

NA MEMBERS' TRAINING AND CAPACITY BUILDING PROGRAMME – 16 to 19 August 2022

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PBO Director

Budget
Office



Parliamentary

Outline

Part A

- Introduction
- Money Bills Act and the role of PBO
- Research and analysis requests workflow process
- Office strategy in context
- Stakeholder engagements

Part B

- Office research and analysis for the year

Introduction

- The Parliamentary Budget Office is a juristic entity of Parliament and headed by a Director as an Accounting Officer
- The Office was established in terms of section 15 of the Money Bills and Related Matters Act 2009
- To support the implementation of the Money Bills and Related Matters Act of 2009; in particular support to Finance and Appropriations Committees in both Houses; but other Committees and Members of Parliament (MPs) subject to the availability of capacity
- The Money Bills and Related Matters Act guides the approval of money bills and related matters, including amending the budget
- The 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
- The Director is accountable to Parliament, the Executive Authority, the Speaker of NA and the Chairperson of the NCOP
- The Director, required to consult the Office Advisory Board (Houses Chairpersons, Finance and Appropriations Chairs) on specific matters

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

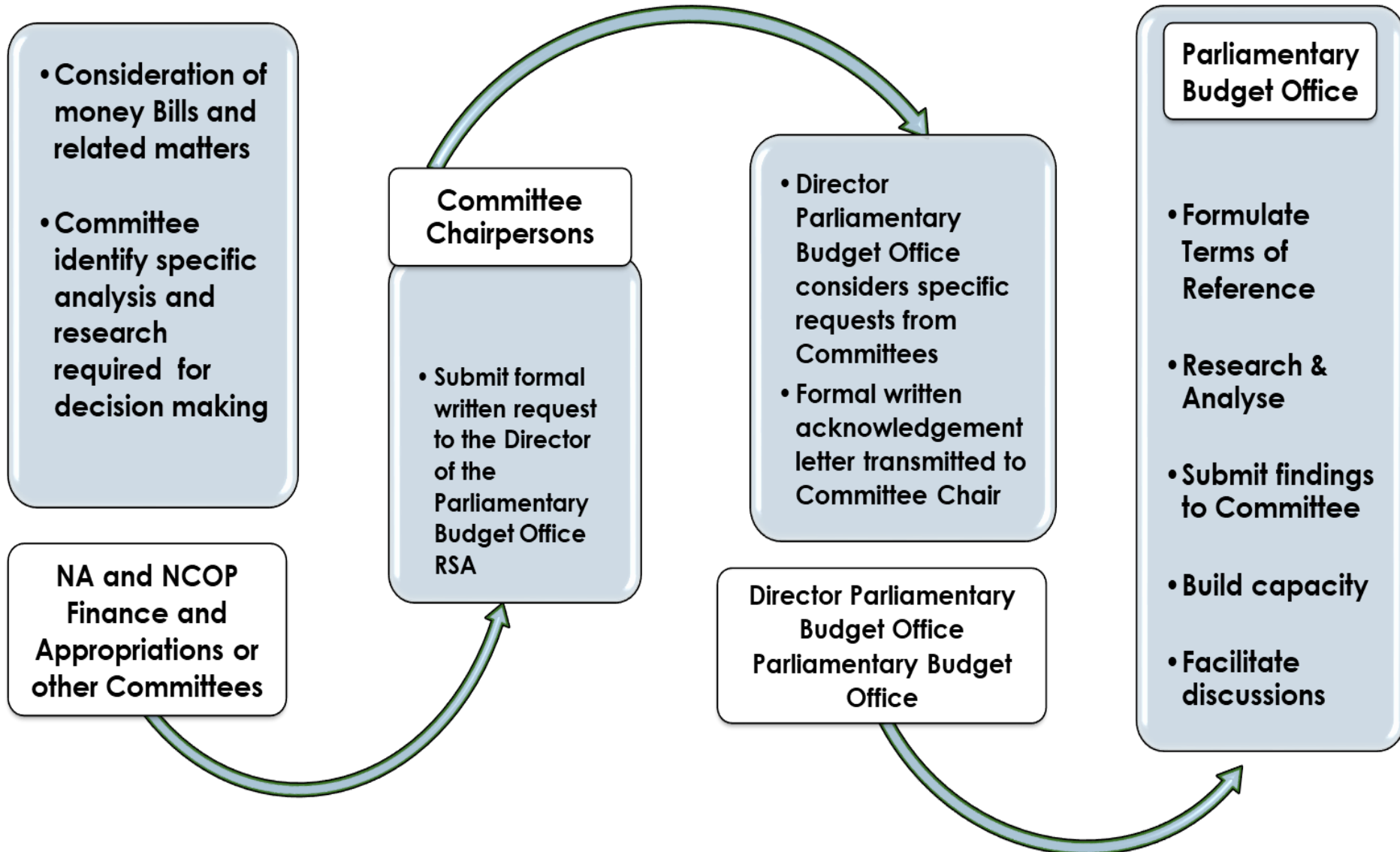
Money Bills and Related Matters Act 2009

