within the legislative environment include the finance Committees and the Public Accounts Committee.
- **Civil Servants** play a very influential role in the budget making process, particularly those in the National Treasury and the Provincial Treasuries. Although they do not have policy-making powers, they provide information, administer policies, and assist in the technicalities of drawing up budgets.

2. The South African Budget Cycle

The budget cycle comprises the major events involved in making decisions about the budget, and implementing and assessing those decisions. The specific characteristics of the budget cycle differ from country to country. Generally, the budget cycle is likely to have four stages. Many different decisions have to be made at many different levels. National government must decide how much of the share of nationally raised revenue is allocated to national, provincial and local government. National, provincial and local governments must each decide how to divide their budgets between different departments. Within departments, decisions are made on how much is spent on different programmes. These events go through the various cycles of the budget process.

Figure 1: The South African Budget Cycle



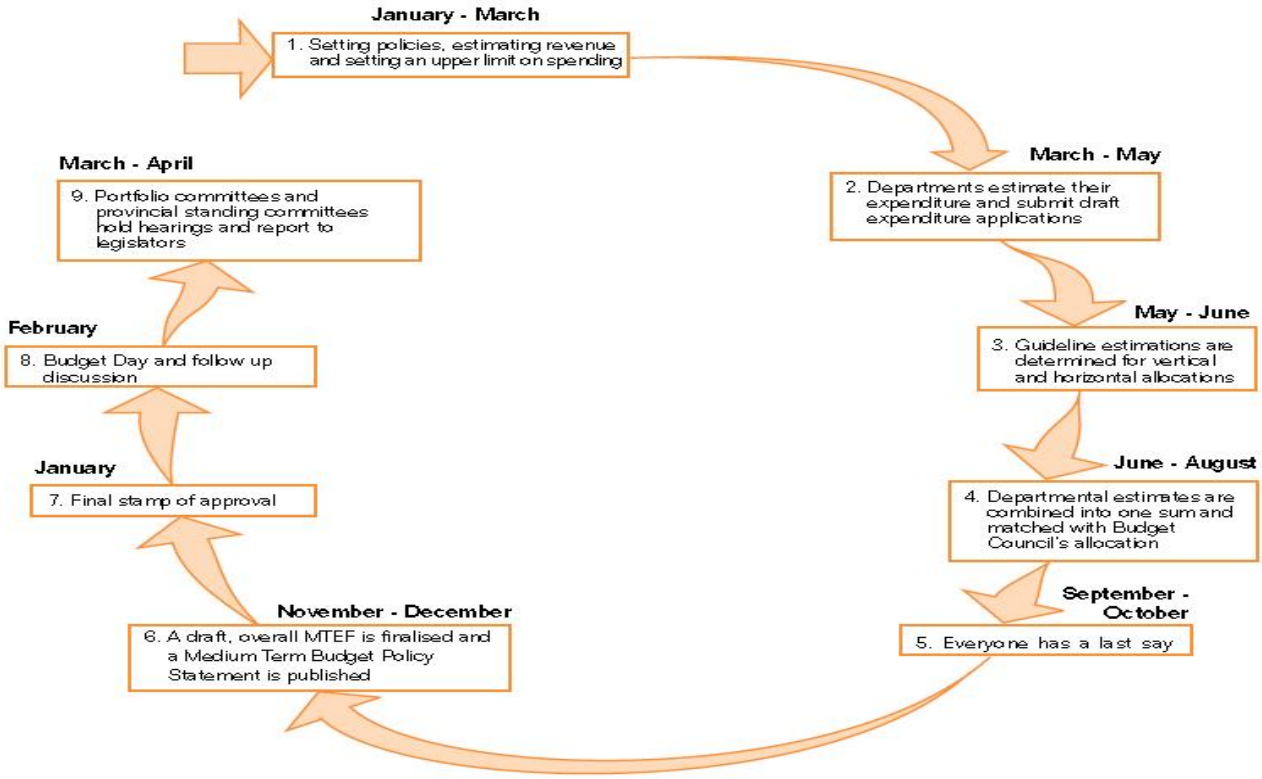
In the past, South Africaôs national budgets were drawn up for a period of twelve months only. In 1997, a new way of preparing the budget called the Medium-Term Expenditure Framework (MTEF) was introduced. The MTEF entails planning over a period of three years - called a rolling budget. Budgeting over three years has the following advantages:

- It helps provinces and departments to plan with greater certainty because they have a better indication of what their allocations will be for the next three years.
- It encourages departments to set three year priorities and to plan further ahead than they did in the past and to enter into development contracts that may extend over a number of years.
- It gives the public a clearer picture of how government plans to spend its money. Reconstruction and development goals can be evaluated against how much the government plans to spend over the next three years.

