

2012 South African Budget Guide and Dictionary

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References

Acts

Constitution of the Republic of South Africa of 1996, Act 108
Division of Revenue Act (Annually)
Division of Revenue Bill of 2011, Schedule 2
Intergovernmental Fiscal Relations Act of 1997
Money Bills Amendment Procedure and Related Matters Act 9 of 2009
Municipal Finance Management Act 56 of 2003
Public Finance Management Act 1 of 1999

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Abbreviations

BRRRs	Budgetary Review and Recommendation Reports
CIT	Corporate Income Tax
DOR	Division of Revenue
FFC	Financial and Fiscal Commission
Finance MinMEC	Minister of Finance, Deputy Minister of Finance and the nine provincial MECs for Finance
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
IBP	International Budget Partnership
IGFR	Intergovernmental Fiscal Relations
IGFRA	Intergovernmental Fiscal Relations Act
IMF	International Monetary Fund
INTOSAI	International Organisation for Supreme Audit Institutions
LES	Local Equitable Share
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MinComBud	Ministerial Committee on the Budget
MinMECs	National ministers and provincial MECs
MTBPS	Medium Term Budget Policy Statement
MTEC	Medium Term Expenditure Committees
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategic Framework
NA	National Assembly
NCOP	National Council of Provinces
OBI	Open Budget Index
OECD	Organisation for Economic Cooperation and Development
PES	Provincial Equitable Share
PFMA	Public Finance Management Act
PIT	Personal Income Tax
SAI	Supreme Audit Institution
SALGA	South African Local Government Association
SARS	South African Revenue Service
VAT	Value-Added Tax

Introduction

The purpose of this *2012 South African Budget Guide and Dictionary* is to provide an accurate description of the South African budget system so as to enhance the ability of stakeholders, such as Members of Parliament and civil society, to participate and hold fiscal authorities to account. Additionally, legislative support staff will be able to utilise this Guide as a reference source in their work. Our aim remains fundamentally descriptive rather than evaluative. The reader is provided with a clear sense of the relevant concepts, players and processes in the South African budget system.

Due to a number of developments since 2002 when Alison Hickey and Albert van Zyl compiled the original *2002 Idasa Budget Guide and Dictionary*, we felt it was necessary to publish a revised version with an updated dictionary section. This Guide includes a discussion of the post-apartheid budget reform process, with a more detailed discussion of the Public Finance Management Act and the Money Bills Amendment Procedure and Related Matters Act of 2009. The passing of the latter act is significant as it conferred budgetary amendment powers on Parliament. This Guide provides a detailed description of the contents of this act and its implications for various stakeholders.

Further additions include a section on budget transparency which draws largely on the pioneering work of the International Budget Partnership and its Open Budget Index. Finally, we have included a basic quantitative budget analysis toolkit that enables users to gain a clearer sense of the “story behind the numbers” of the budget.

Saranne Durham and Len Verwey

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Acknowledgement

We would like to thank Albert van Zyl of the International Budget Partnership for contributions to the Transparency and the Budget section, as well as for valuable comments on the Guide in its entirety.

I. Some Budget Basics

The budget is a collection of documents that set out a government's expenditure proposals and revenue-raising intentions for a given period, usually a year.

SOME PRINCIPLES OF GOOD BUDGETING

Comprehensiveness: The budget must cover all the fiscal operations of government encompassing all public expenditure and revenues, to enable full and informed debate of the tradeoffs between different policy options.

Predictability: Spending agencies should have certainty about their allocations in the medium term to enable them to plan ahead. Stable funding flows support departmental planning, and efficient and effective delivery.

Contestability: No item in the budget should have an automatic claim to funding. All policy and attached funding should be regularly reviewed and evaluated in order to ensure prioritization and optimal performance of spending agencies.

Transparency: All relevant information required for sound budgetary decision making should be available in an accessible format, and in a timely and systematic fashion. Budget information needs to be accurate, reliable and comprehensive.

Periodicity: The budget should cover a fixed period of time, typically one year, and the process of compiling the budget should follow a clear and reliable schedule that is agreed upon and published in advance.

Why Do Budgets Matter?

Most economies in the modern world are mixed economies where government is an important player alongside the private sector. What governments spend money on and how they raise that money affects everybody.

The budget can potentially act as a powerful tool for redistribution and development in a society. The budget can also enhance the stability of the total economy.

The budget matters not only in the economic and developmental sense, but also from the perspective of good democratic governance. Simply put, in a democracy the budget should seek to meet the needs of its citizens and to reflect their aspirations. A democracy which does not

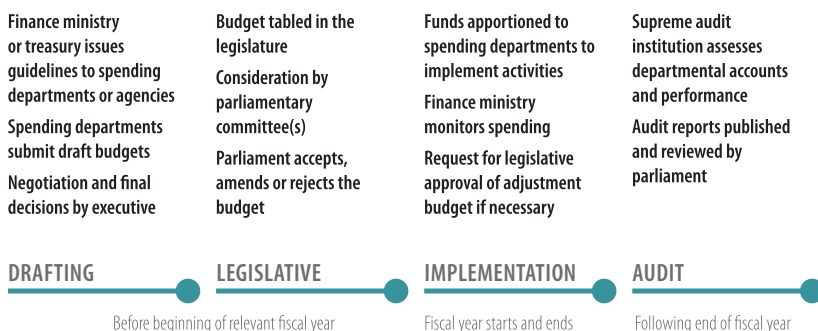
deliver a better life for all through public spending cannot really be regarded as a consolidated democracy.

As a key planning tool, the budget is the vital link that translates policy into delivery through the allocation of scarce resources. The budget is thus an important part of effective accountability. Financial control, parliamentary oversight and broader societal accountability require close engagement with resource allocation and use.

The Budget Cycle

The **budget cycle** can be divided into four conceptually distinct stages:

FIGURE 1: STAGES OF THE ANNUAL BUDGET PROCESS

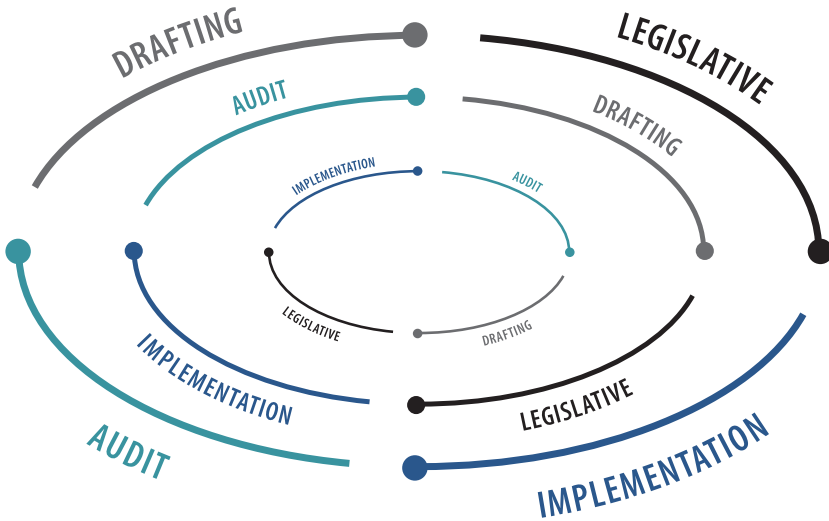


Although these stages are conceptually distinct and will legally fall under the authority of different parts of government, they do overlap in time. At any given point in the fiscal year a future budget is being drafted, the current budget is being implemented, and a past budget is probably being audited (evaluated).

Over the last two decades many countries, including South Africa, have adopted some form of medium term expenditure framework which promotes longer term planning and resource allocation, as well as requiring departments to provide three-year spending estimates in their bids for central funds.

The existence of a three-year planning framework means that the stages of the budget cycle overlap in an even more complex manner, as Figure 1 shows.

FIGURE 2: OVERLAPPING STAGES OF THE BUDGET CYCLE



Budget Policy, Budget System and Budget Impact

It is often useful to distinguish between the concepts of budget policy, the budget system and budget impact.

Budget policy is the articulation of policy priorities and the allocation of resources for achieving these priorities within a Fiscal Framework which then establishes intended total spending, revenue and the budget balance. Budget policy documents typically include the Budget Speech and the estimates of expenditure. Additionally, the Medium Term Budget Policy Statement is a good indication of government policy and intended expenditure.

This dimension of budgeting is like a “front office” in that it is the more visible aspect of budgeting. What we mean by budget policy is usually contained or summarised in the set of documents that make up the budget. These documents may or may not be made public in their entirety, and their accuracy as well as the extent to which they present information in a manner which facilitates participation and accountability varies from country to country.

WHAT MAKES A GOOD BUDGET GOOD?

- A good budget needs to be sustainable; it must find the right balance between addressing the needs of the present generation and ensuring that the needs of future generations will also be met.
- A good budget needs to prioritise the right thing. That is, those goods and services which are most needed to ensure development.
- A good budget needs to be realistic about the resources that are in fact available to government. However, it must also be aspirational, in the sense that a good budget will strive to enhance solidarity and broad ownership of a developmental vision.
- A good budget is democratic, meaning that decisions about resource allocation, as well as oversight of spending and evaluation of budgetary impact, are characterised by transparency, accountability and participation by stakeholders such as legislatures and civil society.

The **budget system** can be thought of as the “back office” part of budgeting. It refers to the set of players and processes that go into the making of budget decisions, and finally, budget policy. Budget policy is the outcome of the budget system. The extent to which a country’s budget system is transparent, accountable and participatory is a key indicator of fiscal governance quality. A budget system with high transparency, accountability and participation will be far more likely to provide the right public goods and services to the right beneficiaries with minimum waste and irregularity.

Budget impact refers to the effect of the budget on society and the economy. Virtually all governments are significant players in their countries’ economies and as such, most budgets have an appreciable impact. But this impact need not be positive and need not be what was intended. Plans and reality can diverge quite significantly. Divergences can be the result of waste and corruption, in-year shifting of funds, as well as unanticipated developments such as poor tax collection or a higher than normal increase in the public salary bill. The manner in which public actions interact with those of private players can also be hard to anticipate. A government may, for example, raise tax rates to finance free schooling and still end up with less tax revenue than before if tax evasion or tax avoidance increases significantly.

The Fiscal Framework

In a mixed economy, where both government and the private sector play roles in the production of goods and services, the scope of government's role in the economy can vary quite markedly. Though the scope of a government's regulatory influence is difficult to measure, the scope of government's narrower role as a provider is usually given as a share of the total output in the economy, or in other words, government expenditure is measured as a share of Gross Domestic Product (GDP).

Government's share of GDP will tend to be broadly similar to the total amount of income generated through taxation, owing to the fact that in the longer run, government can only spend what it raises through tax. Over the short and medium terms, however, deficits may be financed through borrowing, and budget surpluses may even occur!

The Fiscal Framework refers to the broad budgetary aggregates of total revenue, expenditure and borrowing for a given year. It is the interaction of these variables, and the impact of these on the broader economy, which constitutes fiscal policy.

Broadly-speaking, four main sources of government revenue can be distinguished:

- taxes
- service charges
- grants
- loans (i.e. borrowing).

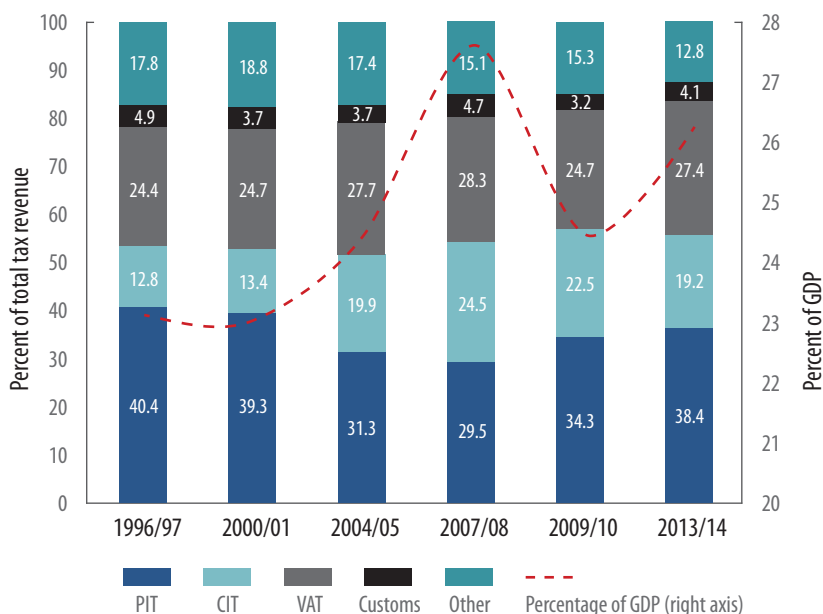
In South Africa, taxes by far make up the largest part of total government revenue. All taxes collected by the national government through the South African Revenue Service (SARS) are paid into the National Revenue Fund.

The three main sources of national tax revenue are:

- personal income tax (PIT)
- corporate income tax (CIT)
- value-added tax (VAT).

In the 2009/10 fiscal year these taxes made up 81.5% of total tax revenue. Changes in consumption and income will affect tax revenues. Generally, the more an economy grows, the more tax can be collected. In real terms, South African tax revenue has increased by approximately 70% between 2000/01 and 2010/11. In absolute terms, then, the South African budget has substantially more resources available for allocation than a decade ago. Since this rate of resource growth is faster than the population growth rate, we can also say that the budget has more available per capita than ten years ago.

FIGURE 3: STRUCTURE OF TOTAL TAX REVENUE 1996/7 – 2013/14



Source: Budget Review, National Treasury (2011: 51)

TABLE 1: TAX REVENUE 2009/10

Tax	R Million	Share of Total Tax Revenue
PIT	205 145	34.3%
CIT	134 883	22.5%
VAT	147 941	24.7%
Total Tax Revenue	598 705	81.5%

The tax burden refers to total tax revenue as a share of the GDP.

Impacting the tax burden are the following:

- higher or lower tax rates
- broadening or narrowing of the tax base (introducing new taxes or improving tax collection)
- growth or contraction in the economy.

