

YOUR GUIDE TO THE **BUDGET 2023**

#BUDGETSPEECH2023



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THE BUDGET PROCESS

Every July, Parliament votes to approve annual departmental budgets, which is the money allocated to departments for the implementation of their annual performance plans. The Minister of Finance announces the departmental allocations in February in Parliament after the State of the Nation Address.

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 Appropriations Bill, plus a number of accompanying documents.

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

Then, to make it even more complicated, at any one time during the budget process, three simultaneous budget phases are underway. Parliament and government departments (the executive) plan for months in advance the budget for the following year, implementing the current budget while continuously monitoring it for delivery and compliance with policy, and

evaluating and auditing the previous budget. Our budget cycle is so complex because it comprises three ongoing, intersecting loops.

Nonetheless, it is crucial to good governance because the budget process ensures that government expenditure 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 in service delivery. The process holds government departments accountable for their expenditure and gives Parliament and the citizens it represents an opportunity to make their own demands and interventions.



THE BUDGET PROCESS, STAGE BY STAGE

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**
- 4. Auditing and assessment.**

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

During stage 1, the 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 the policy framework that underpins policy decision-making for the next 20 years.

The guidelines from the National 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 (Sona) where the President outlines national priorities and gives an indication 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 any unspent funds in a department and decisions must be made as to whether these can be “rolled

over” to the next budget. Roll-over requests must be formally made to the 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 Amendment Act 13 of 2018. This Act allows Parliament to amend the budget.

Probably the most important tools Parliament uses for this purpose are the Budgetary Review and Recommendations Reports (BRRRs). These reports require committees to annually assess government performance and audit outcomes, but they also allow the National

Assembly (NA) to make proposals on the forward use of resources. The BRRRs provide an assessment of every government department's service delivery performance given their allocated resources. They also report on whether expenditure has secured value for money and make recommendations on revised allocations where necessary.

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 allows Parliament to influence budget developments over the medium term.

2. LEGISLATIVE PROCESS

The second phase of the budget process is the legislative stage when the budget package is tabled in the NA 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 and the Division of Revenue and Revenue Proposals. When these are adopted by Parliament, portfolio and select committees consider the various departmental allocations. The NA 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 group 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 NA and to some extent the National Council of Provinces (NCOP) 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. AUDITING AND ASSESSMENT

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, such as 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. The 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 the 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, rolled over allocation letters will be issued to departments.

MAY TO JUNE National Treasury issues the Medium Term Expenditure Framework (MTEF) budget guidelines, and request 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’ budget are considered.

AUGUST The Minister’s 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 Recommendations 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 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 receives the BRRRs from Parliament and considers how these impact on the budget and the MTEF. These reports are analysed and a response to Parliament is prepared.

FEBRUARY It is at this point that the Budget – comprising 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.

