GUIDE TO THE BUDGET
Following the route of the ongoing fiscal cycle
THE NEVER-ENDING CYCLE OF THE BUDGET PROCESS

It is impossible to say when the Budget process begins or ends, or even how individual financial years can be separated from each other. Tracking the Budget is an ongoing process.

February is known as Budget Month, when the citizens and Parliament are informed of the state of our country’s economy and what expenditure to expect.

On Budget Day, the nation waits with baited breath for the news, and all seems to hinge on the hefty tome that the Minister of Finance takes into Parliament with him.

But it is not that simple at all. For one thing, the Budget itself is not a single document. What the Minister of Finance and his team carry into Parliament on Budget Day are a number of related documents. They include the Fiscal Framework, the Division of Revenue Bill, the Appropriation Bill plus a number of accompanying documents.

What is more Budget Day is just one day in a Budget process that rolls on for about 18 months. The year-long financial year, which stretches from 1 April to 31 March of the following year, is just part of that process.

Finally, to make it even more complicated, at any one time during the Budget process three simultaneous Budget phases are underway. Parliament and the Executive (the government departments) are planning the Budget of the following year months in advance; implementing the current Budget while continuously monitoring it for delivery and compliance with policy; and evaluating and auditing the previous Budget.

This is what makes our Budget cycle so complex. It comprises three intersecting loops overlapping and constantly in motion.

But it is important because the Budget process ensures that expenditure by the executive remains aligned to South Africa’s policy goals and objectives. What is also of great importance is that ongoing monitoring and tracking by the executive and Parliament allows for interventions in the event of wrongful expenditure and failures of service delivery. It means government departments are held accountable for their expenditure and Parliament and the citizens it represents can, and must, make their own demands and interventions.

A MULTI-STAGE BUDGET PROCESS

The Budget of any one year undergoes a four-stage process. To better understand this, let us consider a single Budget process as it goes through its four stages. The stages are:

1. Drafting/planning/formulation
2. The legislative process
3. Implementation

It is important to note that these stages do not coincide with the unfolding of a single fiscal year. Stage 1 takes place before the beginning of a particular fiscal year. Stage 2 starts before the beginning of the fiscal year and continues until the passing of the Budget. Stage 3 occurs during that fiscal year, and stage 4 happens after the end of the fiscal year.

Let us look at each stage in detail.

1. Drafting/planning/formulation

In stage 1, National Treasury issues guidelines on spending to government departments. These guidelines are based on government policy such as the National Development Plan (NDP), which is South Africa’s policy framework underpinning policy decision-making for the next twenty years.

The guidelines from the Treasury are also located within the Medium Term Strategic Framework (MTSF), which provides a three-year budget framework.

In practice, the Budget process starts with the State of the Nation Address where the President outlines national priorities and gives hints of the expenditure allocations that will be needed to achieve them.

Based on these guidelines, government departments and state-linked institutions submit their draft budgets. This involves detailed negotiations based on assessments and revisions of earlier expenditure to help the executive make its final decisions.

Consideration has to be given to unspent funds in any given department and decisions must be made as to whether these can be
“rolled over” into the next Budget. Roll-over requests must be formally made to National Treasury. National Treasury then consolidates all the departmental budgets into the draft Budget for tabling in Parliament.

Parliament plays a role in the drafting stage through its oversight work. The role of Parliament and the various parliamentary committees is spelled out in the Money Bills Amendment Procedure and Related Matters Act (9 or 2009). This Act allows Parliament to amend the budget.

Probably the most important tool Parliament uses for this purpose are the Budgetary Review and Recommendation Report (BRRRs). These reports require committees to annually assess government performance and audit outcomes but also allow for the National Assembly to make proposals on the forward use of resources.

Around October each year the Minister of Finance delivers the Medium Term Budget Policy Statement (MTBPS). The MTBPS provides a window into budget policy for the next three years and also allows Parliament to influence budget developments over the medium-term.