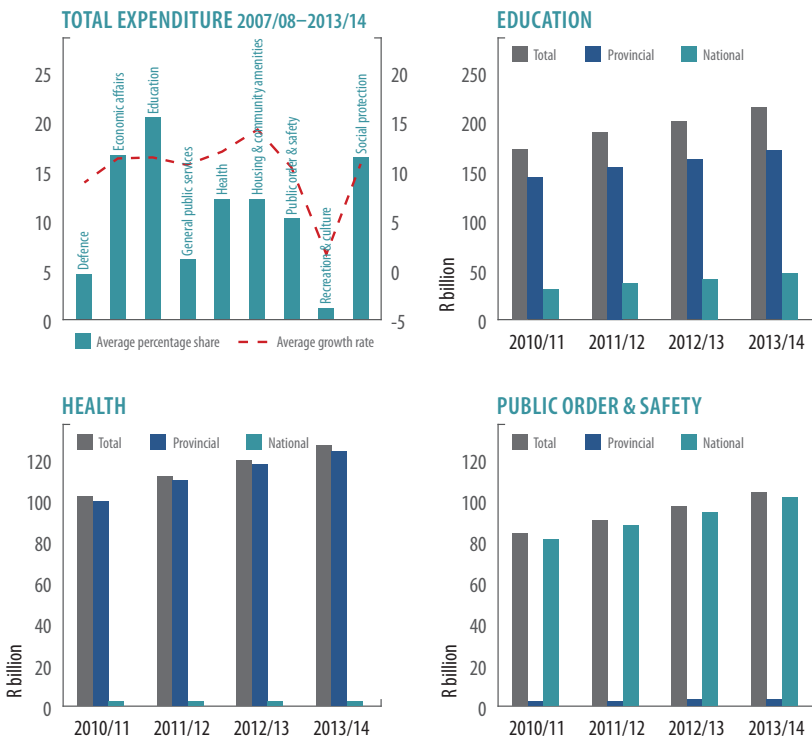
Changes in any of these variables will also tend to alter who bears the burden of financing the budget.

The broad “resource envelope” within which expenditure estimates (budget allocations) are negotiated is dependent on reasonably accurate forecasting of economic growth rates and a sound understanding of how tax bases will vary according to the growth rate.

Getting these numbers right is an important dimension of fiscal policy credibility, as over- or under-estimating growth rates and tax revenue will lead to a divergence between actual and anticipated tax revenue, and thus to larger or smaller than anticipated deficits or surpluses.

Expenditure in the Fiscal Framework refers to all funds in the budget which are appropriated for particular spending purposes, as well as to an initially unallocated contingency reserve.

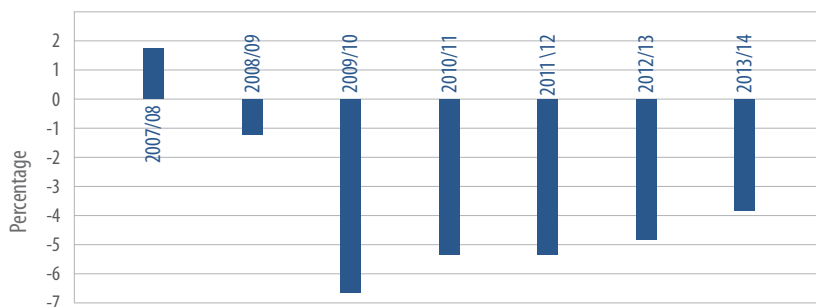
FIGURE 4: TRENDS IN GOVERNMENT SPENDING



Source: Budget Review, National Treasury (2011: 108)

The budget balance is the difference between total expected revenue (tax revenue and other sources, such as charges for government services) and expenditure. While the value of the budget balance can be expressed in rands, its size relative to the economy is more often focused upon. This ratio is a better indicator of fiscal sustainability, given a country's dependency on the availability of economic resources for financing in the future.

FIGURE 5: TRENDS AND FORECASTS IN THE BUDGET BALANCE



Source: *Budget Review*, National Treasury (2011)

A negative budget balance (a deficit) means that, for a given year, planned expenditure exceeded anticipated revenue and that borrowing will be required. A positive budget balance (a surplus) means that planned expenditure is less than anticipated revenue, and that government is contributing to total savings in the economy.

A budget deficit increases the debt stock and the costs of debt servicing, the value of which may vary due to interest rates, and will need to be taken into account in future budgets.

Generally there are two reasons to run a short term budget deficit:

1. As a short term economic intervention to smooth out imbalances between production, income and consumption. In doing this, governments hope that strategic intervention may be sufficient to stabilise economic activity and avoid significant job losses.

In South Africa, government borrowing is primarily through issuing of government bonds. In 2011, most public debt was domestic rather than foreign. To finance new debt issued in 2009/10 and to cover the sizeable deficit of that year, R 177.1 billion in domestic loans were issued and R 23.3 billion in foreign loans.

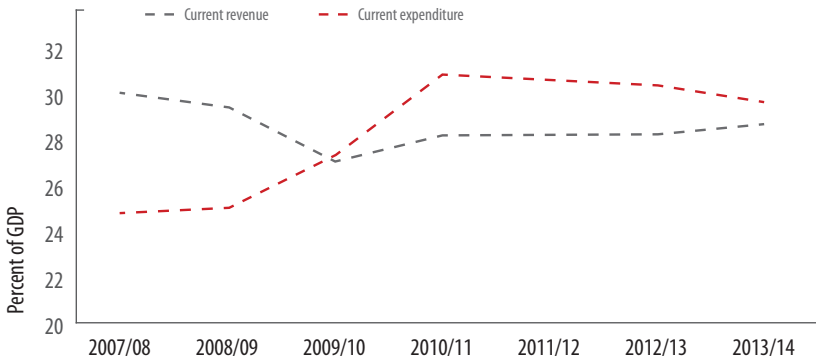
Source: *Budget Review*, National Treasury (2011:84)

2. To allow for inter-generational equity. Since the benefits of many larger public infrastructure projects will be distributed across a number of generations, it is fair for the cost of their financing to also be spread across these generations. Consequently, deficit financing of capital spending in the budget will shift some of the burden of current projects to the future.

TWO FORMS OF THE BUDGET BALANCE

The conventional budget balance represents the difference between total expenditure and total revenue. The current budget balance represents the difference between current revenue and current expenditure. Where borrowing is being utilised to finance predominantly capital spending, the current budget balance may be in surplus whilst a conventional budget deficit exists.

FIGURE 6: CURRENT BALANCE 2007/8 – 2013/14



Source: *Budget Review*, National Treasury (2011: 59)

The budget is a plan, and plans are not always realised. We therefore refer to **budget outcomes** when we wish to talk about what actually happened. In the case of the budget balance, the outcome may diverge from what was proposed because both expenditure and revenue outcomes may be larger or smaller than anticipated.

Multi-Year Budgets and South Africa's Medium Term Expenditure Framework

Budgets have traditionally been defined as a plan for the generation and allocation of resources for a given year. Over the last decade, however, many countries, including South Africa, have introduced multi-year budgets in an attempt to make budgeting more transparent and predictable.

Multi-year budgeting requires that economic forecasts, fiscal policy parameters and spending proposals be conceptualised over a longer period. Often this means the use of a three-year planning horizon. The assumption is that a three-year planning framework will counter ad hoc policy changes, will send clear signals to other stakeholders about the direction of economic policy, and will compel government departments and other spending entities to think about their longer term aims and longer term resource requirements.

In South Africa, a Medium Term Expenditure Framework (MTEF) was introduced in 1997/1998. MTEF allocations are aligned with priorities in the Medium Term Strategic Framework (MTSF) and should give effect to departmental strategic plans. Allocations are the result of discussions by the Ministerial Committee on the Budget (MinComBud) which are based on policy proposals submitted to the Minister of Finance by the departmental ministers.

Though Parliament only votes on the immediate year's budget, the so-called outer year allocations (and the broader three-year projections of economic growth and tax revenue) have proven themselves to be credible indicative values on which to base policy debates.

The Medium Term Budget Policy Statement (MTBPS) can be regarded as the annual articulation of the MTEF, and is presented to Parliament in October each year. Typically the MTBPS document begins with a summary of the medium term economic outlook before sketching fiscal policy proposals and then looking at sectoral allocations.

As part of its emphasis on enhancing Parliament's formal oversight role, the Money Bills Amendment Procedure and Related Matters Act (2009) requires, in Section 6, that the MTBPS include more departmental spending information.

II. Budgeting in Democratic South Africa

The Constitution of South Africa states that “National, provincial and municipal budgets and budgetary processes must promote transparency, accountability and the effective financial management of the economy, debt and the public sector” (Section 215).

Fulfilling this constitutional mandate has required comprehensive and phased reform of the country’s budget system, which has necessitated institutional and legislative changes within the country, as well as changes in budgetary stakeholder views. In this section, we look at some key pieces of budget legislation and at South Africa’s new system of intergovernmental fiscal relations.

The Public Finance Management Act of 1999 (PFMA) and the Municipal Finance Management Act of 2003 (MFMA)

The PFMA was passed to regulate the financial management of both the national and provincial levels of government. It seeks to promote the efficient and effective management of public funds, and establishes the responsibilities of those persons entrusted with financial management within government.

The act gives effect to Sections 213 and 215 – 219 of the Constitution which require the establishment of national and provincial treasuries, treasury norms and standards, and the procedural framework for guarantees, borrowing, procurement and oversight of national and provincial revenue funds.

An important objective of the PFMA is to put in place more effective financial accountability systems in order to ensure that budgets and actual spending are aligned. The act’s introduction of performance measurement indicators is aligned with global trends towards performance budgeting. In this approach, performance indicators such as measurable objectives are articulated as an essential part of the planning process.

KEY PARTS OF THE PFMA

- The Public Finance Management Act legally establishes the National Treasury, headed by the Minister of Finance who is responsible for coordinating macroeconomic policy and promoting the national Fiscal Framework. As such, the act coordinates intergovernmental financial relations, manages the budget preparation process, and exercises control over the implementation of the annual national budget, including adjustment budgets.
- This act legally establishes provincial treasuries headed by the Finance Members of the Executive Council (MECs) who are responsible for preparing and managing the provincial budgets and enforcing uniform norms and standards prescribed by both the Public Finance Management Act and the National Treasury. The Finance MEC is also responsible for seeking legislative approval and the adoption of the provincial budget.
- The PFMA shortens the evaluation stage of the budget cycle by stipulating that annual audited actual spending information be presented to parliament within six months of the financial year's closing date.
- Furthermore, it stipulates that all government department heads and chief executives of constitutional institutions are designated accounting officers, and that they must ensure the operation of basic financial management systems, regulate budget spending, and produce financial and performance reports in accordance with written performance agreements between them and the executive authority.
- According to the act, Parliament is required to approve departmental allocations (votes) at a functional programme level, thereby limiting the ability of accounting officers to shift funds in the course of the financial year without obtaining authorisation.
- The authorised shifting of funds between programmes within a vote (virement) is limited to 8%.

The Municipal Finance Management Act of 2003

In fulfilment of local government fiscal management and budget reform requirements, the Municipal Finance Management Act (Act 56 of 2003) was passed. The MFMA regulates local government finances. Its purpose is to secure sound and sustainable management of the financial affairs

of those institutions which fall within the local government sphere, and to ensure a financial management basis for developmental local government.

Both the Public Finance Management Act (PFMA) and Municipal Finance Management Act (MFMA) stipulate that provinces and municipalities are barred from taking out loans for current expenditures such as salaries, except where necessary to bridge temporary gaps in funding. In these situations, loans must be repaid within the same year they were borrowed. The PFMA further prohibits provincial borrowing on foreign financial markets or denominated in a foreign currency.

THE APPROPRIATIONS AND DIVISION OF REVENUE BILLS

These two bills represent part of the budget that Parliament votes on.

The Appropriations Bill

The Appropriations Bill provides for the appropriation of money from the National Revenue Fund for a given financial year to departments and other entities, and for it to be transferred to provincial and local governments. It is tabled at the time of the budget speech (February) and is the key document in the suite of documents that make up the budget.

Departmental appropriations are organised as votes and each vote is further disaggregated into allocations to programmes and sub-programmes.

The Appropriations Bill forms the basis of portfolio committee budget hearings and must be passed by Parliament within the first four months of the fiscal year.

The Division of Revenue Bill

The Division of Revenue Bill divides available revenue amongst the three spheres of government in such a way that each may fulfil its responsibilities. It is tabled together with the Appropriations Bill in February and provides detailed information on conditional grant and equitable share transfers to provinces and municipalities.

South Africa's System of Intergovernmental Fiscal Relations

Chapter 3 of the South African Constitution defines national, provincial and local spheres of government which are distinctive, interdependent and interrelated, and which are required to uphold principles of cooperative governance in their engagement with each other. Each

government sphere is responsible for providing a particular set of government services.

A new intergovernmental fiscal system was then established through the Intergovernmental Fiscal Relations Act of 1997 (IGFRA). This act introduced decentralised budgeting and requires that each sphere of government adopts its own budget, at which point the national sphere begins transfers to the provincial and local spheres.

Sections 220 and 221 of the Constitution require the establishment of the Financial and Fiscal Commission (FFC). The FFC is primarily an advisory institution on financial and fiscal matters which seeks to ensure a system of intergovernmental fiscal relations which is effective, equitable and sustainable.

Schedules 4 and 5 of the Constitution explain the sharing and division of responsibilities between the three spheres.

Schedule 4: Functional areas of concurrent national and provincial legislative competence, such as agriculture, animal control and disease, property transfer fees, tourism, air pollution, municipal health services, electricity and gas reticulation.

Schedule 5: Functional areas of exclusive provincial legislative competence, such as abattoirs, ambulance services, cemeteries, licensing of dogs, street lighting, traffic and parking.

As a general principle, the national government retains responsibility for those functions and issues of national interest that bridge provincial boundaries, such as:

- national defence and police
- prisons
- trade and industry
- labour regulation
- international relations.

National government is also concerned with developing policy, defining minimum norms and standards for programmes, and coordinating government policy between spheres.

Provincial governments are primarily tasked with social services, as well as roads and regional economic planning and development. Education, health and welfare services are the three most expensive items in the country's budget and are therefore functions shared by the national and provincial governments, although their delivery rests with the provinces.

TABLE 2: PROVINCIAL EXPENDITURE ON SERVICE DELIVERY

Sector	Allocation (R Billion)	Percentage of Provincial Expenditure
Education	143.2	44.3%
Health	96.8	30.0%
Social Protection	10.1	3.1%
Housing	19.6	6.1%
Total Social Expenditure	269.7	83.5%
Total Provincial Expenditure	323.1	100%

Source: *Budget Review*, National Treasury (2011)

In 2010/11, social spending made up on average 83.5% of a province's total budget, with the majority of those funds allocated to education.

Local governments deliver basic services and responsibilities which include

- water
- sanitation
- electricity
- refuse collection.

Municipal revenue is directly linked to service charges such as those levied for household service provision of water and electricity, and are not reflected in the national government Fiscal Framework and accounts.