- Established the Parliamentary Budget Office as a *juristic entity* (*amended Act in 2018*)
- The Act provides for; the Office mandate, Office must receive a Budget from Parliament baseline and that the Office to appoint competent staff to delivery on its mandate
- The Office provides research and analysis on the macroeconomic and fiscal policy and other policies in support of Parliament oversight over the Executive
- The Director, required to consult the Office Advisory Board (Houses Chairpersons, Finance and Appropriations Chairs) on specific matters
- The transfer of funds to Office to fulfil its mandate from Parliament budget baseline in line with Sec 35 of FMPPLA, to prepare 3-year rolling budget
- In fulfilling own 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 Parliament Committees (Finance and 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

Research and Analysis Requests Workflow Process



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;

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

- Macroeconomic and fiscal policy;
- Fiscal framework, revised fiscal framework;
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Strategy in Context

Strategy in Context



PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Business Plan and Budget Estimates 2019-2024

*Independent Budgetary Analysis and Advise for Stronger
Fiscal oversight*

Parliamentary

Budget
Office

Strategic Execution from Conceptualization

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's oversight process in terms of Money Bills and Related Matters Act assess how government's 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

Strategy Execution Challenges

- Non-compliance with Money Bills and Related Matters Act by Parliament- e.g., Failure to transfer of funds in line with the Act requirement to fulfil the Office mandate-
- Inadequate funding for Parliamentary Budget Office to fulfil mandate
- Inadequate governance structure and operational and management process delays Parliamentary Budget Office processes
- Inadequate time allocation to prepare outputs and present or share Parliamentary Budget Office research with Committees
- Inadequate work flow arrangements and human resource capacity for the Office to deliver on its mandate
- Delayed Office transition toward fully implementing Money Bills and Related Matters Act (section 15), in particular Governance and Accountability Matters

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. South African is the Convenor of the AN-PBO
- 5th Annual AN-PBO Meeting in Harare, Zimbabwe in 21-26 August 2022, aim to adopt the AN-PBO Charter and Logo, and appoint Executive Council
- 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

Research and analysis outputs for the year

Annual outputs

Some of the research and analysis produced during the year

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 Budget Policy Statement (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 amends or rejects the budget and MTBPS proposals, the PBO provides analysis on economic and fiscal issues to be taken into account
Policy Analysis on National Development Plan (MTSF)- Policy Briefs	Several analyses on the implementation of the National Development Plan, vision 2030 (2019-2024 MTSF) in terms of content, context and progress made with the implementation
Quarterly Economic and Fiscal Briefs	Quarterly Economic Brief, the PBO provides parliament with an analysis of the economic outlook as the economic performance affects public finances outlook. Fiscal Brief appraises MPs on the status of the 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 on government forecasts	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 trends and including the 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 implications. 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
Costing Estimate Analysis	Traditional costing models have largely focused on the fiscal implications of the policy and have not sufficiently accounted for the macroeconomic, socioeconomic and environmental effects of policy. The Office costing model proposes a framework in which fiscal implications are considered in tandem with macroeconomic effects, socioeconomic implications and environmental considerations