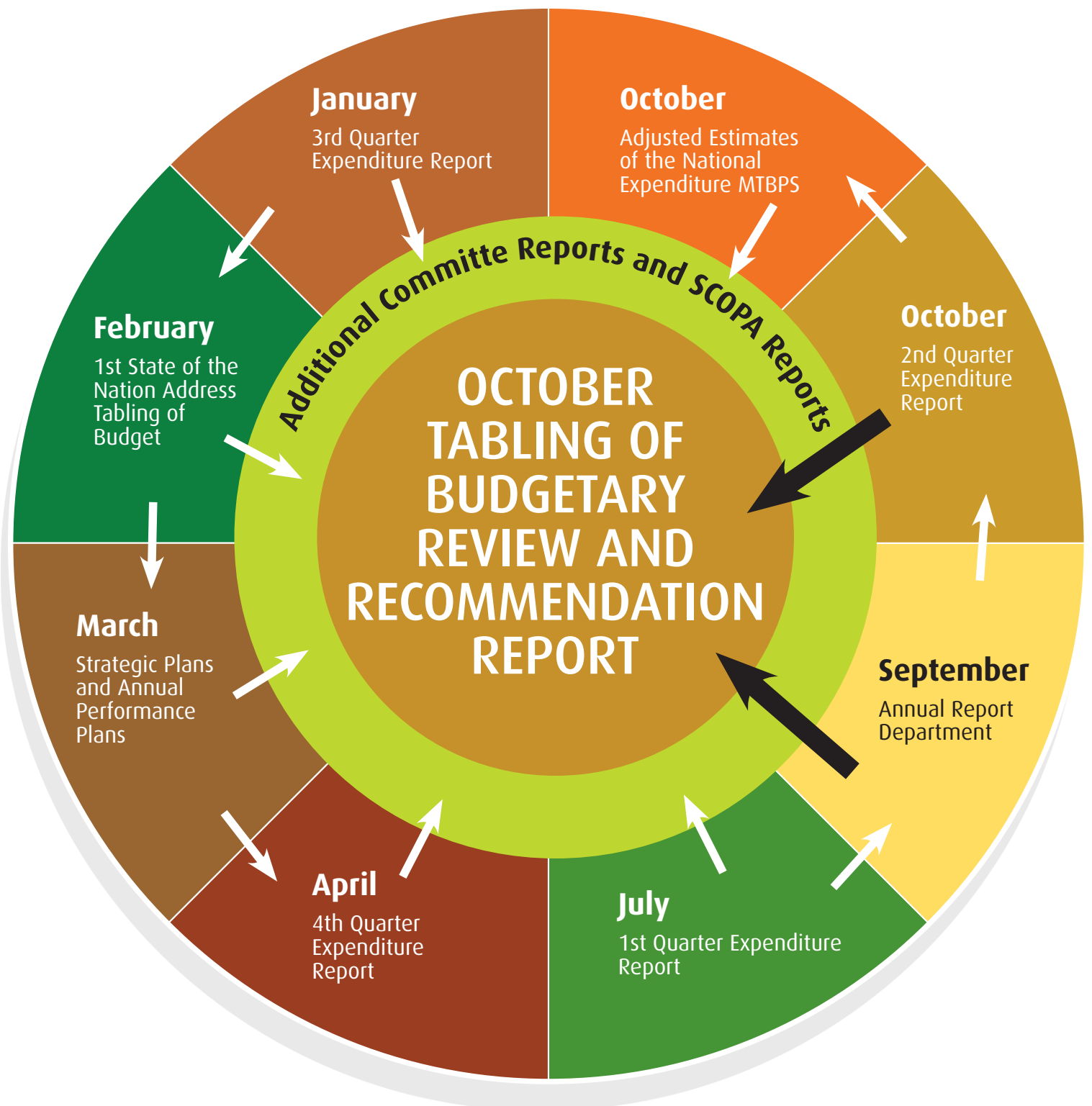
MARCH The National Assembly (NA) and the National Council of Provinces (NCOP) refer the fiscal framework to their respective finance committees. Parliament also considers and adopts the Division of Revenue Bill for the upcoming year. The public are invited to make inputs on both these instruments. Thereafter, Parliament 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 Money Bills, have been passed, funds can be allocated to government departments and other entities funded by National Treasury. Government plans and projects can also be implemented

and carried out for the duration of the financial year. Throughout this time, Parliament continues to monitor and review government departments' expenditure.

DECEMBER Government spending is subjected to a rigorous auditing process to measure whether public

resources are being used efficiently. The final budget documents are reviewed by independent audit institutions, such as the Auditor-General. The findings of the audit are submitted to the legislature, which is responsible for holding government departments accountable for its execution of their budgets.





LEGISLATION AND THE BUDGET PROCESS

Several pieces of legislation govern the budget process. The Bills are debated by Parliament before they are signed into law by the President.

The Division of Revenue Bill

This Bill provides for the equitable division of revenue raised nationally among the national, provincial and local levels of government for the financial year. It also determines each province's equitable share and allocations to provinces, local government and municipalities from national government's equitable shares. Furthermore, it spells out the responsibilities of all three levels of government, 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 Bills.

THE IMPORTANCE OF OVERSIGHT

A number of processes take place to ensure oversight over public-sector expenditure and performance. South Africa has an Auditor-General, who is responsible for auditing government departments' financial and non-financial performance.

The finding of these audits are reported to Parliament. Parliament's Standing Committee on Public Accounts ensures that the issues

raised by the Auditor-General 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.



PARLIAMENT AND THE BUDGET PROCESS

The budget process is one of the critical instruments that Parliament uses to conduct oversight over the executive. This oversight role protects the public purse. According to staff of the Parliamentary Budget Office (PBO), 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. According to the PBO, Parliament's 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 is to ensure that all plans are in line with 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's oversight. Parliament can also use the Auditor-General's report to see how recommendations of the NDP are integrated into government plans.