3. Month by Month Budget Process

Figure 2 below indicates a more comprehensive view of the budget process.

Figure 2: Month by month progress of the Budget Cycle



Source: The Budget process, 1999.

4. Laws governing the Budget Process

There are several laws that govern the budget process. The following are examples:

- **The Constitution** ï The Constitution provides the institutional framework for budget reforms in South Africa. It details general financial matters, provides a framework for expenditure and revenue assignments, roles and responsibilities and establishes the principle of cooperative governance, which sets the tone of a consensus-seeking budget process.
- **Money Bills** ï This is a general way of describing all Bills that allow for money to be allocated to various departments in national or provincial government, and for taxes to be levied. A money bill is a bill that solely concerns taxation or government spending. It is also known as appropriation of money.[4]
- **Appropriation Bills** are money bills. They allow departments to appropriate government money.

The **Division of Revenue Bill** ï the Division of Revenue Bill is introduced annually before Parliament when the budget is announced. It is a Section 76 Bill (i.e. it has significant impact on the affairs of provinces and is therefore referred to the NCOP) and explains how the vertical and horizontal divisions of revenue have been allocated between and within spheres of government.

5. The Role of Parliament in the Budget Process

Parliament has an important role to play in the budget process. The budget process is a fundamental feature of democracy. The vast majority of democratic constitutions require appropriations and taxation measures to be approved by parliament in order to become effective. For this requirement to be more than constitutional fiction though, Parliament should ensure that the revenue and spending measures it authorises are fiscally sound, match the needs of the population with available resources, and are implemented properly and efficiently.

In South Africa, the budget is first sent to the National Assemblyôs (NA) Standing Committee on Finance and the Standing Committee on Appropriations, and then passed along to the finance committees in each province, while the National Council of Provincesô Select Committee on Finance and Select Committee on Appropriations considers the Division of Revenue Bill.

The recently passed Money Bills Amendment Act has enabled parliamentôs constitutional provision to amend money bills. The legislation enables the National Assembly to pass, amend or reject the budget before it.

Before the Money Bills Amendment Act was passed, Parliament relied on its internal Rules when dealing with money bills. In monitoring the activities of the Executive, the Constitution provides for the

4 See Section 77 of the Constitution of South Africa

National Assembly to maintain oversight over the activities of the Executive by providing mechanisms to monitor its activities.

The Executive must report on its activities to the National Assembly at predetermined intervals (in accordance with Section 56 of the Constitution). The fact that all Organs of State at the national sphere of government are accountable to the National Assembly means that:

- The National Assembly, through its committees, can call on any Organ of State to appear before it to account for its actions (in accordance with Section 56 of the Constitution).
- That Organ of State might be required to take action to rectify any problems resulting from its actions.

Usually, senior departmental officials appear before committees. However, in cases of mismanagement within a department, the Parliamentary Committee can request the relevant Minister for an explanation, as it is the Minister who is ultimately responsible for the running of the department both in respect to policy and management. The Accounting Officer as the head of the department is responsible for outputs delivered as reflected in the departmentôs strategic plan.

The Role of Parliamentary Committees in the budget process

During February, the Minister of Finance tables the annual Budget in the National Assembly. This is the beginning of a process of parliamentary deliberation through public hearings. All the finance committees of Parliament play an important role in the deliberations.