Research and analysis from January 2022

- The Office research and analysis are circulated to Committees and are available to support Committees and MPs. Some of the Office analysis and research for the current year include

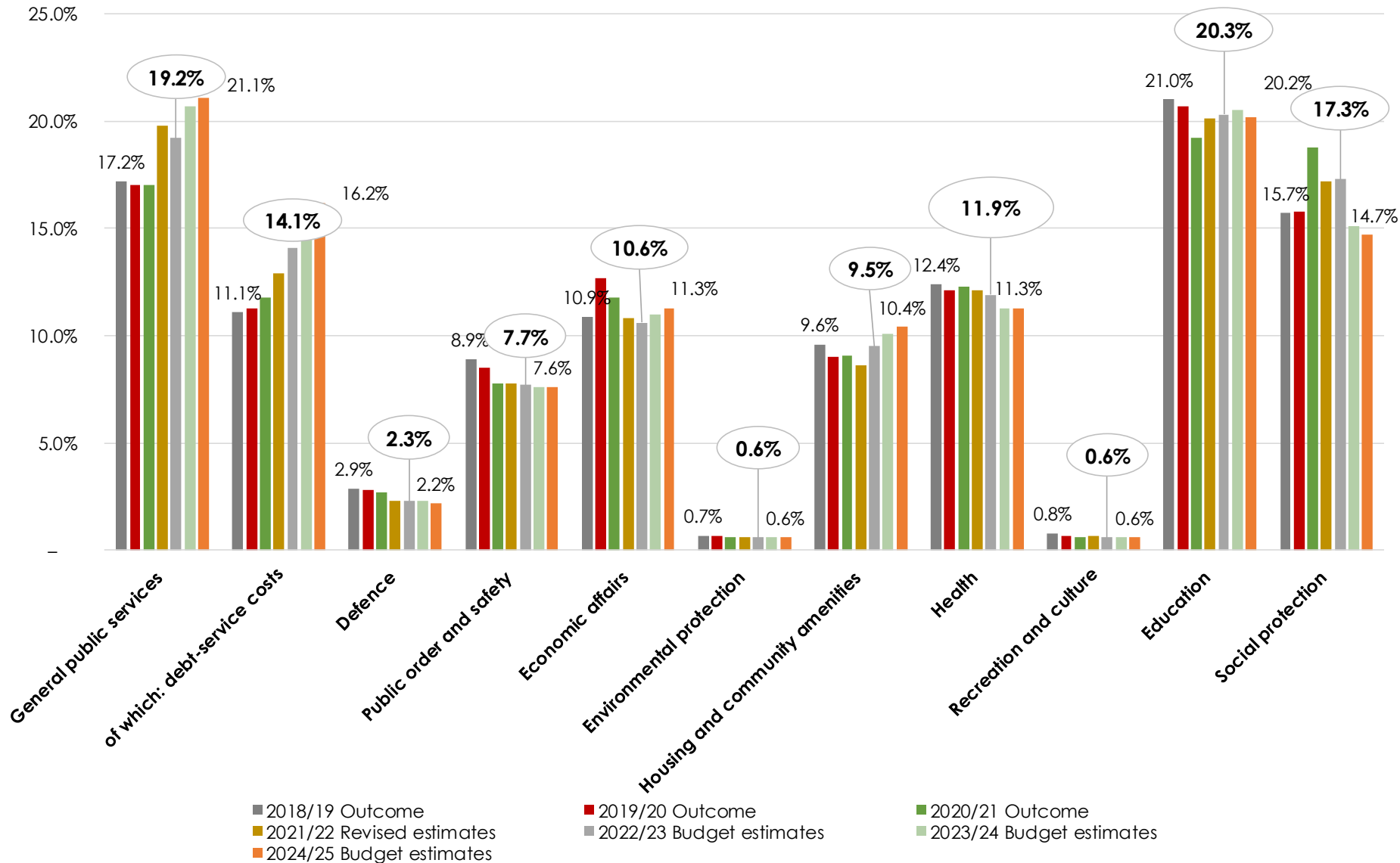
1. 2022 Budget Analysis

Progress on the 2019-24 MTSF

- **Governance in Public Sector:** The large number of service delivery protests show that there are concerns amongst citizens regarding the delivery of basic services. South Africa scored 44/100 and was ranked 69/180 in the 2020 Transparency International ranking. The 2024 MTSF target is to reach a score of 68/100
- **Education and skills:** South Africa has made progress to realise the International Mathematics and Science Study (TIMSS) targets. However, the progress is insufficient for the 2024 MTSF Targets
- **Health:** Progress has been made in improving life expectancy of South Africans. However, government is still lagging behind 2024 MTSF Targets. The high level of poverty and inequality has continue to undermine government' ability to improve child mortality and severe acute malnutrition
- **Social Protection and Safety and security:** Social grants remains one of the most important tools to support low income households. More than 18 million recipients are currently supported by the social grants system in South Africa. The economic impact of serious corruption in the public and private sectors may be difficult to accurately determine but the reputational damage to the country is evident. The COVID-19 pandemic has heightened the vulnerability of certain groups that are exposed to Gender Based Violence and Femicide (GBVF), in particular women and children
- **Social Cohesion:** South African human development index has regressed over the recent years. Government requires more effort to realise the 2024 MTSF targets in regards to human development index

Spending priorities for the 2022 MTEF

Proportion of the consolidated budget spent and estimated per function group (nominal)