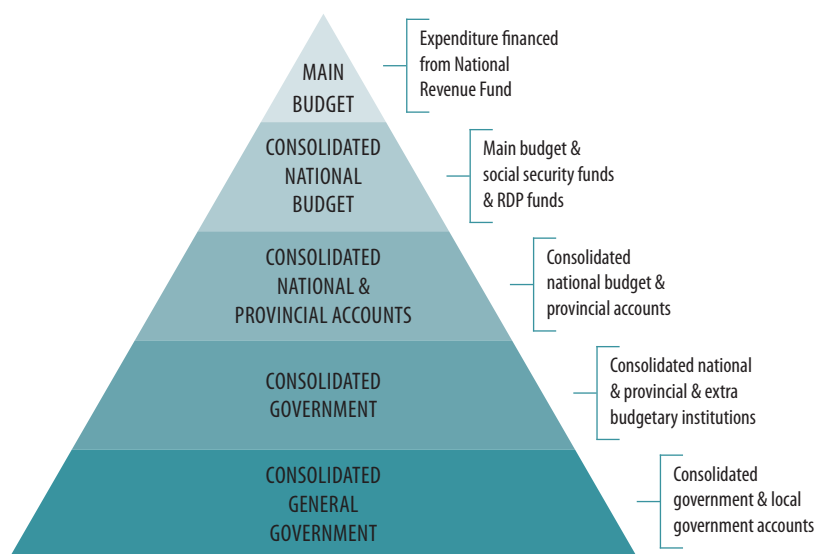
In principle, each sphere of government's budget allocations should be consistent with the resources required to fulfil the functions and responsibilities assigned to them, as well as the authority to raise their own revenue. However, in practice end allocations may vary.

In order to finance social services, the South African system of Intergovernmental Fiscal Relations (IGFR) utilises transfers from one sphere of government to another, as well as the assignment of different revenue instruments to different spheres.

A key IGFR decision concerns the extent to which revenue powers, such as tax levying, should be decentralised to sub-national governments. In most IGFR systems, including South Africa's, revenue powers are less decentralised than expenditure responsibilities. This vertical imbalance makes national transfers to provincial and local governments inevitable. These are referred to as the Provincial Equitable Share (PES) and the Local Equitable Share (LES).

In order to enable access to an essential core of services for all South Africans, the equitable share allocations take into account the demand for publicly provided services and the ability to provide those services, which can differ significantly between provinces and between municipalities. The vertical division of revenue is a Cabinet decision advised by Treasury and formally approved through the passing of the Division of Revenue Act by Parliament as required by Section 214(1) of the Constitution. The Intergovernmental Fiscal Relations Act (1997) prescribes the process which determines how the equitable sharing and allocation of national raised revenue is to take place. Specifically, Sections 9 and 10(4) outline the consultation process to be followed in conjunction with the Financial and Fiscal Commission (FFC), as well as how consideration of recommendations regarding the equitable division of nationally raised revenue are to proceed¹.

FIGURE 7: DIVISION OF REVENUE RAISED NATIONALLY

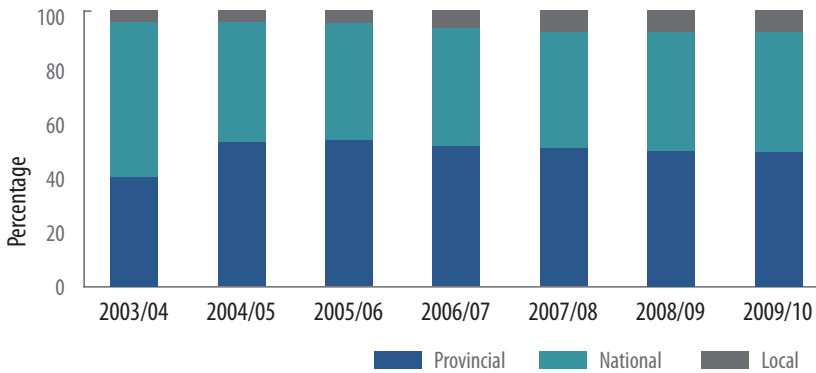


Source: *Budget Review*, National Treasury (2011: 66)

After the top slice has been set aside, the remaining funds are divided vertically between the three spheres of government.

¹ Source: *Budget Review Website Annexure* (<http://www.treasury.gov.za>), National Treasury (2011)

FIGURE 8: DIVISION OF REVENUE AMONGST THREE SPHERES OF GOVERNMENT OVERTIME

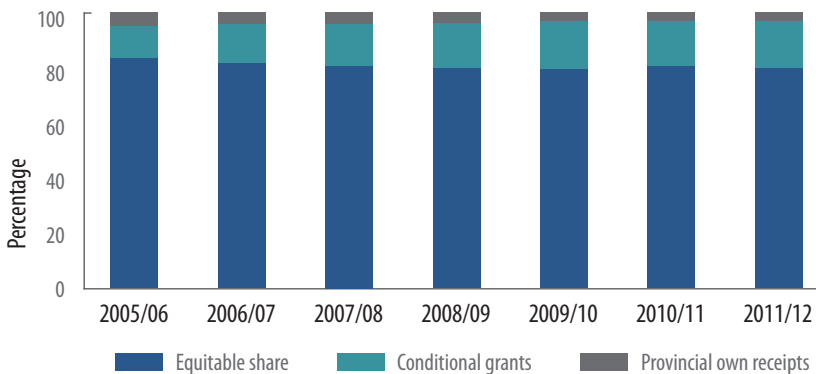


Source: *Local Government Budgets and Expenditure Review, Intergovernmental Fiscal Reviews (IGFR) (2008)*

The majority of government revenue raised is collected by the national government through company tax, personal income tax and value-added tax.

In contrast, the provinces levy minimal fees which amount to about 5% of total provincial revenue. The balance of provincial revenue comes from the provincial equitable share and conditional grants which ensure that provinces are able to fulfil their expenditure responsibilities.

FIGURE 9: SOURCES OF PROVINCIAL REVENUE 2005/06 – 2011/12



Source: *Division of Revenue Bill, Schedule 2, National Treasury (2011)*

According to Sections 214 and 227 of the Constitution, each province is entitled to an “equitable share of the revenue raised nationally”. The equitable share is an unconditional transfer, thus allowing provinces to retain autonomy in the drafting and approval of their own budgets subject to Schedules 4 and 5 of the Constitution, and on condition that the mandate is in line with national priorities.

The provincial equitable share formula divides the total provincial sphere allocation into shares allocated to each province according to relative need and the different economic and demographic profiles of each province. The formula is redistributive as poorer provinces get more than richer ones, relative to their share of the population.

TABLE 3: 2011/12 PROVINCIAL DIVISION OF REVENUE

Provinces	Total Weighted Share	Percentage Weighted Share
Eastern Cape	44 120	15.3
Free State	17 521	6.1
Gauteng	50 428	17.5
Kwa-Zulu Natal	62 928	21.8
Limpopo	36 349	12.6
Mpumalanga	23 379	8.1
North Cape	7 743	2.7
North West	19 271	6.7
Western Cape	26 754	9.3
Total	288 493	100

Source: Budget Review Annexure W1, National Treasury (2011: 18-19)

As provinces are required to give effect to national priorities as well as their individual needs and priorities, the division of revenue formula is adjusted so that any additional resources available for a budget year are directed towards achieving national priorities within provinces, such as infrastructure provision for education and roads.

The provincial equitable formula has six components. With the exception of the institutional and economic activity component, 94% of the allocations are influenced by population movements and characteristics within a province.

PROVINCIAL GOVERNMENT EQUITABLE SHARE COMPONENTS

1. Education (48%) – which is formulated according to the number of learners enrolled in public ordinary schools and the size of school-age population (5–17 years).
2. Health (27%) – is derived from a combination of a population risk-adjusted capitation index, such that it takes into account the health risks of the demographic profile within provinces (75% weighting) and relative case load share in hospitals (25% weighting).
3. Basic (16%) – derived according to a province's national population share.
4. Institutional (5%) – equally divided between provinces.
5. Poverty (3%) – reinforces the formula's redistributive bias.
6. Economic output (1%) – based on GDP-R data.

Source: Budget Review Annexure W1, National Treasury (2011)

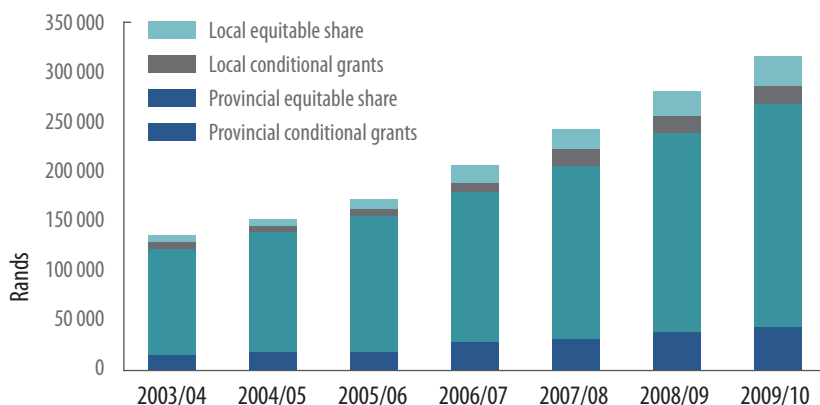
Provincial conditional grants tend to be directed towards functions which are shared between national and provincial governments or require the cooperation and empowerment of provincial authorities for their delivery. Additionally, conditional grants can be allocated according to particular priorities or interventions defined by the national government and involve strict conditions and monitoring requirements from the provinces.

In the administration of conditional grants, the national departments act as the transferring agent, and the province or municipality as the receiving sphere. The administration of these grants works as follows:

- The national department retains responsibility for monitoring, compliance and assessment of whether goals were achieved.
- The receiving government (provincial or local) takes care of actual expenditure of funds.
- Funds are usually paid in lump sums up-front, or at the times stipulated in a previously-agreed schedule.

Both the equitable shares and conditional grant allocations are set out in the annually passed Division of Revenue Act. Figure 8 shows an overall trend of equitable and consolidated grants over time, such that total allocations decrease for national government, remain fairly stable for provincial governments and increase for local governments.

FIGURE 10: EQUITABLE AND CONDITIONAL GRANT TRENDS 2003/4 – 2009/10



Source: Local Government Budgets and Expenditure Review, National Treasury (2008:25)

Although transfers to local government have increased over time, the majority of local revenue remains locally derived through

- property rates and taxes
- service charges
- various fines.

Municipalities vary in revenue generation capability due to poverty or tax base size and provision of basic service backlogs. Generally, smaller rural municipalities and districts will be more dependent on equitable transfers and grants, therefore requiring a bigger equitable share than urban municipalities and metros. The reformed local government equitable share formula gives these aspects more consideration and is intended to ensure basic services and to help clear backlogs, predominantly in rural and poorer municipalities.

Local Government Equitable Share Formula

$$\text{Equitable Allocation} = BS + D + I - R \pm C$$

BS – a basic component

D – a developmental component

I – an institutional component

R – a revenue raising capacity correction component

C – a correction and stabilisation factor

Source: Budget Review Annexure W1, National Treasury (2011)

To minimise perverse incentives, the Constitution stipulates that sub-national generated revenue may not be deducted from equitable shares or national government transfers such as conditional grants. National government is also not obligated to compensate sub-national governments which fail to raise revenue proportionate to their fiscal capacity and tax base.

III. Budget Drafting

The drafting of the South African budget begins around January and lasts until early February of the following year. A precursor to the national budget is the annual tabling of the Medium Term Budget Policy Statement (MTBPS) in October. Traditionally the budget is tabled before Parliament by the Minister of Finance on the third Wednesday in February.

KEY PLAYERS IN THE DRAFTING PHASE²

1. **Cabinet and provincial executive councils** determine the division of revenue between departments and provinces. They provide political insight into the budget process through the setting of policy and spending priorities.
2. **The Budget Council** is a consultative body of political office bearers from the national and provincial spheres that make recommendations to Cabinet regarding the budget. In practice, it has become a cohesive working group and the principal forum for consultation and debate in the months leading up to the official tabling of the budget in Parliament. The Budget Council was formalised and given specific functions by the Intergovernmental Fiscal Relations Act (IGFRA) which requires the Ministry of Finance to convene the council at least twice a year. The council is consulted on fiscal and financial matters affecting provincial government. The core members of the Budget Council are the Finance MinMEC (the Minister and Deputy Minister of Finance and the nine provincial MECs for Finance), the Director Generals of Finance, Heads of Treasury and Treasury Advisors. The Financial and Fiscal Committee (FFC) can attend meetings as observers.
3. **The Ministerial Committee on the Budget (MinComBud)** is a particularly prominent actor in the drafting of the budget. This subcommittee of Cabinet tasked with budget matters, specifically provides oversight of the developing budget and its compliance with government goals. It considers key policy and budgetary issues that pertain to the budget process before they are tabled in Cabinet.
4. **South African Local Government Association (SALGA)** is an autonomous constitutionally mandated association made up of

² Sources: Budget Review, National Treasury (2011), Report of the Finance Minister to Parliament Annexure A, National Treasury (2011)

municipalities. It represents local government during interactions with Cabinet, Parliament, the National Council of Provinces (NCOP) and provincial legislations.

5. **The Financial and Fiscal Commission (FFC)** is responsible for making financial and fiscal matter recommendations to the national and provisional legislatures, organised local government and any other organs of state. The FFC is comprised of nine members nominated by the Executive Council of Provinces, two by SALGA and eleven appointed by the President. Each member serves a term of five years. Annually, in May, ten months prior to the tabling of the budget, the FFC makes recommendations on the division of revenue.
6. **The MinMECs (national ministers and provincial MECs)** consists of the relevant National Minister and Deputy Minister, the nine provincial MECs in the same functional area, and the local government representatives if the function is related to Schedules 4B and 5B of the Constitution. The role of the MinMECs is to consult and advise on the provincial equitable share formula and intergovernmental fiscal relations.
7. **The Medium Term Expenditure Committees (MTEC)** are set up at provincial level in a parallel fashion. They are technical committees responsible for evaluating the Medium Term Expenditure Framework (MTEF) budget submissions of the national departments.
8. **The Budget Forum** is comprised of the Budget Council as well as five members of SALGA and one representative from each of the provincial associations. It focuses on fiscal and financial matters of local government. Although not a member of this forum, the Minister of Provincial and Local Government is invited to attend meetings. Legislation requires the Minister of Finance to convene the Local Government Budget Forum at least once a year.

THE SEVEN BUDGET DRAFTING PHASES

1. Identification of Medium Term Spending Priorities

Between April and September, the Executive identifies broad medium term spending priorities in line with the medium term strategic framework; these are discussed by the MinComBud, the Budget Council, SALGA, and Cabinet.

This takes place at meetings of the MinComBud (May or June), the Budget Council Lekgotla (July), and the Budget Forum with local government. During this period, any recommendations from the FFC to the Budget Council, Parliament, and the provincial legislatures on the Division of Revenue are also reviewed and considered. Treasury uses medium term projections from the previous year as the baseline values to ascertain anticipated expenditure and potential shortfalls (deficits) for the new national budget, and makes a preliminary recommendation on the division of revenue between national departments and the nine provinces. The result of this top-down process is indicative allocations, or resource envelopes.