The BRRRs provide an assessment of every government’s service delivery performance given their allocated resources, report on whether expenditure has secured value for money and make recommendations on revised allocations where necessary.

2. Legislative Process

The second phase of the budget process is the legislative stage when the Budget package is tabled in the National Assembly by the Minister of Finance. This is typically done in February each year.

The Finance and Appropriations committees in both Houses first consider and hold hearings on the Fiscal Framework, Division of Revenue and revenue proposals and, when these are adopted by Parliament, the respective portfolio and select committees consider the various departmental allocations. The National Assembly debates each budget in Extended Public Committees (EPCs).

The law specifically makes provision for public participation in this stage which allows for the input of civil society and interest groups in the legislative process. Parliament typically passes the budget four months after the start of the financial year. The Adjustments Budget is introduced six months into the financial year and provides for any adjustments to departmental budgets.

3. Implementation

Once the budget has been passed, funds can be allocated to government departments and other entities, and implementation of government plans and projects can begin.

The Portfolio Committees of the National Assembly and to some extent the National Council of Provinces are mandated to then monitor and assess the performance and expenditure of the respective government departments against their budgets and ensure the funds are spent effectively and efficiently.

4. Audit

After the financial year comes to a close, it is time to assess government departments’ spending and how it is reflected in delivery. The auditing stage involves the review of the final budget documents by independent audit institutions like the Auditor-General of South Africa. Audit reports are published and reviewed by Parliament.
THE BUDGET CALENDAR

Each year’s budget process is a cycle that runs for approximately 18 months. Below is a month-by-month schedule showing each stage in the process.

April: Planning the Budget for the upcoming year starts well in advance. National Treasury notifies all government departments of its spending guidelines for the upcoming Budget.

At this point unspent funds from the previous financial year are submitted to National Treasury to assess how much can be “rolled over” to be used in the following year’s Budget. After approval by the Minister of Finance rollover allocation letters will be issued to departments.

May to June: National Treasury issues the Medium Term Expenditure Framework (MTEF) budget guidelines, and requests five-year expenditure estimates or plans from government departments.

July: Based on these guidelines, government departments submit their expenditure estimates to the National Treasury for the upcoming Budget. Analysis and approval of changes to government departments’ budgets are considered.

August: The Ministers’ Committee on the Budget (MCB) approves the preliminary division of revenue and budget priorities. Departments’ requests for funding for unforeseeable and unavoidable expenditure that arose during the current financial year are submitted.

September: The Medium Term Expenditure Committee presents its initial recommendations for funding allocations for key government priorities.

October: In the middle of the financial year, the National Assembly also passes Budget Review and Recommendation Reports (BRRRs) in brief, the BRRRs assess past service delivery performance of each government department and may make recommendations for changes to future allocations.

The Medium Term Budget Policy Statement (MTBPS) is also tabled in Parliament in October. This must be submitted to Parliament at least three months before the introduction of the national Budget.

The MTBPS presents government priorities for the term-term. In other words it provides a macro-economic view by highlighting key government spending priorities and the size of the spending envelope for the next MTEF period. The MTBPS also gives some indication of what the following year’s budget will include.

November: Allocations to national government departments are finalised and proposed to Cabinet in mid-November. Once Cabinet approves funding, allocation letters are sent to all government departments.

The Minister of Finance also receives the BRRRs from Parliament and considers how these impact on the budget and MTEF. These reports are analysed and a response to Parliament is prepared.

December: Government spending is subjected to a rigorous auditing process to measure whether public resources have been used effectively and efficiently. The final Budget documents are reviewed by independent audit institutions such as the Auditor-General of South Africa. The findings of the audit are submitted to the legislature which is responsible for holding government departments accountable for its execution of the budget.

March: The National Assembly (NA) and the National Council of Provinces (NCOP) refer the Fiscal Framework to their respective Committees of Finance. Parliament also considers and adopts the Division of Revenue Bill for the upcoming year. The public are invited to make inputs on both these instruments. Thereafter Parliaments considers and approves each departmental budget.