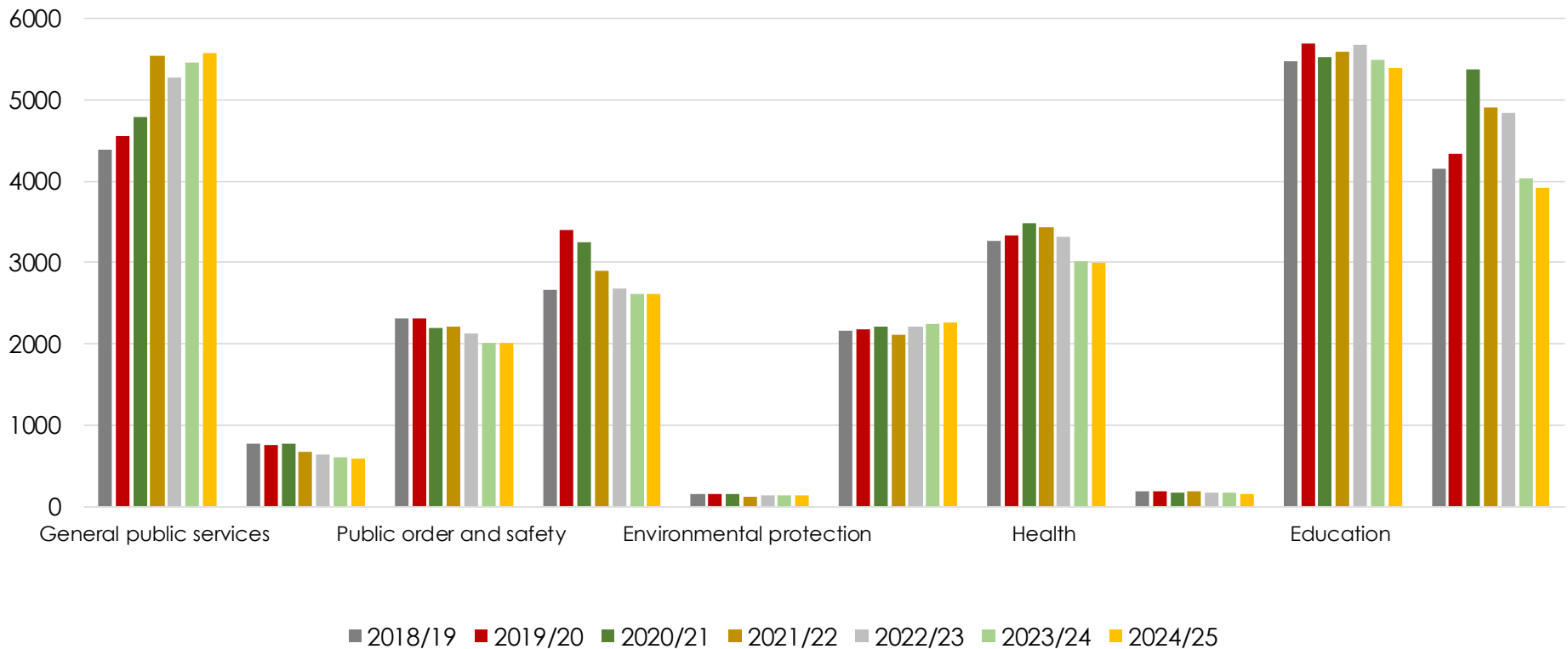


Note: The consolidated budget includes the main budget framework and spending by provinces, social security funds and public entities financed from their own revenue sources.

Change in real per capita expenditure per function group

- When taking into account inflation and population growth:
 - Spending per person declines in real terms for the majority of the functions over the medium term with the exception of general public services, economic affairs, housing and community amenities
 - Despite the increases, economic affairs in 2024/25 (R2 621) will be lower than in 2019/20 (R3403)
 - Environmental protection increases between 2022/23 -2024/25, however the slow increase remains below pre pandemic levels.

Real per capita total consolidated expenditure by function group (2016=100)



Research and analysis from January 2022

2022 Budget Analysis- continued

- The slow down in expenditure growth is visible throughout the budget framework, specifically the cost of employment
- The analysis of the functional budget structure over the years shows the effect of the high proportion spent on debt-service on the other functions provided by government
- Analysis of the proportions of government spending on the economic sectors shows a shift away from current expenditure towards capital expenditure
- Gross debt as a share of GDP is expected to be steady during the current MTEF, and start to decline from 2025/26. This is a significant improvement from 2021 Budget
- A budget surplus and lower debt levels do not mean increased macroeconomic stability and growth in business confidence, particularly given the severity of the triple crisis in South Africa (Unemployment, Poverty and Inequality)
- The government's structural reforms are slow and inadequate to boost growth and achieve meaningful macroeconomic stability over the medium and long term
 - The economy remains concentrated (both markets and wealth)