2. Presentation of Medium Term Expenditure Framework (MTEF)

Budget Submissions

From approximately April through to August, detailed departmental planning and budgeting takes place within the resource envelopes. In mid-April, the National Treasury sends out guidelines to national departments and provincial treasuries to aid the preparation of their budget and MTEF submissions which are required to be in line with national priorities. By the end of June, the national departments will have submitted their budgets to the National Treasury, and provincial departments will have submitted their detailed draft budgets to their provincial treasuries. The national departments' submissions are assigned to spending teams and budget analysts in Treasury for review. National Treasury then has to compose and return comments on these submissions to the relevant departments within four weeks. Occasionally, national departments may be required to respond to Treasury's comments prior to the MTEC hearings. During July, National Treasury visits provincial treasuries as part of this review phase.

3. Macroeconomic and Fiscal Framework, and Division of Revenue Debates

While National Treasury is reviewing budget submissions and consulting with the national departments, additional meetings with various stakeholders relating to the Macroeconomic and Fiscal Framework take place. Between June and September, discussions are held between the spheres of government on two key decisions:

- the overall budget framework, i.e. overall spending growth, debt service costs and inflation projections
- the Division of Revenue (DOR) between national, provincial and local government, i.e. the vertical split.

During this stage conditional grants are addressed, details of which are to be submitted to National Treasury in June. MinMECs meet and analyse the spending pressures on provinces as well as what impact administering and implementing conditional grants will have on provinces. In practice, national departments have sometimes been late in finalising conditional grants. As a result, Parliament votes on the approval of conditional grants whose details are 'to be determined'.

In early August, the DOR Workshop, led by the Treasury Director General and attended by national department accounting officers, heads of all provincial treasuries as well as local government representatives takes place, and reviews

- the Macroeconomic and Fiscal Framework
- the main conditional grants to provinces
- the primary spending pressures on each sphere of government.

In August, the MinComBud meets to consider the Macroeconomic and Fiscal Framework and the DOR, and in September, the MinComBud makes its recommendations at an extended Cabinet meeting on the budget, attended by the provincial premiers.

4. METC Hearings

In September and October, the METC hearings look at how departments are proposing to reprioritise within their baseline allocations. Departments are permitted to offer up options for increases or decreases to the MTEF allocations. Thereafter any recommended changes are given to the Minister of Finance. In October, Cabinet meets to consider the Macroeconomic and Fiscal Framework and the DOR, including conditional grants.

5. Tabling of the Medium Term Budget Policy Statement (MTBPS)

The tabling of the MTBPS is required by the PFMA and detailed in the Money Bills Amendment Procedures and Related Matters Act. It is drafted by National Treasury, and considered and approved by Cabinet, after which the Minister of Finance reviews the draft MTBPS before tabling it in Parliament during October. The MTBPS draws on the work of the MinMECs, the revised macro projections, the MTEC process, and preliminary Cabinet decisions on priorities. The MTBPS is a rolling three-year budget which revises the indicative values of preceding budgets and introduces a new outer year. It provides an update of economic and fiscal projections, thereby indicating intended government policy priorities. The upcoming year within an MTBPS provides a broad outline of the next budget to be tabled before parliament.

The MTBPS must also include

- medium term spending priorities
- the proposed Division of Revenue
- proposed substantial adjustments to provincial and local conditional grants
- A review of actual spending of each national department and each provincial government between 1 April and 30 September of the current fiscal year.

After the MTBPS is tabled, the Finance Committees invite the public to make submissions on the MTBPS which further strengthens the participatory potential of the South African budget system.

At the same time as the MTBPS, the adjustments estimate for the current financial year is presented to Parliament, so as to legitimise any amendments to allocations within a current budget.

6. Medium Term Allocations and Projection Adjustments

These are presented in November to the MinComBud by the Minister of Finance. Final allocations for provincial and local governments are also presented to the Budget Council and Budget Forum during November.

7. Preparation for the Annual (National) Budget

In preparing the estimates of national expenditure, the National Treasury asks departments to draft their department chapter and to finalise the programme, standard item, and economic classification of their departmental budgets. At the end of January, the final version of the DOR Bill is shown to the FFC, provincial finance ministers, and local government representatives. Cabinet then considers their input and approves the DOR Bill before it is tabled with the budget on Budget Day in February in the national legislature. Approximately two weeks

after this, provinces table their budgets in provincial legislatures.

After the budget documents are tabled, time is allotted for legislature discussion, amendments and recommendations, and public hearings. The new national budget is scheduled to roll out at the start of the financial year on the first day of April.

National Budget Documents

1. The Budget Speech
2. The Budget Review
3. The Division of Revenue Bill
4. The Appropriations Bill
5. Estimates of National Expenditure
6. The People's Guide to the Budget
7. Budget Tax Proposals

TABLE 4: KEY DATES IN THE 2011 BUDGET PROCESS

01 June 2010	Departments receive Medium Term Expenditure Committee (MTEC) guidelines and database templates
01 June 2010	Information sessions on expenditure estimate guidelines
01 July 2010	Departments submit revised drawings after rollovers
07 July 2010	Submission of capital/infrastructure funding requests
20-22 July 2010	Cabinet Lekgotla to discuss policy priorities and Medium Term Strategic Framework
28 July 2010	Departments submit expenditure estimates and database
16 August 2010	MTEC starts
25 August 2010	Departments' final date for distribution of Treasury Committee memoranda for unforeseeable and unavoidable expenditure
15 September 2010	Departments submit Adjusted Estimate chapters, database and Adjustments Appropriation Bill
17 September 2010	MTEC ends
28 September 2010	Treasury Committee
08 October 2010	Departments submit final Adjustments Estimate inputs (database and chapter, including expenditure until end of September and additional funds allocated, as well as Adjustments Appropriation Bill)
27 October 2010	Adjusted Estimate tabled in Parliament
05 November 2010	Estimates of National Expenditure (ENE) guidelines to departments and entities
17 November 2010	ENE database to departments and entities
05 November 2010	Inputs from departments for revised drawings after Adjusted Estimate
15 November 2010	Allocation letter to departments
07 December 2010	Departments submit first draft of ENE chapter, database and Appropriation Bill
12 January 2011	Departments submit revised (second draft) ENE chapters, databases and Appropriation Bill
07 December 2010	Departments submit estimated under-/overspending for 2009/10 financial year
01 February 2011	Budget Day - Budget tabled in Parliament

Source: *Treasury Guidelines Preparation of Expenditure Estimates for the 2011 Medium Term Expenditure Framework*, National Treasury (June 2010)

*Dates are subject to change. Some dates for key meetings, such as the Ministerial Committee on the Budget and parliamentary hearings, are not yet finalised.

IV. Budget Approval

Sections 42(3) and (4) of South Africa's Constitution establish that the National Assembly is elected to represent the people and to ensure government by the people under the Constitution. The National Assembly does this by "choosing the President, by providing a national forum for public consideration of issues, by passing legislation and by scrutinising and overseeing executive action".

Legislatures have historically held the 'power of the purse'; as representatives of citizens they give the executive authority to spend and tax, but that authority is always revocable in principle.

Crucial Parliamentary Committees in the Budget Process

The **Finance Committees** lead discussions, consider and report on the macroeconomic framework and fiscal policy. It considers any amendments to the Fiscal Framework, the revised fiscal framework, as well as to revenue proposals and money bills. Hearings are scheduled with both the public and other portfolio committees.

The **Appropriations Committees** take the lead in Division of Revenue Bill and Appropriations Bill discussions. They are to consider and report on spending issues and report on actual expenditure published by the National Treasury, as well as amendments to the Division of Revenue and Appropriations Bills.

The **Standing Committee on Public Accounts (SCOPA)** is responsible for assessing if an approved budget has been implemented as planned and if expenditure was efficient, effective and economic.

Although money bills can only be introduced by the Minister of Finance, Section 77 of the Constitution requires that an act of Parliament provide for a procedure to amend such bills before Parliament. The Money Bills Amendment Procedure and Related Matters Act of 2009 were thus passed. Prior to their passing, Parliament could only vote for or against a budget in its entirety without any ability to make amendments.

While this act gives Parliament unrestricted power to amend the Fiscal Framework, the Division of Revenue (DOR) allocations and tax policy, it requires specific sequencing of adoptions or amendments that are being made.

This is to ensure that amendments to allocations remain consistent with the Fiscal Framework and that a proliferation of vote amendments does

not result in an unsustainable fiscal policy stance. The way in which the potential amendment process is designed requires a particular sequence of engagements with different components of the budget, thereby ensuring that the overall sustainability of the budget is not jeopardised.

FACTORS TO BE TAKEN INTO ACCOUNT WHEN AMENDING THE FISCAL FRAMEWORK

1. That the total amount of revenue raised is consistent with the approved Fiscal Framework and the Division of Revenue Bill.
2. Principles of equity, efficiency, certainty and ease of collection.
3. The impact of the proposed change on the composition of tax revenue with reference to indirect and direct taxes.
4. Regional and international tax trends.
5. The impact on development, investment, employment and economic growth.

Specifically, a tabled or amended Fiscal Framework is required to be adopted before the Division of Revenue Bill, and the tabled or amended Division of Revenue Bill must in turn be adopted before the Appropriation Bill is considered. Revenue bills, such as tax policy proposals, must similarly be consistent with the Fiscal Framework and the Division of Revenue.

Summary of the Contents of the Act

Section 4 stipulates that each legislature establish both a Finance Committee and an Appropriations Committee, and establishes their respective powers and functions.

Section 5 sets out the procedure prior to the introduction of the national budget. The essential aim of this section is to ensure that committees conduct their budget approval and amendment debates based on adequate information relating to the performance of departments.

The Finance Committees are mandated to focus on macroeconomic and fiscal policy, amendments to the Fiscal Framework, and revenue allocations. The Appropriations Committees focus on actual expenditure and amendments to the Division of Revenue and Appropriations Bills.

Section 5(1) requires that the National Assembly, through its committees, assess departmental financial regularity and the extent to which their actual spending is aligned with strategic plans and the resources allocated to them.

Section 5(2) requires that portfolio committees submit Budgetary Review and Recommendation Reports (BRRR) to the Finance Committees which assess departments in terms of the efficiency and effectiveness of their use of resources, thereby the impact of their spending, also known as impact accountability. The Act also states that these BRRRs “may include recommendations on the forward use of resources”. During this period, committees will have access to the BRRRs for the preceding fiscal year which will have ended at the end of March, as well as a review of spending during those nine months.

Spending performance is explicitly linked to possible amendment via the formal requirements of committees to assess performance, both in terms of management and impact.

Section 6 requires that, at least three months before the budget is introduced, the Minister of Finance submit a Medium Term Budget Policy Statement (MTBPS) to Parliament. This section builds on and details the PFMA requirement that an annual tabling of multi-year budget projections, including macroeconomic projections, takes place.

Sections 7-11 outline the required procedures for introducing and adopting or amending the Budget. This includes the Appropriations and Division of Revenue Bills.

PUBLIC HEARINGS

Throughout this act there are requirements for holding public hearings during the approval or amendment process. The Finance Committee has to conduct joint public hearings on the Fiscal Framework, revenue proposals and the revenue bills. The Appropriations Committee is required to hold public hearings on the Appropriation Bill and the Division of Revenue Bill.

THE ROLE OF OTHER COMMITTEES

Once the Fiscal Framework and Division of Revenue Bill have been adopted, the act provides for (although does not require) advice from other portfolio committees pertaining to the passing or amending of the Appropriation Bill in relation to their vote allocations. They are entitled to advise the Appropriations Committee that a particular allocation be

appropriated conditionally in order to ensure efficiency, effectiveness and economy. Additionally, as per the Standing Rules, portfolio committees are allowed to consult with the Appropriations Committee with respect to proposed amendments.

The Appropriations Committee is assigned the role of mediator and final authority in reporting to the National Assembly. Thus, while space is made for committees for input on their relevant proposed appropriations, the act assigns primary authority to the Appropriations Committee. The Appropriations Committee is responsible for assessing proposed amendments and will recommend to the House that those conflicting with the Fiscal Framework and the adopted Division of Revenue be rejected.

MINISTERIAL RESPONSE

This act also seeks to establish a clear and functionally effective relationship between the executive in the person of the Minister of Finance and Parliament, not only during the period of budget tabling and approval, but also through the opportunity for discussion and consensus building that the MTBPS represents.

Crucial to tabling the Budget and the Division of Revenue Bill, is the requirement of the Finance Minister to explain how the recommendations included in these parliamentary reports are given effect in the budget and the Division of Revenue, or, where they are not taken into account, to provide reasons for this.

In the actual adopting or amendment process, the Finance Minister is also given specific periods of time to respond to committee reports and amendment recommendations before they are submitted to the House. Furthermore, these ministerial responses are to be included in the reports submitted to the house.

TABLE 5: THE NUMBER OF DAYS GIVEN TO THE MINISTER TO RESPOND

Document	Time
Fiscal Framework and revenue proposal	At least 2 days
Division of Revenue Bill	At least 3 days
Conditional Appropriation	2 days
Appropriation Amendment	At least 10 days
Revenue bills	At least 14 days

Parliamentary Budget Office

Section 15 of the act requires the establishment of a Parliamentary Budget Office whose objective is to “provide independent, objective and professional advice and analysis to Parliament on matters related to the budget and other money bills”. An independent and impartial Director is required to report to Parliament any inappropriate political or executive interference which could hamper the Budget Office’s mandate. The appointment and removal of the Director is accorded to the Finance and Appropriations Committees and an adopted resolution by both Houses.

SOME OF THE ACTIVITIES THAT WILL BE REQUIRED OF THIS OFFICE

- Annual reviews and analysis of money bills tabled in Parliament by the Executive.
- Provide analysis and advice on proposed amendments to money bills.
- Monitor and amalgamate reports by committees and the House with a focus on budget implications.
- Monitor policy debates.
- Monitor key expenditure and revenue areas.
- Report on unfunded mandates arising from policy and/ or proposals.
- Support the implementation of the act.

An important dimension of effectively using the amendment authority Parliament now has concerns its analytical capacity. In the absence of such budget focused capacity, committees are unlikely to be able to use amendment power in a manner which makes a positive contribution. They risk either producing an amended budget which is inferior with respect, for example, to trade-offs between competing priorities and the optimisation problems which this represents, or trade-offs between the present and the future (that is the question of sustainability), or trivialising the authority bestowed on them by not engaging robustly and effectively with the Executive through the amendment process at all.

Timeline of Parliamentary Budgetary Engagement

PRIOR TO NATIONAL BUDGET

Annually

The National Assembly through its committees must assess the performance of each national department (Section 5).

Three Months Before

The Minister must submit to Parliament an MTBPS, thereafter

- and within thirty days, each Finance Committee must submit a report on the MTBPS to the National Assembly or NCOP
- the Finance Committee reports must be submitted to the Minister within seven days of its adoption by the Assembly
- within thirty days each Appropriations Committee must submit a report on the MTBPS to the National Assembly or NCOP
- the Appropriations Committee reports must be submitted to the Minister within seven days of its adoption by the Assembly.