July to April: The Appropriation Bill is passed by Parliament, and based on this, funds are allocated to departments.

Once these bills, known as these Money Bills, have been passed, funds can be allocated to government departments and other entities that are funded by the Treasury, and implementation of government plans and projects can be carried out for the duration of the financial year.

Throughout this time, Parliament continues to rigorously monitor and review government departments’ expenditure.

February: It is at this point that the Budget – which comprises the Fiscal Framework, the Appropriation Bill, the Division of Revenue Bill and related budget information – is finalised and tabled by the Minister of Finance in Parliament.
OCTOBER TABLING OF BUDGETARY REVIEW AND RECOMMENDATION REPORT

January
3rd Quarter Expenditure Report

February
1st State of the Nation Address Tabling of Budget

March
Strategic Plans and Annual Performance Plans

April
4th Quarter Expenditure Report

July
1st Quarter Expenditure Report

October
Adjusted Estimates of the National Expenditure MTBPS

October
2nd Quarter Expenditure Report

September
Annual Report Department

Additional Committee Reports and SCOPA Reports
THE BILLS INVOLVED IN THE BUDGET PROCESS

There are key Acts that govern the Budget process, and these are debated by Parliament before they are signed into law by the President.

**Division of Revenue Bill**

This Bill provides for the equitable division of revenue raised nationally among the national, provincial and local spheres of government for the financial year, and the determination of each province’s equitable share and allocations to provinces, local government and municipalities from national government’s equitable share. It also spells out the responsibilities of all three spheres pursuant to such division and allocations to provide for these matters.

**Appropriation Bill**

This Bill allows for the appropriation of money from the National Revenue Fund for the requirements of the State for the financial year. It also prescribes conditions for the spending of funds withdrawn for the financial year before the commencement of the Appropriation Act for that financial year; and to provide for related matters.

**Money Bills Amendment Procedure and Related Matters Act**

In broad terms the Act provides the procedure for Parliament to amend the Budget, which includes the annual Division of Revenue Bill, the annual Appropriation Bill and the Adjustments Appropriation Bill, as well as revenue Bills such the annual Taxation Laws Amendment Bill and other money Bills.
The importance of oversight

A number of processes are in place to ensure oversight over public sector expenditure and performance. South Africa has an Auditor General (AG), who is responsible for auditing departments’ financial and non-financial performance.

The findings of these audits are reported to Parliament. Parliament’s Standing Committee on Public Accounts ensures that the issues raised by the AG are dealt with accordingly. Parliament also exercises its oversight through various Portfolio Committees that assess the Budget and other plans, as well as the performance of each department, including their financial performance, and hold them accountable.

Parliament’s Standing Committees, the National Treasury and the Department of Performance Monitoring and Evaluation (in the Presidency) analyse departmental reports on performance indicators that measure progress made in respect of their mandates, for which they are given their share of the Budget.

This monitoring is done on a quarterly basis. The National Treasury holds departments accountable in relation to budget allocations by assessing value for money as well as spending patterns regarding policy priorities.

The Department of Performance Monitoring and Evaluation holds departments accountable in relation to outputs as included in Delivery Agreements, which are informed by performance agreements signed between the President and the relevant national Minister.

GLOSSARY OF TERMS

**Appropriation Bill:** The Appropriation Bill is introduced as part of the annual national budget (see sections 26 and 27(1) of the Public Finance Management Act, 1999). The legislation is required to distribute money from the National Revenue Fund to various government departments – as envisaged in section 213(2)(a) of the Constitution – for the programmes indicated in the relevant budget votes.

**Budgetary review and recommendation reports (BRRR):** Reports from the committees of the National Assembly providing an assessment of the service delivery performance of each government department.

**Division of Revenue Bill:** The Division of Revenue Bill, introduced as part of the annual national budget, ensures the equitable distribution of national revenue among the national, provincial and local spheres of government as envisaged in section 216 of the Constitution.