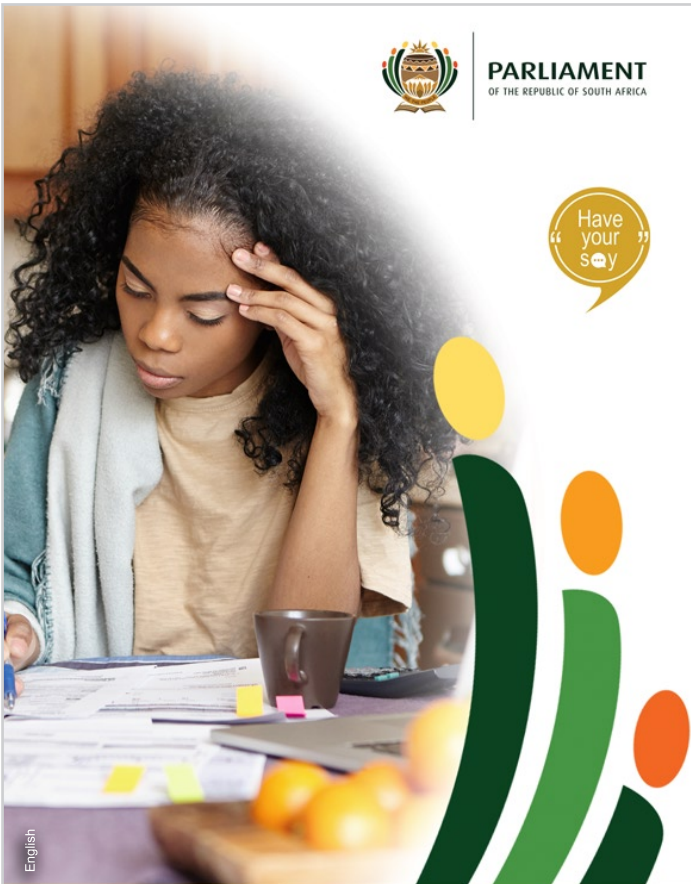
The parliamentary work in the budget process really begins with the adoption of the Budget Review and Recommendation Reports (BRRRs) and the Medium-Term Budget Policy Statement (MTBPS). In this stage, Parliament analyses and assesses the macro-economic forecast, the fiscal framework, policy priorities and revenue, and expenditure trends and estimates. It does this by scrutinising individual government department budgets to detect historic trends on efficiency, effectiveness, responsiveness to need and alignment of policy and plans with the NDP.

During the legislative phase of the budget, the National Assembly, the National Council of Provinces and provincial legislatures debate budget votes with the involvement of interest groups and

civil society, the media and the general public. This is to ensure that they reflect national priorities, and accommodate 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. Parliament's committees oversee the in-year and year-end monitoring processes. This includes site visits and public hearings. Rigorous in-year parliamentary monitoring has the potential to minimise poor performance by the executive 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 Auditor-General for auditing. Parliament can make use of reports produced by the National Treasury and the Auditor-General to hold the executive to account on their performance and finances.



The Role of Parliament in the Budget Process

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What is the Budget?

The budget is a key statement of government policy with a financial plan. Financial choices are made about competing priorities to ensure fiscal sustainability, allocative efficiency and value for money through this process.

Main functions of the budget

- The National budget is a public document and a key tool to hold government accountable;
- Resources must be allocated to where identified priorities are; and
- Spending, taxation and borrowing must support economic and social objectives.



Where and when is the Budget tabled?

The budget is tabled by the Minister of Finance in the National Assembly in February every year, two weeks after the State of the Nation Address (SONA). Some of the bills tabled on the day by the Minister are:

01

The Division of Revenue Bill which specifies how the money will be divided among the three spheres of government for the coming year.

02

The Appropriation Bill which sets out how the money will be divided among national departments and state institutions.

03

The Income Tax Laws Amendment Bill which indicates the changes to the different tax laws so that the government can raise the income.



The Role of Parliament in the Budget Process

What is Parliament's role in the Budget Process?

Parliament is elected by the people to represent the people and therefore it authorises the executive to spend, tax and oversee executive action on behalf of the people of South Africa. Through effective oversight of the executive, South Africa can address poverty, inequality and unemployment, which are key objectives of the National Development Plan's Vision 2030.

NB: The Budget is not just about numbers and statistics; the budget is about ensuring service delivery to the people.

Parliament is mandated by:



Section 77 (3) of the Constitution of the Republic of South Africa, 1996 that states: "All money Bills must be considered in accordance with the procedure established by Section 75".



The money Bills Amendment Procedure and Related Matters Act of 2018 authorises Parliament to amend the budget.

The Budget Process

The national and provincial budget process is a continuous cycle of four stages that runs for a financial year beginning in April and ending in March the following year.



Budget stages

1 Drafting: Parliament influences this stage indirectly through its oversight work for example, through the Budgetary Review and Recommendation Reports (BRRRs). These reports require committees of Parliament to annually assess government performance and audit outcomes.