BUDGET DAY

The Minister of Finance must submit the national budget documents to Parliament accompanying the National Budget Speech. These documents are to include information pertaining the year at hand as well as two subsequent years.

AFTER BUDGET DAY

Adopting the Fiscal Framework and Revenue Proposals

The Finance Committees must

- hold public hearings
- submit a report to the NA and NCOP on the Fiscal Framework and revenue proposals within sixteen days of budget tabling
- allow for a minimum of two days for the Minister to respond to any proposed amendments before the submission of reports to the House.

The NA and NCOP must

- consider all proposals and changes admitted by the committees for the adoption of resolution within sixteen days of budget tabling.

Passing the Division of Revenue Bill

Once the Fiscal Framework has been passed, the Division of Revenue Bill must be referred to the Committees on Appropriations. The Division of Revenue Bill is not a money bill per se as it does not appropriate money, impose taxes, abolish or reduce grants, or authorise charges (Section 77 of the Constitution). It is tabled before Parliament at the same time as the money bills as it is directly related to them. The Division of Revenue Bill must be passed no later than 35 days after the adoption of the Fiscal Framework by Parliament (9(3)).

The Appropriations Committees must

- allow for the participation of other committee chairpersons
- hold public hearings
- allow the Minister a minimum of three days to respond to proposed amendments before the report can be submitted to Parliament.

Passing the Appropriations Bill

After the Fiscal Framework is approved, the Appropriations Bill must be referred to the Committees on Appropriations of the National Assembly.

Any parliament committee may request that a subdivision of a main division within a vote be appropriated (funds be moved from or to), provided that

- the Minister or the affected cabinet minister is given two days to respond to proposed conditional appropriations
- they allow the Minister and any other cabinet member at least ten days to respond to proposed changes on the original Appropriations Bill prior to the Bill being submitted to the National Assembly (NA)
- the NA consider all recommendations from the Appropriations Committee within seven days of the report being admitted.

Parliament must

- pass, with or without amendments, or reject the Appropriations Bill within four months of the start of the financial year to which it relates (i.e. by the end of June).

The Revenue Bills

Note that all amendments to the revenue bills must allow the Minister fourteen days to respond to any proposed amendments.

National Adjustments Budgets

FINANCE ADJUSTED BUDGETS OVERSEEN BY THE FINANCE COMMITTEE

- Committees must submit a report on the revised framework within nine days after the adjusted budget is tabled.
- Any adjustments must allow the Minister at least two days to respond prior submission to the House.

DIVISION OF REVENUE BILL OVERSEEN BY THE APPROPRIATIONS COMMITTEE

- Committees must submit a report on the DOR within nine days after the adjusted budget is tabled.
- Any amendments must allow the Minister at least four days to respond before the report is submitted to House.

THE ADJUSTED APPROPRIATIONS BILL

The Adjusted Appropriations Bill, consisting of proposed changes to the Appropriations Bill, can only be reviewed by the Appropriations Committees once the adjusted DOR has been passed. Then

- the Minister must be given at least four days to respond to any proposed amendments before the report is submitted to the House
- the Appropriations Committees must submit a report within thirty days of the tabling of an adjusted budget.

Additional Money Bills

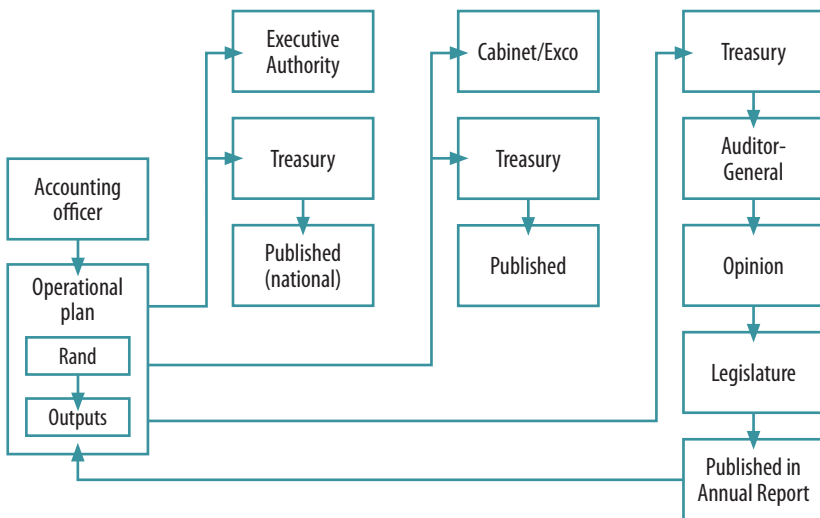
All other money bills must be referred to the Appropriations Committees and amendments must allow the Minister fourteen days to respond before the Committee reports to the House.

V. Budget Implementation

In addition to the approval of the budget, Parliament has a central role to play in the oversight of budget implementation. It does this through the scrutiny of information by portfolio committees on actual spending as the budget is implemented.

The PFMA is specific about who is required to submit reports on what and to whom within an outlined timeframe.

FIGURE 11: IN-YEAR REPORTS



Source: *Guide for Accounting Officers Public Finance Management Act*, National Treasury (2000: 20)

Accounting Officers are required to be able to account for their allocations and justify decisions regarding allocations at any point throughout the year. All transfers are to be planned and only those specifically allowed by an act and/or the Division of Revenue Act are seen as authorised. The Accounting Officer is responsible for all unauthorised expenditure.

Monthly Reports

All monthly reports

- are required to be submitted within fifteen days of the end of every month
- should report on all actual revenue and expenditure transfers
- should report on the expenditure of conditional grants
- should give a projection of anticipated revenue and expenditure for the remainder of the financial year
- should report all variances
- should summarise any actions to ensure expenditure and revenue remain within the approved budget.

Provincial Treasuries are required to submit to National Treasury a statement of transactions affecting their revenue funds before the 22nd of every month. Reports are to contain

- detailed information on state finances
- any corrective measures taken, such as disciplinary actions
- progress on PFMA implementation
- non-financial information needed to determine measureable objective progress, such as service delivery.

Quarterly Reports

All quarterly reports

- are required to be submitted within fifteen days of every quarter
- must follow the requirements of monthly reports but with a quarterly stance
- should give additional information on grants as received from the Division of Revenue.

Treasuries, as outlined within the PFMA, are to have a strategic and active in-year monitoring role with regards the progress and reporting of performance weaknesses. They are required to submit regular reports to Cabinet or the Executive on the extent to which accounting officers resolve audit queries.

The **National Treasury** is to publish in the Government Gazette

- financial statements regarding revenue and expenditure from each of the ten funds

- a progress report of actual performance against the national budget and objectives.

These are to be made available for scrutiny by government, non-government organisations and civil society.

Annual Reports

All annual reports

- are required to contain reviews on performance achieved against plans and budget as agreed with legislature at the start of the financial year
- must include all losses, misuse of funds and non-performance
- should outline efficiency, economy and effectiveness in determining outputs per operational plan
- must include relevant non-financial indicators
- must include reports on public entities where applicable.

Reports are consolidated to comply with Section 32 of the PFMA and published in the Government Gazette on a monthly (national) or quarterly (provincial) basis.

Section 32 reports are required to contain

- revenue – budgeted versus actual tax revenue and departmental receipts
- expenditure – budgeted versus actual spending
- deficit and net borrowing requirement
- information on how the deficit is financed, for example whether from a domestic or foreign market, bonds, loans, etc.

The Standing Appropriations Committee plays an important role in the monitoring of an in-year budget. It is required to analyse the monthly and quarterly expenditure statements in terms of Section 32 of the PFMA. Quarterly, the Appropriations Committee compiles reports for Parliament on actual revenue and progress in relation to budget implementation and service delivery. These reports focus on

- the efficiency of spending
- the quality and speediness of service delivery
- assessing value for money derived
- activity timelines of a department
- planning within a department.

In addition to a financial oversight role over the other organs of state across government, compliance with the PFMA means that Treasury is continuously required to monitor and enforce norms and standards as the budget is implemented.

Local Level Budget Implementation

Developed in accordance with the Municipal Finance Management Act, the Service and Delivery Budget Implementation Plan (SDBIP) seeks to link service delivery with budgets of municipalities, providing reliable information to enhance the performance of local government structures by allowing for the in-year correction of problems. Through it the major council (the Executive) and administration are accountable for local government performance. The SDBIP requires monthly budget and quarterly service delivery targets. The timeline set out for an SDBIP is

- submission of Draft SDBIP by 1 May
- final approval of SDBIP should be no later than fourteen days after the approval of the budget (end of May – early June)
- publically available quarterly output and goals within the SDBIP are to be used to measure performance.

Five necessary components of an SDBIP are

1. monthly projections of revenue to be collected for each source
2. monthly projections of expenditure (operating and capital) and revenue for each vote
3. quarterly projections of service delivery targets and performance indicators for each vote
4. ward information for expenditure and service delivery
5. detailed capital works plan broken down by the ward over three years.

VI. Budget Auditing (Evaluation)

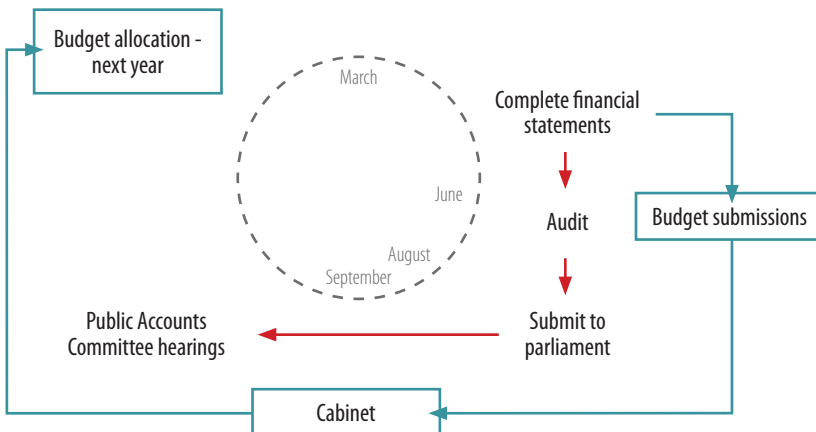
Chapter 9 of the Constitution requires that an independent Auditor General be established that “must audit and report on the accounts, financial statements and financial management” (Section 188). The Auditor General is required to report to the National Assembly on audits of national departments and public entities, as well as any institution which the national legislature requires to be audited.

The International Organisation of Supreme Audit Institutions (<http://www.intosai.org>), of which the South African Auditor General is a member, sets an international standard benchmark for the auditing of public and private entities through auditing frameworks (<http://www.issai.org>).

During the auditing and evaluating of the budget, all actual expenditures are accounted for and assessed for effectiveness. There are two specific institutions which focus on auditing of a budget. These are the (Standing) Committee on Public Accounts (SCOPA) and the Auditor General.

Internal department audits are required for all non-exempt departments. They are intended to assist management in carrying out responsibilities effectively by highlighting potential problems and prompting immediate remedial action. An Internal Audit Committee should (ideally) meet quarterly and comprise of three to five members, none of whom are office bearers.

FIGURE 12: CYCLE OF AUDITING THE BUDGET



Source: Guide for Accounting Officers Public Finance Management Act, National Treasury (2000: 10)

Audits can loosely be divided into

- **regularity audits** which include financial and compliance audits and the auditing of performance information
- **specialised audits** which includes performance audits and special investigations.

The Auditor General tables two general reports as well as a number of special and performance audit reports before the National Legislature. The two general reports are based on in-depth analysis of departmental performance, during which the Auditor General focuses on establishing if policies and directives were followed, conducts a verification exercise and checks for compliance using an evidence-based approach, and evaluates performance and impact of programmes.

AN AUDIT REPORT WILL HAVE ONE OF FOUR RANKINGS

1. **An Unqualified Opinion** which indicates that financial statements have been prepared using Generally Accepted Accounting Principles (GAAP), comply with relevant legislation and statutory requirements and regulations, as well as adequately disclose all material relevant for an accurate financial report. All changes regarding required principles and application method thereof have been fully disclosed and explained. This is also known as a clean audit.
2. **A Qualified Opinion** indicates that while the rest of the report's financial statements are fairly presented, one of two types of situations have been found though they do not affect the overall fair presentation of the rest of the financial statements. The first is that of a "Single deviation from GAAP", such that one or more areas of the financial statements deviate from GAAP. The second is a "Limitation of Scope", which results when the auditor attests that the financial statements are fairly presented with the exception of one or more areas which the auditor could not verify, such as the counting of a department's inventory.
3. **An Adverse Opinion** indicates that financial statements pervasively differ from GAAP. This is considered the opposite of a clean or unqualified audit.
4. **A Disclaimer of Opinion** indicates that the auditor was unable to form an opinion on the financial statements since auditing could not be completed for a variety of reasons. This is also known as a Disclaimer.

The Standing Committee on Public Accounts (SCOPA) was established in accordance with Rule 204 of the National Assembly, and has functions

and powers accorded through Rule 206. SCOPA is particularly focused on assessing if a budget has been implemented as planned and if public funds have been spent in manner which is efficient, effective and economic.

SCOPA assesses the following:

- the financial statements and audit reports of all executive organs of state submitted to Parliament
- the financial statements and audit reports of all constitutional institutions submitted to Parliament
- any reports submitted by the Auditor General
- any financial statements and reports referred to the Committee.

Reports are reviewed and put into one of the three categories:

1. **A** – a department with material findings, Disclaimer and advise opinions (requires a hearing)
2. **S** – a department with a qualified opinion (send queries to department for a written response)
3. **C** – departments with an unqualified opinion, clean reports or immaterial findings (no inquiry).

SCOPA may then initiate investigations into issues of competency after which hearings are held during which the relevant Accounting Officer and/or Minister is required to

1. indicate how problems highlighted by the Auditor General are going to be responded to and solved
2. provide reasons as to why persistent problems have not yet been resolved.

SCOPA resolutions take into account audit findings and evidence from hearings and investigations. These are sent to the National Legislature and once adopted are sent to the relevant department minister. Thereafter the Auditor General follows up on resolution implementation with relevant departments.

SCOPA's oversight cycle is as follows:

- September to October: analyse and prioritise annual reports
- January to April: schedule hearings
- April to May: produce and adopt resolutions
- June to August: attend to other reports.

VII: Transparency and the Budget

Section 215 of the Constitution specifically requires that South African budgets “promote transparency, accountability and the effective financial management of the economy, debt and the public sector.”

Why is Budget Transparency Important?

Historically, budget processes were dominated by the Executive, specifically the Finance Minister, with little to no information being made publicly available. A growing external support for increased budget transparency practices has led to formal changes of many government budget processes. This is largely due to budget transparency as a vital element in holding governments accountable, using evidence based research. Increasingly, information available through open budget practices is used to improve public service delivery and resource management, and to advocate change.