 - Wealthy individuals, institutional investors (such as pension funds) and financialised non-financial corporations are not adequately allocating money towards real sector investment and job creation but to financial activities inside and outside South Africa
 - At the same time, deregulation of controls are allowing institutional investors to take much more money out of the country

Research and analysis from January 2022

2022 Budget Analysis- continued

- Extreme unemployment and inequality, continued spatial apartheid, corruption, state capture, and poor service delivery performance means that the percentage spent on the social wage is an inadequate indicator (just like GDP). For example;
 - Real per capita spending on almost all functions is expected to decrease
 - Education outcomes worsen as the expected student to teacher ratio increases
 - Real per capita social protection spending is expected to decline, even though, (i) childhood stunting has been 27 per cent since 1998; (ii) children in female headed households were more likely to go hungry during the pandemic; (iii) StatsSA reported that 13.7 per cent of African and 0.5 per cent of white children suffered from hunger in 2020
- Richer household are better able to benefit from social wage spending while spatial inequality means they also have access to better public infrastructure and services
- In short, the portion spent on the social wage does not necessarily tell us about redistribution and building resilience in our country
- A comprehensive social security system may not only improve nutrition of the poorest households but could also improve their ability to benefit more from basic services
- Economic recovery and reconstruction has to be inclusive and 'not return the country to the crisis before the crisis'
- A new economic growth path built on increasing the well-being and buying power of the poor majority will enhance the ability of millions of unemployed South Africans to more effectively contribute to the economic future of the country