**Fiscal framework:** Section 1 of the Act defines ‘fiscal framework’ as the framework for a specific financial year that gives effect to the national executive’s macro-economic policy, based on estimates of, among others, the total revenue (including borrowing) and total expenditure (including interest and debt servicing charges).

**Medium term budget policy statement (MTBPS):** The MTBPS is provided for in terms of section 28 of the Public Finance Management Act, 1999 (Act 1 of 1999), which requires National Treasury to annually table in the National Assembly multi-year budget projections for revenue and expenditure and key macro-economic projections. The MTBPS is part of South Africa’s Medium-Term Expenditure Framework (MTEF), which has introduced a longer planning horizon into the budget process.

**Medium term estimates of expenditure (MTEF):** The MTEF is the three-year budgeting system and expenditure plan to allow predictability of the budget cycle, which underpins the budget cycle.
Clearly, the Budget is one of the critical instruments that Parliament uses to effect oversight over the Executive’s expenditure pattern. This oversight role protects the public purse.

Parliament’s role is to ensure that adjustments in budget allocations are done in accordance with the strategic and annual performance plans of each department. These must also be aligned with the Public Finance Management Act and the Money Bills Amendment Procedure and Related Matters Act to safeguard the proper management of the public purse.

According to staff of the Parliament Budget Office, the budget system should be regarded as the most important component of service delivery.

“The Budget is the instrument for translating policies and plans into public goods and services. Any policy or plan without a budget attached to it is unlikely to be successfully implemented. Economic success depends on the ability of government to employ limited resources with maximum effect.”

The role of Parliament in this regard cannot be overstated a staff member said. Its duty is to: “detect and prevent abuse, prevent illegal and unconstitutional budgetary conduct on the part of the government, make government budgetary operations more transparent and hold the government answerable on how taxpayers’ money is spent.”

Parliament’s specific oversight role in the first stage of planning and formulation is to ensure that all plans are in line with South Africa’s overriding plan, the National Development Plan (NDP), which is implemented through the Medium Term Strategic Framework (MTSF).

“Parliament can monitor and evaluate the quality of plans and examine if their outputs are relevant for Parliament to do oversight. Parliament can also utilise the Auditor General’s Report to see how the recommendations of the NDP are integrated into government plans.”

The parliamentary work in the budget process really kicks in with the adoption of the Adjusted Budget and the MTBPS. In this stage Parliament analyses and assesses the macroeconomic forecast, fiscal framework, policy priorities, and revenue and expenditure trends and estimates. It does this by scrutinising individual budgets to detect historic trends, efficiency, effectiveness, responsiveness to needs and alignment of policy and plans with the NDP.

During the legislative phase of the annual tabling of the national departments in the National Assembly (and provincial budgets in provincial legislature) the National Assembly and provincial legislatures debate budget votes with the involvement of organised interest groups and civil society, the media and the general public. This is to ensure that they reflect national priorities and accommodate the outcomes and actions required by the MTSF.

To ensure efficient and effective implementation of the budget, all government institutions submit in-year executive reports on expenditure and performance to the legislatures. Parliamentary committees oversee the in-year and year-end monitoring processes. This processes also include site visits and taking part in public hearings. And rigorous in-year monitoring by Parliament could minimise poor performance by executives at year-end.

In the final audit stage of the budget process, Annual Reports including Annual Financial Statements and performance information are submitted to the Office of the Auditor General for auditing. This process identifies material misstatements in the financial statements of departments.

“Parliament can make use of reports produced by National Treasury and the Auditor General to hold the executive to account on their performance and finances.”

Most significant is the role of the Public Accounts Committees in the budget process because they act as Parliament’s watchdog over the way taxpayers’ money is spent by the Executive. Among other things, they scrutinise the findings of the Auditor-General, identify cases of inefficiencies and mismanagement, establish the root causes and develop recommendations for improvement.

These committees can recommend corrective action. And their work can have a practical value if they monitor the implementation of recommendations.