Access to budget information can be especially crucial to poorer and marginalised communities. These communities typically rely heavily on government services but are often ignored by those in power. Transparency and public participation are the cornerstones of effective and accountable governance. Without access to information, legislators, auditors, Civil Society Organisations (CSOs), media, and the broader public cannot participate effectively in decision making, nor can they

The Open Budget System is one in which public funds are publicly planned, reported and accounted for, thereby fostering a space for participation and oversight on the part of the legislature, civil society and public at large.

hold the Executive to account for the use of public resources. Experts increasingly conclude that budget transparency and building adequate checks and balances into the budget process can enhance the credibility and prioritisation of policy decisions, limit corrupt and wasteful spending, and facilitate access to international financial markets.

Budget transparency has become central to a number of international development discourses, including the financing of climate change mitigation, country level actions to meet international development commitments like the Millennium Development Goals, accounting for sales revenue of natural resources, and examining the amount and spending of international aid.

What Does Budget Transparency Look Like ?

A widely accepted definition of budget transparency, from the International Budget Partnership (IBP), is built around the public availability of eight key budget documents:

1. the Pre-Budget Statement which presents the assumptions used in developing the budget, such as the expected revenue, expenditure, and debt levels, and the broad allocations among sectors
2. the Executive's Budget Proposal which presents the government's detailed declaration of the policies and priorities it intends to pursue in the upcoming budget year, including the specific allocations to be made to each ministry and agency
3. the Enacted Budget which is the legal document that authorises the Executive to implement the policy measures contained in the budget
4. in-year reports, released monthly or quarterly, on revenues collected, expenditures made, and debt incurred
5. mid-year reviews which account for the first six months of the budget year and discusses any changes in economic assumptions that affect approved budget policies
6. a year-end report which summarizes the financial situation at the end of the fiscal year, and includes an update on progress made in achieving the policy goals of the Enacted Budget
7. an audit report from a body independent from the Executive which covers all activities undertaken by the Executive
8. a Citizen Budget which is a simplified version of the more technical budget documents, thereby making the budget more easily accessible to a broader audience.

These first two budgets should be presented with a minimum of one month between them.

The **Open Budget Survey** is carried out by the International Budget Partnership assessing the availability and comprehensiveness of data contained in the eight key budget documents for a country. The survey further examines the extent of effective oversight provided by legislatures and supreme audit institutions, as well as opportunities available for public participation. Scores assigned to certain survey questions as answered by independent experts are used to compile the objective scores and rankings of each country's relative transparency within the **Open Budget Index**.

Additional further aspects highlighted by institutions such as the International Monetary Fund (IMF), Organisation for Economic Development (OECD) or International Organisation for Supreme Audit Institutions (INTOSAI), that should be kept in mind to ensure transparency within these eight key budget documents are

- the extent and nature of public hearings organised by legislatures
- the extent and nature of public consultations undertaken by the Executive when it is formulating the national budget
- the extent to which simplified budget documents are available to the public
- the comprehensiveness of budget data published, specifically on policies and programmes intended to benefit impoverished populations, for example pro-poor policies and programme allocations.

Budget transparency is only useful if someone uses the information. Potential uses include legislature, Supreme Audit Institution (SAI), courts, and civil society actors. Additionally, the growth of civil society organisations around the world that analyse and monitor government budgets and their impact on the lives of citizens, offer an opportunity for legislatures and SAIs to augment their oversight capacity. Civil Society Organisations can provide analysis and information which may be used for evidence based advocacy when trying to insight the Executive to prioritise problems identified by legislatures and SAIs.

How South Africa Performs

South Africa's Open Budget Index (OBI) 2010 score is 92 out of 100, which is the highest score of the 94 countries surveyed, due to a level of information grade of "A" for all eight key budget documents. This indicates that government provides the public with extensive information on the central government's budget and financial activities assessed by the survey. This theoretically makes it possible for citizens to hold the government accountable for its management of the public's money.

Transparency Aspects South Africa Needs to Improve On

- While legislative oversight is strong there is a need for more time to discuss the budget within the legislature.
- The Auditor General needs to ensure that proper channels of communication with the public are available, thereby alerting the Auditor General to additional problem areas which would allow the office to target them for special audits and stem non-procedural practices in a timely and efficient manner.
- The Auditor General needs to receive adequate reporting on the follow-up steps taken by the Executive and its departments to address audit recommendations for remedial action.
- Cash transfers and loan guarantees to state-owned enterprises need to be accounted for as well as tracked within the enterprises, and information thereof be made routinely available for public scrutiny.
- An increased level of detail in publically available in-year reports, such that data is disaggregated by functions and districts so as to better monitor quarterly service delivery trends.

VIII. Basic Quantitative Budget Analysis Toolkit

Budget analysis is a key component of assessing poverty alleviation and redistributionary measures with regards the extent to which a budget is “developmental” and socio-economic rights are likely to be adequately revised through the budget.

Understanding a budget is the first step in evaluating it. Although budget analysis can be complex, some simple techniques are often used which can significantly demystify the budget’s array of numbers and help one see the fundamental trends and

priorities in resource allocation, as well as conceptualise alternative ways of attaining specific objectives within a given resource envelope.

TABLE 6: BUDGET ANALYSIS TOOLS AND QUESTIONS

FOCUS	KEY QUESTION	THE ANALYSIS WILL ALLOW YOU
Priority	How does the budget for this purpose compare to resources spent in other areas?	- To determine if government is really giving priority through its budgets - To assess whether these budget priorities are in line with government’s policy promises and commitments
Progress	Is government’s budgeting on this issue improving over time?	To monitor whether government is shifting its priorities over time
Equity	Are resources being allocated or spent fairly?	To evaluate whether government budgets discriminate unfairly
Adequacy	How much is being allocated to this issue?	- To see whether government’s allocation is sufficient - To consider whether government allocations are keeping up with inflation

Determining Priority

One way to determine priority is to calculate the share of a department or programme’s allocation in the total allocation. The percentage share is simply calculated as follows:

A typical set of allocations in a budget document might look like something like this:

$$\frac{\text{Amount allocated}}{\text{Total budget amount}} \times 100$$

TABLE 7: TOTAL AND PROGRAMME ALLOCATIONS (R BILLION)

Year	Total Budget	Education	Health	Economic Affairs
2009	721.1	127.3	80.8	126.2
2010	907	165.1	104.6	161
2011	979.3	189.5	112.6	136.6

Source: Budget Review, National Treasury (2009, 2010, 2011)

Applying this technique to the numbers, we get the following:

TABLE 8: PROGRAMME ALLOCATIONS AS PERCENTAGE SHARE OF TOTAL BUDGET

Year	Education	Health	Economic Affairs
2009	17.7	11.2	17.5
2010	18.2	11.5	17.8
2011	19.4	11.5	13.9

It is much easier to get a sense of the priorities in the budget from the percentages than from the numbers themselves, and to identify changing relative priorities over time. From Table 8 one can deduce that from 2009-2011 education was a growing priority of government. Health didn't decrease in priority but didn't increase substantially either. However, this may indicate other things such as that government is of the opinion that

enough of the share of national revenue is already allocated to the health sector in relation to its overall priorities. Allocations for economic affairs decreased, such that one can deduce that it has decreased with regards to priority for government over the time period.

Note that the analysis of priority does not tell us anything about whether more or less actual resources have been allocated to a particular function; it only compares functions to each other.

Determining Progress

Progress, in budget analysis, refers to the evaluation of trends in resources allocated to programmes, departments or functions over time.

It is quite simple to calculate the percentage change, from one year to the next, in an allocation for a particular use:

$$\frac{(\text{Allocation Year 2} - \text{Allocation Year 1})}{\text{Allocation Year 1}} \times 100$$

TABLE 9: ALLOCATIONS TO WIDGETS				
	Year 1	Year 2	Year 3	Year 4
Widgets	R 20 000	R 27 000	R 31 000	R 30 000
Percentage Change Calculation		$((27\,000 - 20\,000) / 20\,000) \times 100$	Etc.	Etc.
Percentage Change		35%	15%	- 3%

However, this calculation does not reflect the fact that the purchasing power of money changes over time as a result of changes in the general price level (**inflation**); R50 can buy less now than it could ten years ago.

An effective way to assess progress of a department or programmes' budgets in the medium term is to calculate the average annual growth over a multiple-year (usually three consecutive years) period.

To do this, the following formula can be used for the calculation:

$$\text{Average annual growth rate over the medium term} = \frac{\text{year 1} + \text{year 2} + \text{year 3}}{3}$$

A positive real increase can be regarded as the minimum condition for progress in particular allocations. In other words, if a particular function, say spending to enable free primary education, is important to a country's development and poverty alleviation efforts, then one should see real growth (**progress**) in such allocations.

However, it is often equally, if not more pertinent to also compare real trends in such allocations with real trends for other allocations, and the real growth of the economy (GDP) as well as of the budget as a whole. For example, if the government forecasts, for the coming fiscal year, a

real GDP growth rate of 4% and estimates that tax revenue will increase in real terms by 5.5% but then only increases allocations towards free primary education by 2% further questions need to be

Note that different rates of real increase in allocations will also change their relative priority in the budget.

asked. It may of course be that an acceptable answer exists, such as that a 2% increase is enough to provide free primary education to all citizens. A key aim of quantitative budget analysis is precisely to identify trends in order to ask informed questions which require responses from decision makers. In turn, it fosters accountability and debate where additional resources with competing claims on them need to be allocated efficiently to maximise the social return of public spending (also known as debating at the margin).

Accounting for Inflation When Assessing Progress

Real allocations are allocations that have been adjusted for inflation, whilst nominal allocations are allocations expressed simply at face value.

Crucially, inflation means that when one compares budget allocations over time (longitudinally) one will get a skewed sense of progress if one did not first adjust the numbers for the effects of inflation.

In practice, the converting of nominal allocations into real allocations

Note that though deflation (a general decrease in the price level) is fairly rare in modern economies, it would require precisely the same calculations to convert the nominal into the real amounts.

Price indexes measure, for different purposes, changes in the price of particular baskets of goods and services. In South Africa, the Consumer Price Index (CPI) measures changes in the cost of a 'representative' basket of goods and services consumed by a household.

requires the use of a price index which will usually be available from the country's statistical authorities, in our case, Statistics South Africa (<http://www.statssa.gov.za/>). Using price indices, a time-series of nominal values are all expressed in the Rand value of a particular year, which is called the base year.

The formula for conversion is as follows:

$$\text{Real Allocation} = \text{Nominal Allocation} \times \frac{\text{Base Year Index Value}}{\text{Current Year Index Value}}$$

TABLE 10: NOMINAL VALUES OF WIDGETS CONVERTED TO REAL VALUES
USING (HYPOTHETICAL) PRICE INDEXES

	Year 1	Year 2	Year 3	Year 4
Widgets (Nominal)	R 20 000	R 27 000	R 31 000	R 30 000
Price Index	86	89	95	100
Conversion Calculation	$20\,000 * (100/86)$	$27\,000 * (100/89)$	$31\,000 * (100/95)$	$30\,000 * (100/100)$
Widgets (Real)	R 23 256	R 30 337	R 32 632	R 30 000
Percentage Change	-	30.5%	7.6%	- 8.1%

There are two, related criteria when assessing real resource allocation trends:

- whether the allocation shows a positive real increase
- whether the allocation shows a positive real increase similar to that of the economic growth rate and the growth rate of the budget in its entirety.

For example, if one wanted to evaluate the actual percentage growth rate of allocations to the National Health Vote over a ten-year time period, a number of budget reviews would need to be used. Given that allocations in each budget review are nominal amounts for that year, all data collected would need to be adjusted to reflect real amounts before comparisons or growth rates can be assessed accurately.

TABLE 11: ANNUAL BUDGET ALLOCATIONS TO THE NATIONAL HEALTH VOTE

Year (R Millions)	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
Nominal Allocations	69000	74400	87300	98900	110500	121100	196400	213500	246900	288300	346100
Total Nominal Allocations	170700	188900	215100	244600	284400	321200	367800	418400	489300	579600	691200
Real Allocations (2010 Rands)	126631	128819	142112	147888	158255	170664	267546	277792	295278	306831	346100
Total Real Allocations	313275	327068	350152	365758	407311	452662	501035	544394	585174	616855	691200

TABLE 12: ANNUAL PERCENTAGE GROWTH TO NATIONAL HEALTH VOTE ALLOCATIONS

Year (Percentage)	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	Average
Nominal Allocations	8	17	13	12	10	62	9	16	17	20	18
Real Allocations (2010 Rands)	2	10	4	7	8	57	4	6	4	13	11
Difference in Percentage Growth	6	7	9	5	2	5	5	9	13	7	7

In Table 12, the percentage increase in nominal allocations is recorded, below which allocations adjusted for inflation are given (real allocations in 2010 Rands). Thus, while one could state that the annual budget allocations for health increased on average by 18% over the ten-year period, once one accounts for inflation and adjusts allocations accordingly, the real average annual percentage growth rate is 11% which is 7 percentage points lower than when non-adjusted for inflation allocations.

This difference between nominal and real allocations is significant enough to substantially skew budget analysis and conclusions. For example, if the purchasing power of the Rand has decreased, what you were able to buy for R1 last year is not what you could buy with R1 today.

The higher and/or more volatile the inflation rate, the more divergence will exist between real and nominal allocations, and the more essential it is to do the conversions before analysis commences.

Equity

Equity generally refers to a sense of justice and fairness. The budget can play a key role in promoting a fairer society. Budgetary incidence is the analysis of who actually benefits from the budget expenditure and who actually contributes towards budgetary revenue (resources). Thus, a redistributionary budget is a budget whose incidence favours the poor over the wealthy, thereby making overall personal income more equal once the effects of the budget are taken into account.

Budgetary redistribution can take place through both the expenditure and the revenue sides of the budget. For example, subsidised or free public services can be targeted at poorer individuals and

In South Africa, social grants are an example of a direct income transfer which is means tested to target it at the poor.

Budgetary incidence is conceptually fairly easy to describe, though its calculation in practice is very difficult. For this reason, equity aspects are probably the most complex dimension of budget analysis.

households, as can allocations of direct income transfers. However, it can be difficult to determine whether the rich or the poor benefit more from them, and to quantify this benefit. Regarding contributions towards budget revenue, a progressive tax system taxes higher income earners at a steadily increasing rate, such that wealthier individuals make a relatively

larger contribution to the country's revenue pool. However, taxes can, to differing degrees, be shifted to consumers which can have uncertain equity effects. A zero rating of goods typically consumed by the poor may improve the equity of the budget, but only if producers are not in a position to retain extra revenue as profit for themselves.

It is often more helpful to focus budget analysis on allocations to specific programmes or categories. When analysing from an equity perspective, one could look at what budget allocations do for a specific group or issue, for example women, children or rural households.

In some cases equity considerations in the budget need to be balanced against efficiency considerations. Setting tax rates too high may deter investment in the economy and even lead to capital flight, which would reduce economic growth and future tax revenue. But high levels of poverty and inequality can increase demand and dependency on social welfare expenditure. Additionally, high levels of poverty and inequality themselves contribute negatively to a country's economic potential as they tend to generate social ills like crime, illness and an absence of trust.