Research and analysis from January 2022

2. Office policy briefs-

• **Policy Brief Performance on Transport Conditional Grants**

- Analysis revealed that most of the provinces failed to comply with the requirements of the Presidential Employment Stimulus Package (e.g. WC, NC, Limp, KZN)
- Our analysis has further revealed that there is generally underspending on various Transport Grants,

• **Policy Brief Performance on Health Conditional Grants;**

- Delivery on infrastructure projects remains one of the biggest failures in the health sector
- Information systems for controlling stock, managing dispensing, patient registration and data capture are still not in full operation in the health sector
- The reimbursement of doctors to provide services prevents patient from accessing specialist services

• **Policy Brief Performance on Agriculture Conditional Grants,**

- Although the EC, FS, MP, NC have underperformed on some on the Ilima or Letsema targets, their budgets have been spent. Limpopo underperformed, but also underspent. NW performed according to their targets, and even over performed on most of the outputs while underspending

• **Policy Brief Performance on Basic Education Conditional Grants,**

- COVID-19 lockdown has resulted in delays in the implementation of a number of grant activities with cost drivers
- There is generally underspending in various grants within the basic education function **23**

Research and analysis from January 2022

3. Tax Brief - 2022 Taxation and Revenue Proposals

- Inflationary adjusted relief through a 4.5 per cent adjustment in personal income tax brackets and rebates. Provided relief to taxpayers (or affected employees) in the context of inflationary pressures. However, the Office is concerned that the relief disproportionately benefits upper-income households. Therefore, the distributional impacts of these income tax measures may be insufficient
- The government proposed to broaden the Corporate Income Tax base while reducing the headline rate from 28 to 27 per cent. The Office cautioned that, the research literature has shown that South African corporate taxpayers enjoy a very low Effective Tax Rate (ETR). PBO is concerned that there is no consensus on the causal relationship between lower CITs and investment
- The PBO is concerned that despite the continued implementation of the Employment Tax Incentive (ETI) over the years, the real impact and benefits remain debatable. Various research evidence shows that, generally, the ETI has had little to no impact on creating employment for young people. However, the evidence shows that the ETI impacts business profitability positively, particularly for SMMEs, although it remains unclear whether the incentive saves jobs
- For the first time in as many years, the 2022 Budget has not proposed an increase in the fuel levy. This choice will provide significant relief for many households, which is vital given that the fuel price has since increased significantly in response to deteriorating global and domestic macroeconomic conditions

Research and analysis from January 2022

4. Brief on Business Bounce-back Support and the Credit Loan Guarantee Schemes for Small, Micro and Medium Enterprises (SMMEs)-

• **SMMEs challenges and concerns –**

- Limited access to finance and credit given their perceived risk profile by financial institutions
- Inadequate supply of infrastructure, where the lack of access to physical infrastructure is a key impediment to business growth and adds significantly to the cost of doing business
- Late payments for services provided by both the public and private sector which affects the cash flow of small businesses in particular
- Bureaucratic inefficiencies and regulatory constraints, such as delays in the time required to obtain permits and licenses, a lack of coordination in government SMME program planning and implementation, onerous labour laws, etc.
- A poor macroeconomic environment which limits enterprise growth
- High crime levels which force SMMEs to increase security spending but also drags on investment confidence
- Lack of access to markets, where small businesses located in rural areas are at a disadvantage compared to their urban counterparts

Reasons for failure to realise the original scheme's objectives

- Banks insisted on personal surety from business owners before granting them loans, even though loans were government-guaranteed
- Banks did not have an incentive to disburse the loans given that they could not profit from them. The 3.5 per cent margin was used to provide funding for losses
- The scheme failed to address the requirement to ease creditworthiness assessments, whilst failing to ensure that banks could provide credit in a responsible manner to candidates deemed able to repay the loans.

