



SPEAKING NOTES

Co-operative Governance and Intergovernmental Relations Workshop

Topic: Intergovernmental Relations and the Fiscal Framework: Coherence and Meaning to the Oversight Role of Parliament

2 February 2022

Honourable members and all colleagues present this morning, good morning.

The intergovernmental system is based on the principle of cooperation between the three spheres of government. It's design and functioning derive from the Constitution which: establishes the three spheres of government; assigns them functional responsibilities; prescribes a legal framework for fiscal relations and enjoins the three spheres to cooperate on policy, fiscal and other matters.

The principles that underpin the intergovernmental system

This system is quite complex but continues to evolve as better modes of cooperation and coordination emerge. As we collectively work to improve the intergovernmental system, we must endeavour to always uphold the key principles that underpin it:

- (1) First and foremost is **accountability** - each sphere has specific constitutionally defined powers and responsibilities, is accountable to its legislature or council, and is empowered to set its own priorities.
- (2) **Transparency and good governance** are the means to accountability and so transparent reporting arrangements within and between spheres is critical.
- (3) **Mutual support** - national and provincial governments have a duty to strengthen the capacity of municipalities; and must also act cooperatively towards each other.
- (4) **Redistribution** – while redistribution primarily remains a national function, where provinces and municipalities undertake it, they should endeavour to do this in a way that does not undermine economic activity and their financial viability.
- (5) **Vertical division** - determining allocations to each sphere of government inevitably involves trade-offs that are made in the course of a comprehensive budget process driven by political priorities, and which covers all aspects of governance and service delivery. Separate and ad hoc requests for funds fragment the coherence of the budget and undermine the political process of prioritisation.
- (6) **Revenue-sharing:** The fiscal system must take into account the fiscal capacity and functions assigned to each sphere. The system of national transfers must be simple and comprehensive and not compensate provinces and municipalities that fail to collect own revenues.
- (7) **Broadened access to services:** broadening access to services should remain a top priority in policies of the respective spheres.
- (8) **Responsibility over budgets:** Each sphere of government has the right to determine its own budget and the responsibility to comply with it.

Influencing decisions in the budget process

The intergovernmental system depends on well-coordinated policy, planning, budgeting, implementation and reporting. This is necessary both within and between spheres; and I think we can all appreciate how challenging this is, especially for a decentralised system like ours, where the responsibility for many key functions is shared between two (or three) spheres of government.

The National Treasury is therefore very appreciative of the well-established technical, executive and legislative consultative forums. Through these forums, we're able to achieve deepened participation of key stakeholders in the budget process; and to ensure the alignment of sector planning and the national, provincial, and local budget processes. Among these are political structures such as Extended Cabinet, the President's Co-ordination Council, Budget Council, Budget Forum, MinMECs and several technical structures comprised of senior officials which provide technical support to the political forums.

These structures go a long way in shaping policy and resource allocation decisions.

Parliamentary and legislature oversight of public finances

Constitution and exercising oversight

Both Houses of Parliament and provincial legislatures have a very unique role in the processing of legislation and oversight over their implementation. The Constitution vests the National Assembly and provincial legislatures with the power of oversight over their executives." Provincial legislatures are provided in terms of section 114(2) responsibility for overseeing provincial executive organs of state. The NCOP is responsible in facilitating intergovernmental relations (co-operative government).

Whilst the legislative powers of Parliament and provincial legislatures are important for the approval of budget legislation, just as important, if not more, is **oversight with regard to monitoring and evaluating the performance of departments and public entities**. This is particularly important for the process of considering annual reports, which needs to be formalised in the same way as Parliament and provincial legislatures have formalised their budget approval processes.

The Constitution also recognises that legislatures have a critical role to play in overseeing better performance in the delivery of services. This requires well capitated portfolio committees so that they can effectively hold departments to account for their performance, using their budget documents, strategic plans and annual reports.

The PFMA and MFMA give effect to management reforms that place greater implementation responsibility on managers in the public service and make them more accountable for their performance. In the first instance, it is left to the executive authority (Minister or MEC) or Executive (Cabinet or EXCO) to resolve any management failures – however, thereafter, the National Assembly and provincial legislatures are vested with the power to oversee both the administration and the executive.

In-year monitoring

In-year quarterly reports allow Parliament to monitor performance during the financial year. The main objective for producing this information is to enable Parliament and national and provincial executives to hold government departments accountable for their performance. In-year oversight is facilitated by the gazetted monthly reports required in terms of section 32 of the PFMA.

Whilst the monthly reports are more important as a management tool, the quarterly financial reports (including gazetted section 71 MFMA reports) can be used by legislatures as part of an in-year monitoring mechanism. In provinces, most finance portfolio committees have hearings to discuss each quarterly financial reports. Sectoral portfolio committees can also use the quarterly performance reports to assess in-year performance of departments.

Annual Reports

Annual reports are the key reporting instruments for departments to report against the performance targets outlined in their annual performance plans (APPs) that are published along with the budget. Annual reports therefore should contain non-financial service delivery information, in addition to financial statements and the audit report.

The challenge facing government is to ensure that departments provide good quality non-financial service delivery information in their APPs with tight performance targets, to then ensure that such departments report against those targets in their annual reports.

Role of Public Accounts Committees

Public accounts committees have an important role to play in each legislature, as they deal with the serious financial management problems not dealt with by the Executive or other portfolio committees. In particular, they ensure that all departments and public entities address the problems raised by the Auditor-General during the financial audit process. These remain critical as the public the ultimate watchdog overseeing sound financial management throughout national government.

Intergovernmental role of NCOP

As stated previously, the NCOP being a House dedicated to considering provincial and local government matters and is given an important role in facilitating intergovernmental arrangements. This is particularly important for the budget process, where around 50 per cent of non-interest spending takes the form of transfers to provinces and municipalities. Provincial legislatures has an important role to play with regard to approving legislation, particularly section 76 legislation for intergovernmental or concurrent Schedule 4 functions.

On the legislative side, the NCOP plays a crucial role with regard to the consideration of the Division of Revenue Bill, which is processed in terms of section 76(1) and (4) of the Constitution (and also the requirements of the Money Bill and Related Matters Act). The division of revenue process is central to budget allocation and gives effect to section 214 of the Constitution. For the same reason, the NCOP also plays a big role in considering the annual recommendations of the Financial and Fiscal Commission. Given that the Constitution requires that the Division of Revenue Bill must be tabled

in the National Assembly first in accordance with section 76(4), the National Assembly passes this Bill first, leaving it up to the NCOP to process the Bill in greater detail.

Closing

In closing, I reiterate the importance of:

- I. Well-coordinated sector planning and deepened participation of all relevant stakeholders in policy development and the budget process to ensure that adequate resources are allocated for the achievement of national priorities, in a cooperative manner within and between the three spheres of government; and
- II. Adherence to the framework for monitoring and accountability to enable parliament, legislatures, and their committees to play their oversight role. Ensuring that all executive organs of the state are accountable for their actions or inaction; and that all three spheres make efficient and effective use of scarce resources is a very difficult task.