While there is no specific threshold tax percentage that can be assigned, it has been suggested that the tax threshold of a country is less than a government would hope and more than the private sector would like.

Adequacy

To assess adequacy one needs to ask “are the inputs sufficient to achieve intended goals?” Asking this question implies knowledge of how much is needed for success and this makes assessing adequacy more difficult than assessing progress, priority and equity. However, effective costing methods can help solve this problem.

Costing is the determining of expenditure required to achieve an activity or strategy. When carrying out a costing, all inputs and outputs are identified and measured. Thus, the costs related to the outcomes they produce are calculated. This should be carried out for both the intermediate and final outputs. Sometimes it helps to relate costings to a specific activity. For example, how much does it cost to supply water to x number of houses?

There are three main types of costing.

1. **Total Cost** which is the cost of all inputs used to achieve a given level or number of outputs.
2. **Average Cost** which is the total cost divided by the total output, which is calculated according to the following formula:

$$\text{Average Cost} = \frac{\text{Total Cost}}{\text{Total Quantity Produced (Units of Output)}}$$

$$AC = \frac{TC}{Q}$$

3. **Marginal Cost** which is the change in total cost that arises due to the quantity produced by changing one output. Thus, the extra cost of producing one more unit after other units have already been produced. This is calculated as such:

$$\text{The Marginal Cost} = \frac{\text{Change in Total Cost of Production}}{\text{Change in Quantity Produced}}$$

$$MC = \frac{\Delta TC}{\Delta Q}$$

Often the costs of producing one more unit decreases after the initial units have been produced. This is known as **economies of scale**.

Within These Methods of Costing, Three Types of Costs Need to be Considered

- **Direct costs** – all the expenses including shared expenses.
- **Indirect costs** – additional costs incurred.
- **Intangible costs** – costing of expenses which may not be easy to assign a cost to, for example the cost of time spent implementing a project using a manager vs. a researcher, or of not having implemented a project vs. the implementation thereof. Often these are not firm values but need to be estimated with regard to their impact and consequences.

Once a costing is carried out it can be compared to the resources allocated to the project. If the cost is higher than the resources available, then the allocation is inadequate. However, if the costing is equal or less than the resources made available, then the allocation is adequate or more than adequate. Adequacy is best assessed at the end of a financial year when one has access to outcomes and the costs incurred throughout the year which can be used to interrogate adequacy of the resource allocation. However, in order to budget correctly, estimates of costings and questions of adequacy need to be assessed.

Efficiency and Efficacy

While the budget is being evaluated on grounds of progress, priority, adequacy and equity, it would be prudent to bear in mind factors relating to efficiency and efficacy.

Efficiency asks questions related to how astutely resources are being used and if outputs (results) are being achieved with the best and most cost-efficient use of inputs (resources). Given that governments operate within a limited resource envelope while addressing unlimited needs and wants, questions of efficiency are important.

Additionally, budgets should be assessed on efficacy or effective grounds, such that the question “Are allocated resources resulting in the achievement of specified policy outcomes?” can be answered.

TABLE 13: USEFUL BUDGET ANALYSIS EQUATIONS (QUICK REFERENCE SHEET)

CALCULATION	EQUATION
To work out budget share	$\text{Budget Section} \div \text{Total Budget} = \text{Budget Share}$
To adjust for inflation by inflating an earlier year's data to a later year's values	$\text{Nominal Value} \times \text{Current Year Inflation Index} \div \text{Later Year Inflation Index} = \text{Adjusted value}$
To adjust for inflation by deflating a later year's data to an earlier year's Values	$\text{Nominal Value} \times \text{Prior Year Inflation Index} \div \text{Later Year Inflation Index} = \text{Adjusted Value}$
To work out the inflation rate over several years	$(\text{Later Year Price Index} - \text{Prior Year Price Index}) \div \text{Prior Year Price Index} = \text{Inflation Rate}$
To work out an inflation index using a base year	$\text{Base Year Index} + \text{Later Year Inflation Rate} = \text{Inflation Index for Later Year}$
To calculate a growth rate	$(\text{Later Year \%} - \text{Prior Year \%}) \div \text{Prior Year Percentage} = \text{Percentage Increase in Budget Share}$
To work out the rate of growth required to reach a desired level of spending	$(\text{Desired Amount} - \text{Current Year Amount}) \div \text{Current Year Amount} = \text{Required Rate of Increase}$
To calculate increase in budget share over time	$(\text{Later Year Percentage} - \text{Prior Year Percentage}) \div \text{Prior Year Percentage} = \text{Percentage Increase in Budget Share}$
To work out an annual average growth rate in Excel	$\text{Rate (Number of Years, 0, - Prior Year Amount, Current Amount)}$
To calculate per capita Spending	$\text{Spending} \div \text{Population Number} = \text{Per Capita Spending}$
To calculate spending as a share of the economy	$\text{Spending} \div \text{GDP} = \text{Spending as a Share of the Economy}$

VIII. Appendix

Compiling a Budget Review and Recommendation Report - A Quick Guide

CONTEXT

Budgetary Review and Recommendation Reports (BRRRs) are introduced in the Money Bills Amendment Procedure and Related Matters Act of 2009.

THE ROLE AND CONTENT OF THE BRRRS

Section 5(1) of the Act states that “The National Assembly, through its committees, must annually assess the performance of each national department” and, in Section 5(2), that committees must “annually submit budgetary review and recommendation reports for tabling in the National Assembly for each department”.

The BRRRs are a key oversight mechanism and help ensure that subsequent amendment debates are based on credible analysis of departmental performance. They serve as the *starting point* for the adoption or amendment process. The BRRR should consider performance for the previous, completed fiscal year.

For example, the 2011 BRRR should consider departmental performance for the 2010/2011 fiscal year. After the BRRR is adopted, Parliament and its committees will then consider the MTBPS, which must include a review of actual departmental spending for the first six months of the current fiscal year. For example, the 2011 MTBPS will include actual departmental spending for April to September 2011.

The BRRR, together with the MTBPS, allows Committees to base their February/March amendment debates on a fairly clear sense of departmental spending trends and performance.

The extent to which amendment debates are based on accurate departmental performance depends on the quality of the information and analysis in the BRRRs.

THE CONTENT OF THE BRRRS

Section 5(1) of the act lists the aspects of performance that need to be considered annually. These are

- the medium term estimates of expenditure, strategic plans and measurable objectives as tabled in the Assembly

- prevailing strategic plans
- expenditure reports as published by the National Treasury in terms of Section 32 of the PFMA
- financial statements and annual reports of departments
- the reports of the Committee on Public Accounts relating to the relevant department
- any other information requested by or presented to the House of Parliament.

The BRRRs must also include

- an assessment of the department's service delivery performance, given available resources
- an assessment on the effectiveness and efficiency of the department's use and forward allocation of available resources.

The BRRR may include recommendations on the forward use of resources, that is, it may recommend amendments.

The first set of criteria requires committees to consider whether, and to what extent, a department has done what it was authorised to do. It requires accountability for the alignment of planning, financial management and implementation. Thus, it is accountability for internal coherence.

The second set of criteria requires accountability for results. Here committees must consider and report on the impact of what departments have done, that is, the services they have or have not delivered. Thus, it is accountability for external results.

TIMEFRAMES IN THE BRRR PROCESS

Section 4 of the act requires that committees submit their BRRRs to the National Assembly after the adoption of the Appropriation Bill and before the adoption of the reports on the medium term budget policy statement. This would usually be between June and November each year.

However, since the BRRRs must consider a range of performance documents, it is important that committees take an on-going approach to assessment, rather than leaving everything to be completed in September or October.

Committee Engagement Schedule: BRRR Documents

Strategic Plan and Medium Term Estimates of Expenditure: March/April

PFMA Section 32 Spending Reports: Monthly/Bi-monthly

Financial Statements/Annual Report /Auditor General's Report: End of September

Reports of Committee on Public Accounts: Uncertain

In assessing service delivery performance and departmental efficiency and effectiveness, additional sources of information about a department beyond those listed above will be useful. This presents a good opportunity for a committee to hear the views of external stakeholders about a department.

Committees should convene both a public hearing and a committee discussion session focused specifically on the service delivery dimension of the BRRR. The public hearing should invite civil society and expert commentary on departmental performance, and should take place in September or October. If time allows, fact-finding visits by a committee would be useful.

Additional important sources of service delivery analysis might include

- performance audits by the Auditor General
- performance reports by the Public Accounts Committee
- National Treasury Reports, such as the Budget and Expenditure Review
- Performance Monitoring and Evaluation Reports from the Presidency
- Reports by the Financial and Fiscal Commission.

Committees should bear in mind that the evaluation of efficiency and effectiveness is always more interpretive than assessing whether, for example, the department's annual report is consistent with its strategic plan.

For this reason, multi-stakeholder input and opportunity for discussion are essential. However, this does not mean that a committee should not strive for an evidence based consensus view on departmental performance. The BRRR should clearly spell out whether the committee is satisfied, after considering all the evidence, with a department's service delivery performance or not. Furthermore and on the basis of this clear statement, the BRRR can also make recommendations on future allocations, as noted in Section 5(3)(c) of the Money Bills Amendment Procedures and Related Matters Act (2009).

GUIDELINE POINTS AND QUESTIONS

1. When holding a department accountable for internal coherence, the focus of a committee's scrutiny should be on the extent to which planning, financial management and implementation are aligned.
2. The BRRR should evaluate whether the annual report reports clearly on the measurable objectives of the strategic plan. Where an absence of internal coherence seems to exist, the committee should question the department in order to determine the reasons for this. Similarly, the BRRR should reflect on a department's audit opinion and include a discussion of measures taken or to be taken to address adverse or disclaimer audit opinions.
3. Where significant over- or under-spending has occurred, the committee must require a department to provide explanations and, if need be, to provide indications of steps taken to improve matters.
4. The BRRR should clearly indicate whether the committee is satisfied with these dimensions of performance or not.
5. The assessment of service delivery quality requires expert views and is more open to interpretation. Thus, a committee should strive to assess, and should report on, whether a department in its operations has been both efficient and effective.
6. Efficiency refers to what a department has produced given the resources available to it. Efficiency can be assessed for an entire vote, as well as for a programme or sub-programme. It is sometimes understood in terms of the outputs produced for a given set of inputs or resources. Thus, waste of all kinds is required to be avoided.
7. Effectiveness refers to the relation between what is produced and the attainment of objectives. It assesses whether the right things have been produced given the challenges a department is trying to address.
8. The BRRR's engagement with service delivery should assess and report on efficiency and effectiveness. That is, it should assess whether a department was producing or doing the right things and doing so with a minimum of waste.

A BRRR TEMPLATE

A typical BRRR might be structured as follows:

Introduction

- The Role of the Committee
- The Department's Mandate
- Summary of Department's Five-Year Strategic Plan

Assessment of Annual Report, Financial Statements and Related Documents

This assessment would include looking at the alignment of the annual report and the strategic plan. The department would probably be required to answer questions in a session with the committee.

Assessment of Service Delivery

This assessment would look at the dimensions of efficiency and effectiveness in what the department has done. The department would probably be required to answer questions in a session with the committee. In addition, this assessment would probably require the views of experts, Civil Society Organisations and similar non-government stakeholders.

Findings

This section should clearly indicate whether the committee was or was not satisfied with the different dimensions of performance listed in Section 5 of the act.

Recommendations

The act authorises committees to make recommendations on the forward use of resources. In addition to such recommendations, this section should include recommendations generated through discussion with departments on improving performance. Recommendations should be

- clear (who they are directed to, what action is expected)
- realistically achievable
- linked to specific timeframes
- open to monitoring and future evaluation.

End Note: In order to develop a working definition of budget transparency, the International Budget Partnership (IBP) used criteria developed by (1) the International Monetary Fund (IMF) in its *Code of Good Practices on Fiscal Transparency*, (2) the Organization for Economic Cooperation and Development (OECD) in its *Best Practices for Budget Transparency*, and (3) the International Organization of Supreme Audit Institutions (INTOSAI) in its *Lima Declaration of Guidelines on Auditing Precepts*.

X. Dictionary

A

Accountability: The obligation on the part of the legislature and executive to explain and justify their decisions towards the implementation of the responsibilities conferred on them by the electorate. Accountability is about the legal requirement to *report back* and give an account of what has been done.

Accounting: The systematic recording of the financial aspects of transactions. This is done according to recognised principles so that expenditures are transparent and accounts can be audited.

Accounting Officer: The civil servant in a government department who is accountable to the Minister and Parliament for financial management; the Director General or Head of the relevant department normally fulfils this role.

Adequacy: This refers to sufficient resources being allocated to achieve intended goals, outputs or fulfil policy requirements.

Aggregate Fiscal Discipline: The commitment to a fiscal policy stance characterised by a sustainable relationship between revenue and expenditure. It also refers to the compliance of government to adhere to the balance between revenue and expenditure as voted for by the legislature, such that a fiscally responsible stance is exercised.

Aggregate Resources (Resource Envelope): The means available to government to fund expenditure requirements. It is largely determined by the country's growth prospects, its tax policy and performance, and the interaction between these variables in addition to the deficit and debt ratios.

Allocation: Money earmarked for a particular purpose in the budget. For example, the allocation for welfare on the national budget which then has to be spent on welfare.

Allocative Efficiency: In Public Economics, it refers to the right combination and quantity of goods and services provided through the budget. An allocatively efficient budget will thus mean this combination conforms as closely as possible to the preferences of households.

Amendment: Within the context of the budget system, it refers to the budgetary changes that parliament is authorised to make by the Money Bills Amendment Procedures and Related Matters Act of 2009.

Auditor General: Is an independent institution as established in Chapter 9 of the Constitution. It is charged with examining whether revenues are being collected and expenditures made by the Executive in a manner that is consistent with the Enacted Budget and with applicable financial management regulations. Additionally, the Public Finance Management Act requires that the Auditor General evaluate performance, including efficacy of spending, rather than simple compliance with rules.

Audit Report: The written articulation of the Auditor General's findings; it contains an audit opinion and recommendations.

Audit Opinions: One of four audit opinions is given to reports by the Auditor General: an unqualified opinion (clean audit), a qualified opinion, an adverse opinion (opposite of a clean audit) or a disclaimer of opinion.

Average Cost: Is the total cost divided by the total output.

B

Balance of Payments (BOP): It is an accounting record of all monetary transactions between the world and a specific country, including payments for imports and exports. The two primary components of the BOP are the capital and current accounts.

Basic Services: The national minimum standards of service in education, social development, health care, housing and infrastructure as defined in the Constitution, legislation or government policy.

Batho Pele: Is the South African political initiative that was first introduced by the Mandela Administration on 1 October 1997 to stand for the better delivery of goods and services to the public. It is also now used to imply the disavowal of government organisations deemed corrupt or obsolete. It loosely means *people first*.