Research and analysis from January 2022

4. Brief on Business Bounce-back Support and the Credit Loan Guarantee Schemes for Small, Micro and Medium Enterprises (SMMEs)-

Key areas of oversight for consideration (Bounce-Back Support Scheme)

- Financial institutions are inherently risk adverse towards SMMEs. As a customer segment, SMMEs represent one-fifth of global banking revenues but lending to SMMEs makes up only 8 per cent of the credit exposure of the South African banking sector
- Potential to entrench the misallocation of capital in the South African economy via the financing of large enterprises in sectors such as mining, utilities and professional services at the expense of job-creating small and medium enterprises in sectors such as manufacturing
- Financialisation of the South African and global economy has allowed financial institutions to remain profitable without investing in the real economy
- Despite the easing of some requirements under the new scheme, it is larger formal SMMEs that are the most likely to receive financing, given their administrative and operational capacity to meet the credit criteria of the commercial banks
- SMMEs are expected to have an existing relationship of either lending or transactional banking with banks or development finance institutions, which automatically excludes unbanked businesses
- The scheme lacks a transformation mandate as provided for by the Financial Sector Charter and in line with the ERRP's objective of facilitating economic transformation and empowerment. No evidence that priority is given to businesses that were hit the hardest by the three respective economic shocks (i.e. COVID-19, civil unrest and floods)

Research and analysis from January 2022

5. Briefing on the 2022 Draft Preferential Procurement

- The brief provided an analysis and potential fiscal and economic implications of the Constitutional Court Ruling on the case, *Constitutional Courts ruling on the Minister of Finance vs Afribusiness NCP CCT279/20 - February 16, 2022*.
- In response to the majority judgement of the Constitutional Court (Feb 16, 2022), the government has drafted Preferential Procurement Regulations (draft PPR 2022) and requested public comments on the draft.
- This application was brought by the Minister against Afribusiness NPC about the validity of the PPR, 2017, which the Minister promulgated on 20 Jan 2017 in terms of section 5 of the PPPFA
- Parliament should be concerned that there is a lack of evidence that government had discussed or agreed PPR 2022 with other government departments – and in particular, with other economic clusters - before the drafted regulations had been publicly released for comment.
- The government has chosen to omit regulations providing for local production and content (i.e., Regulation 8 of the 2017 Regulations) because they interpret these rules to be “outside of the Ministers regulation-making authority” and are concerned that they might be successfully challenged in court.

Research and analysis from January 2022

5. Briefing on the 2022 Draft Preferential Procurement

In the light of draft PPR 2022, the Parliamentary Budget Office has raised the following key matters for the consideration of Parliamentary oversight:

- The Constitution requires national legislation to prescribe a framework for organs of states to implement preferential procurement
- A fragmented Preferential Procurement Framework will delay realisation of nationally coordinated policies like BBBEE, Industrial Policy and other development policies
- Due to a lack of capacity and efficient application, organs of state have always relied on the preferential procurement system prescribed by the Minister of Finance
- Requesting each organ of state to take its own approach to preferential procurement constitutes divergence from international norms
- The omission of Local Procurement and Content requirements in the 2022 draft PPPFA has far-reaching implication for industrial policy (Industrialisation) in South Africa
- Foreign and domestic investors have invested and created jobs in South Africa because of the government's preferential procurement regulations
- Omitting local content may lead to organs of state procuring imported goods instead of domestically-produced goods

Activities currently underway/planned - 2022

The Office research and analysis underway also in preparation for the 2022 MTBPS

- Basic Income Grant and economic and societal impact
- Costing estimate analysis- Earlier Child Development
- Rising cost of living in light of worsening global and domestic macroeconomic situation
- Energy security
- Assessing performance national departments 2021-22
- Progress on Economic Recovery and Reconstruction Plan (ERRP)
- Mid-term updated on the progress made to achieve the 2019-2024 MTSF Targets

Thank you!

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Accountability line for the Director

Parliament Executive Authority

Speaker of the National Assembly, and
Chairperson of the National Council of Provinces

Parliamentary Budget Office Advisory Board:

- 2 Houses Chairpersons (NCOP and NA)
- 2 Finance Committees Chairpersons (NCOP and NA)
- 2 Appropriations Committees Chairpersons (NCOP and NA)

Parliamentary Budget Office
Director

Current Positional Structure