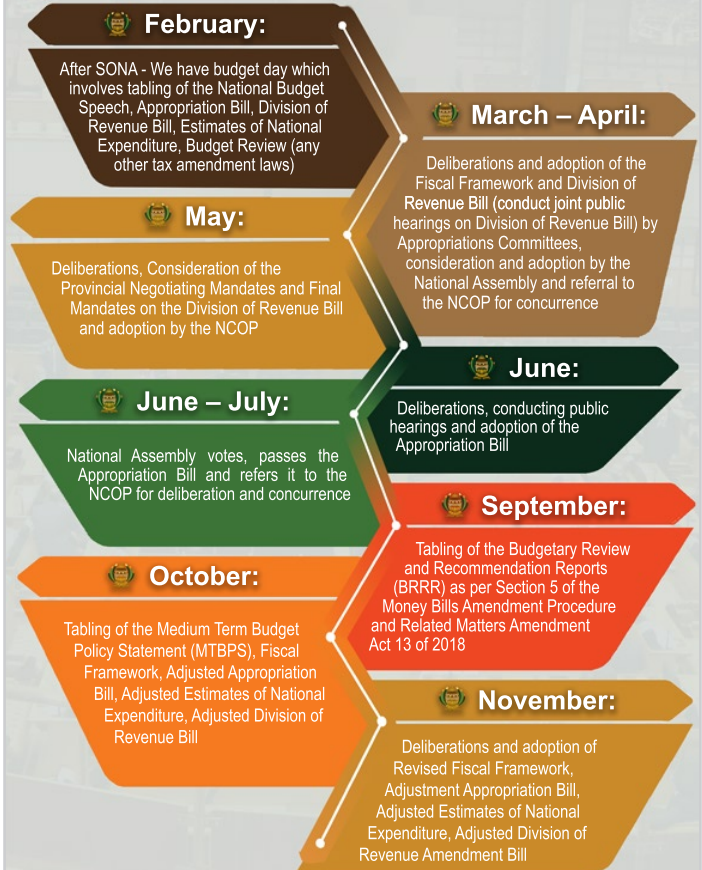
2 Legislative process: Parliament considers, debates and makes recommendations, before approving money and related Bills tabled by the Minister of Finance.

3 Implementation: Parliament will monitor how government departments and organs of state use their budgets.

4 Auditing and assessment: At this stage, Parliament monitors spending and performance of government departments and organs of state for the financial year. Parliament considers:

- Annual reports from the Auditor-General.
- In-depth analyses and oversight reports by committees of Parliament e.g. Standing Committee on Public Accounts, Appropriations and Finance Committees.

Budget Process in Parliament



Public Participation in the Budget

After the tabling of the Budget, the committees of Parliament on Appropriation and on Finance must conduct public hearings with relevant stakeholders. Submissions from stakeholders are received and considered by the committees. After the public hearings, the committees prepare a report and table it in the National Assembly that further scrutinises expenditure and revenue proposals.

Did You Know?



A Bill is a Money Bill if it:

- appropriates money;
- imposes national taxes, levies, duties or surcharges;
- abolishes, reduces, or grants exemptions from, any national taxes, levies, duties or surcharges; or
- authorises direct charges against the National Revenue Fund, except a Bill envisaged in section 214 authorising direct charges.

Glossary of terms

Appropriation: is when money is set aside for a specific and particular purpose.

Fiscal sustainability: refers to the ability of government to sustain spending, tax and other policies in the long run without threatening government solvency or defaulting on liabilities or promised expenditure.

Allocative efficiency: ensures that resources are allocated where the need is greatest or where the utility (advantage or fulfilment from using the resources) is maximised.

Surcharges: is an extra fee, charge, or tax that is added on to the cost of goods or services, beyond the initial quoted price.



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2023 BUDGET TIPS – MAKE YOUR VOICE COUNT

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The Minister of Finance, Mr Enoch Godongwana, will deliver the National Budget Speech on 22 February 2023. As usual, the budget allocation always aims to strike a balance between competing national spending priorities and limited resources.

It is in this context that Minister Godongwana invites South Africans to share their suggestions on the Budget. People may submit views on:

- municipal finances
- government spending priorities and what these should be
- addressing a large budget deficit
- stabilising State-Owned Entity finances
- managing the energy crisis
- tax revenues
- debt sustainability

Minister Godongwana looks forward to your contributions.

Contributions can be sent through to:

National Treasury website here: <https://bit.ly/3ruszsi>

Twitter: @TreasuryRSA and Facebook: National Treasury RSA with the hashtag #TipsForMinFin and #Budget2023

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