- **The role of the Standing and Committee on Appropriations**

In October 2002, the National Assembly (NA) resolved to establish the Committee on Appropriations. The resolution requires the Committee on Appropriations to consider four particular items:[5]

- The Medium Term Expenditure Framework (MTEF) and Appropriation Bills tabled with the annual budget in February. The resolution requires the Committee on Appropriations to conduct hearings on the MTEF and the ôBudget Policy Review Documentô ï the Budget Review ï with the exception of those sections dealing with macro-economic and revenue issues. The latter issues are
- The monthly expenditure and revenue statements released in terms of Section 32 of the PFMA. The resolution requires the Committee on Appropriations to report quarterly on its findings from the analysis of the expenditure reports.
- The Medium Term Budget Policy Statement (MTBPS) tabled in October, with the exception of macro-economic and revenue issues. The resolution requires that the Committee on Appropriations reports to Parliament on the MTBPS.
- Ensure that Parliamentôs role in the development of Budgets is in accordance with constitutional requirements.

Rule 290(3) of the National Assembly currently restricts committees to considering money bills for a maximum of seven working days. The JBC will also join the Portfolio and Select Committees on Finance in the lock-up session and on the day immediately following Budget Day for the traditional briefing by the Minister of Finance.

[5] Ganief, A. Legislative Oversight through the budget, Research Unit, 2005

The Standing and Select Committee on Finance

Apart from the Committees on Appropriations, a range of other committees are involved in the process. Effectively, the resolution establishing the Committee on Appropriations splits committee responsibility for consideration of the revenue and expenditure sides of the Budget. The Standing Committee on Finance conducts hearings on macroeconomic and revenue issues, while the Select Committee on Appropriations concentrates on the Division of Revenue between the spheres of government.[6]

The Select Committees on Finance and Appropriations in the National Council of Provinces takes the lead in considering the Division of Revenue Bill that is tabled annually with the Budget. The Division of Revenue Bill, unlike taxation and appropriation bills, is discussed in accordance with Section 76 of the Constitution, which affords a greater say to the National Council of Provinces than the procedure applicable to money bills stipulated under Section 77.

The Financial and Fiscal Commission (FFC) briefs the Select Committee on Finance on its recommendations regarding the Division of Revenue Bill. The Select and Portfolio Committees schedule several joint sittings, including joint public hearings, in order to avoid duplication. Other Committees also schedule departmental briefings on their respective Budgets. These can serve to supplement the more general discussion of expenditure issues by the Committee on Appropriations.

The Committee on Public Accounts

The Committee on Public Accounts was established in terms of Rule 204 of the National Assembly Rules, while Rule 206 outlines the functions and powers of the Public Accounts Committees. Amongst other things, the committee must consider the following:[7]

- The financial statements of all executive Organs of State and constitutional institutions when those statements are submitted to Parliament.
- Any audit reports issued on those statements.
- Any reports issued by the Auditor-General on the affairs of any executive Organ of State, constitutional institution or other public body.
- Any other financial statements or reports referred to the Committee in terms of these Rules:
    - May report on any of those financial statements or reports to the Assembly,
    - May initiate any investigation in its area of competence,
    - Must perform any other functions, tasks or duties assigned to it in terms of the Constitution, legislation, these Rules, the Joint Rules or resolutions of the Assembly, including functions, tasks and duties concerning parliamentary financial oversight or supervision of executive Organs of State, constitutional institutions, or other public bodies.

The Speaker must refer the financial statements and reports to the Public Accounts Committee when they are submitted to Parliament, irrespective of whether or not they are referred to another committee.

[6] Ganief,A. Legislative Oversight through the budget, Research Unit, 2005
[7] SCOPA Guidelines for accounting officers, ministers and other persons appearing before the committee, 2003

In the event of the Auditor-Generalôs report containing a finding of a material problem or irregularity, the Public Accounts Committee requests the Auditor-Generalôs office to present a report to it. The Public Accounts Committee may thereafter hold a hearing, and summon the relevant departmentôs Accounting Officer to appear before it. The Public Accounts Committee may also summon the relevant Minister to appear before it. At such a hearing, the Committee may investigate the relevant matter and call upon the Accounting Officer to:

- Indicate how the relevant department is responding to the problems raised by the Auditor-General.
- Enquire into the reason why any persistent problems have not been resolved.

The Committee then reports its finding regarding the report received from the Auditor General, and may recommend remedial action that must be ultimately determined by the relevant department. Based on this report, the Committee will report back to the National Assembly with its findings and recommendations.

Sources

Information Services Section, Research Unit (2008), Budget Analysis Manual. Parliament, Cape Town