Bonds: A certificate issued by a government or a private sector company promising to repay borrowed money at a fixed rate of interest at fixed times, with a final capital repayment at a specified date.

Budget Balance: The difference between total expected revenue (tax revenue and other sources, such as charges for government services) and expenditure.

Budget Council: A consultative forum established to coordinate financial relations between national and provincial government. Its role is to make a recommendation on the division of revenue before this decision is finalised by the Cabinet. The Budget Council was formalised by the Intergovernmental Fiscal Relations Act of 1997.

Budget Deficit: The difference between total expected revenue (tax revenue and other sources, such as charges for government services) and expenditure, where expenditure exceeds revenue.

Budget Policy: Is the articulation of policy priorities and the allocation of revenue to give effect to achieving these goals, in conjunction with the setting of the Fiscal Framework.

Budget Surplus: The difference between total expected revenue (tax revenue and other sources, such as charges for government services) and expenditure, where revenue exceeds expenditure.

Budget System: The set of players and processes that go into the making of budget decisions, and finally budget policy. It is often referred to as the 'back office' part of budgeting.

Budgetary Impact: Is the effect of the budget on society and the economy.

C

Capital Account (Financial Account): Reflects the net change in national ownership of assets. It is one of two primary components of the balance of payments, the other being the current account.

Capital Expenditures: Spending on an asset that lasts for more than one year is classified as capital expenditure, such as equipment, land, buildings and infrastructure like roads.

Civil Society Organisation: Are all institutions and organisations outside of government. This includes trade unions, consumer organisations, the formal and informal welfare sectors, non governmental organisations (NGOs) and community-based organisations (CBOs), religious organisations delivering welfare services, corporate social investment, employee assistance programmes, occupational social work and social workers in private practice.

Conditional Grant: Transfers from national government departments to provincial or local government for a specific purpose determined by the transferring department, and usually with strong reporting requirements.

Consumption Spending: Spending on consumable goods and services which are used up in a short time, usually one year. Economic theory suggests consumption spending should be financed by recurrent expenditure.

Contingency Reserve: In the budget, an amount set aside, but not allocated in advance, to accommodate changes in the economic environment, and to meet unforeseeable spending pressures.

Conventional Budget Balance: The difference between expenditure items, such as salaries and wages, expenditure on goods and services including capital expenditure, interest on public debt, transfers and subsidies, and revenue items including taxes, user charges, and grants received, profits of non-financial public enterprises and sales of assets.

Cost Drivers: Those major factors that cause the costs of a particular programme or activity to change over time. For example, learner numbers and teacher salaries are the cost drivers in education.

Corporate Income Tax (CIT): Tax imposed by tax authorities on the incomes of corporations. Virtually all countries assess taxes on the net profits of corporations; most are flat-rate levies rather than extensively graduated taxes.

Current Account: Is a measure of a country's foreign trade. It is the sum of the balance of trade (exports minus imports of goods and services), net factor income (such as interest and dividends) and net transfer payments (such as foreign aid). It is one of two primary components of the balance of payments, the other being the capital account.

Current Budget Balance: Represents the difference between current revenue and current expenditure.

Current Expenditures/Spending: See Consumption Spending.

D

Debt: Is the obligation of one party to repay another party for monies borrowed. (1) Private debt refers to sums that must be repaid by individuals and companies. Interest is normally payable on private debt. (2) National debt is the money owed by the state in its corporate capacity.

Debt Ratios: How much a country produces in relation to how much they owe. It is usually given as a percentage of the Gross Domestic Product (GDP), and is calculated by dividing government debt by the GDP.

Debt Service Costs: The interest payable on a country's debt.

Debt Stock: The total value of debt as measured at a particular point in time. The magnitude of the debt stock determines, for a given set of interest rates, the cost of debt servicing. The public debt stock is often expressed as a share of the GDP.

Direct Costs: Costs linked to specific activities, services or projects, for example salaries.

Division of Revenue Act (DORA): The annual legislation that provides for the allocation of funds between the spheres of government, as required by the Constitution in Section 241. The Division of Revenue Act determines the sizes of equitable shares, conditional grants and some agency payments.

E

Economic Efficiency: The use of resources so as to maximize utility. In other words, the right mix of goods and services need to be produced while simultaneously minimising waste and inefficiency.

Economic Growth: A positive change in real GDP.

Efficacy: Relates to assessing whether or not allocated resources are resulting in the achievement of specific policy outcomes.

Efficiency: See Allocative Efficiency, Economic Efficiency, Operational Efficiency and Technical Efficiency.

Equitable Share: The share of funds in the National Revenue Account that each sphere of government is constitutionally entitled to. The criteria which serve as the basis for the division are listed in Section 214(2) of the 1996 Constitution of South Africa.

Equity: Refers to justice and fairness. Within a budget context this relates to who benefits from budget expenditure and who contributes towards budget revenue.

Executive: A person or group appointed and given the responsibility to manage the affairs of an organisation and the authority to make decisions within specified boundaries. This person or group is elected by members of the National Assembly to assume the role of President and leader of the Cabinet, and is also tasked with the responsibility to uphold the Constitution and the law.

Expenditure: Government spending of money, or the amount of money spent.

F

Fiscal Year: The twelve months according to which budgets are run. The South African Annual National Budget runs from 1 April of one year to 31 March of the next year.

Fiscal Accountability: Refers to the responsibility of those using national revenue to account for their expenditure. For example, the National Department of Health is accountable to the National Treasury and the National Assembly for funds spent.

Fiscal Policy: Government's use of the budget to influence economic activity within a country's economy. The two main instruments of fiscal policy are expenditure and taxation.

Forecasting: Is a planning tool which helps government to plan for the future. Forecasts rely on the analysis of trends as captured in data from past to present. It starts with assumptions of trends based on experience, knowledge and judgement.

Fruitless or Wasteful Expenditure: Expenditure which is wasteful or unsuccessful and could have been avoided if reasonable care had been exercised.

G

Government Finance Statistics: A system designed by the International Monetary Fund (IMF) for the analysis of fiscal policy. It specifies accounting rules, balance sheet formats, definitions, and classifications of revenue and expenditure.

Gross Domestic Product: The total value of final goods and services produced in a country during a calendar year.

Grants: A transfer of revenue from government for a specific purpose. They are either conditional or unconditional.

H

Horizontal Division of Revenue: The division of revenue between the nine provinces. After money available in the National Revenue Fund is divided between the three spheres of government (vertical split), the total amount allocated to the provinces is divided between the nine provinces according to a formula.

Indicative Allocations: The projected future allocation of revenue within a current budget which is used as a planning tool by departments. The Medium Term Budget Policy Statement presents indicative allocations ahead of those contained in the national budget.

Inflation: A sustained increase in the general level of prices.

Interest Rate: Is the cost of borrowing money; usually expressed as a percentage of the borrowed amount.

Intergovernmental Fiscal Relations Act of 1997 (IGFRA): This act is the key piece of legislation which gives effect to the Constitution by spelling out the process of consultation to be followed in enacting the annual Division of Revenue Bill. The IGFRA established the Budget Council and Budget Forum, and describes the consultation process to be followed with the FFC.

Intergovernmental Fiscal Review (IGFR): A review of the actual expenditure and service delivery achievements of provincial and local government, published by the National Expenditure Survey for provinces and local government.

Irregular Expenditure: Expenditure which is incurred in contravention of, or that is not in accordance with the requirement of any legislation applicable to public sector procurement (also known as corruption).

J

K

L

Legislature: A deliberative body of persons, usually elective, who are empowered to make, change, or repeal the laws of a country or state. This is the branch of government that has the power to make laws, and is distinguished from the executive and judicial branches of government.

Line Item: An item in a department budget that refers to the amount of money allocated within a programme or sub-programme.

M

Macroeconomic Policy: Broad government policies that ensure economic stability. It includes monetary and fiscal policy.

Marginal Cost: The change in total cost that arises due to the quantity produced when one output is changed. Thus, the extra cost of producing one more unit after other units have already been produced.

Measurable Objectives: A way of measuring the performance of government departments. The Public Finance Management Act obliges Account Officers to publish such measurable objectives in their department's budget.

Medium Term Budget Policy Statement: A document published about five months before the beginning of the new fiscal year (October or November) by the National Treasury. It sets out the fiscal planning framework for the upcoming budget and two years following.

Money Bills: Bills which appropriate money, impose national taxes, levies, duties or surcharges, abolish or reduce or grant exemptions from any national taxes, levies, duties, or surcharges, or authorise direct charges against the National Revenue Fund.

Multi-Year Budgeting: Refers to the practice of budget planning over a horizon longer than a year. In the South African case this means planning for the next three years. This practice allows for the planning of expenditure and revenue decisions in a manner that enhances the sustainability of long-term programme expenditures. It avoids initiating projects in one year that cannot be afforded in subsequent years.

N

National Council of Provinces (NCOP): The NCOP came into existence with the adoption of the new Constitution in 1996. It replaced the Senate, which had been the other House of Parliament since 1994. The NCOP not only provides provinces with a forum in which to engage with the national government on matters

concerning areas of shared national and provincial legislative powers, but also oversees the programmes and activities of national government relating to provincial and local government matters.

Nominal Allocations: Allocations which are expressed at face value, such that they are not adjusted to account for inflation.

Nominal Terms: The actual monetary value in terms of purchasing power of the day (at current prices). Nominal terms do not take into account the effect of inflation on the real value of money. Government budgets are in nominal terms and do not adjust totals for inflation.

O

Open Budget Index: Is a survey based document released by the International Budget Partnership which is a comparative, independent and regular measure of budget transparency and accountability worldwide.

Open Economy: An economy that is exposed to the international economy through its import and export transactions, and through its involvement in international capital markets.

Operational Efficiency: The use of the right people, processes and technology so that productivity and service delivery is enhanced (maximised) and overall costs are minimised.

Outcomes: The ultimate impact on the broader society or economy as the result of a particular government programme, for example, the improvement of the nation's health or reductions in the rate of crime.

Outputs: The public services that are provided by government, for example the number of medical operations performed, or the number of prisoners accommodated in cells.

P

Per Capita: Per person or per head.

Personal Income Tax (PIT): Income tax is a tax levied on all income and profit received by a taxpayer (which includes individuals, companies and trusts). It is the national government's main source of income and is imposed by the Income Tax Act No. 58 of 1962.

Perverse Incentives: Refers to rewards accrued for behaviour which is detrimental to the system as a whole (e.g. poor tax effort), or alternatively to penalties that are inflicted for behaviour which is systemically desirable (e.g. strong tax effort), thereby creating an incentive that has an unintended result which is contrary to the interests of the incentive makers.

Poverty: Poverty can be viewed as an absolute or a relative concept. The absolute poverty approach defines minimum levels of income required to sustain life, for example, estimating minimum dietary needs and how these can be met in the most economical way. The relative poverty approach defines the poverty of one group of people relative to that of another. In terms of this definition someone can have enough to sustain life, but still be defined as being poor, compared to other people.

Priority: How important a programme or objective of government is as related to its share of the budget. Those that are allocated a larger percentage of the budget are more important than those that have fewer resources allocated for their purposes.

Progress: Refers to the evaluation of trends in resources allocated to programmes, departments or functions over time.

Public Expenditure Management Approach: In order to perform the roles assigned to it by its people, the state needs, among other things, to (1) collect resources from the economy in a sufficient and appropriate manner, and (2) allocate and use those resources responsively, efficiently and effectively.

Public Finance Management Act (PFMA): Passed in 1999, this act gives effect to sections of the Constitution which call for national legislation to establish generally recognised accounting practices, introduce uniform treasury norms and stands, and set out measures to ensure transparency and expenditure control in all spheres of government. This detailed bill also sets out operational procedures for borrowing, guarantees, procurement and the oversight of government funds.

Public Sector: Refers to all institutions owned or controlled by government. These include national, provincial and local government, extra-budgetary governmental institutions and non-financial public enterprises.

Public Sector Borrowing Requirement: The amount government must raise through local or foreign loans. The Borrowing Requirement equals the deficit before borrowing and debt repayment of the central government, provincial governments, local authorities and non-financial public enterprises and corporations.

Q

R

Real Allocations: Allocations which have been adjusted to account for the affects of inflation.

Reserves: Stores of foreign exchange held at the Reserve Bank.

Revenue: Government's annual income collected from taxes on salaries, profits, etc.

Roll-over: Funds appropriated in the previous financial year not spent. The unspent funds are returned to Treasury and Cabinet then decides how to best reallocate the funds in the new financial year.

S

Social Spending: Is the public expenditure on a variety of social programmes such as health, welfare, housing, teacher salaries, etc.

Socioeconomic Rights: Also called *second generation rights*, these rights include the right to housing, the right to water and the right to an education. The state has a duty to provide access to these rights only in so far as its resources allow.

Supreme Audit Institution (SAI): Refers to any organisation which sets standards for audit work. The organisation itself will depend on the particular scope of the audit.

Surplus: The amount by which total revenue exceeds total expenditure.

Sustainability: Refers to whether or not the current course of fiscal policy can be sustained without public debt exploding or imploding into the future. The ideal is that overall and overtime revenue should match expenditure.

T

Taxes: An involuntary fee levied on corporations and individuals that is enforced by a level of government in order to finance government activities.

Tax Base: Is the size and number of sources taxable by government.

Tax Burden: Is the tax that should be paid. This is the same as the tax yield of government.

Tax Rate: The amount of tax paid per unit of tax base.

Tax Revenue: Is the income that is gained by governments through taxation.

Tax Structure: Refers to the system of taxation as a whole and the burden it imposes on consumption and savings, and on different income classes of tax-payers.

Technical Efficiency: The use of resources in such a way that there is no wastage during the production process of goods and services.

Top-slicing: The practice of removing an amount of money from the National Revenue Fund before the remaining funds are split up into the equitable shares of national, provincial, and local governments. In South Africa, the top-slice pays for debt service costs and the contingency reserve.

Total Cost: Is the cost of all inputs used to achieve a given level or number of outputs. It is made up of variable costs, which varies according to the quantity of goods produced, and includes inputs such as labor and raw materials. It also includes fixed costs which are

independent of the quantity of the goods produced and includes inputs (capital) that cannot be varied in the short term, such as buildings and machinery.

Trade-off: A choice that is made between competing expenditure and revenue priorities; limited resources available to government mean that more spending in some areas must mean lower spending in others.

Transparency: Refers to the public availability of comprehensive, accurate, timely, and useful information on government's activities with implications for its finances. An international standard for transparency is the IMF Code on Fiscal Transparency. Also see Open Budget Survey.

Treasury: The National Treasury is the government department that manages the public revenue, intergovernmental fiscal relations, economic policy and the budget.

Treasury Committee: A committee, chaired by the Finance Minister that evaluates all requests for additional funds for unavoidable and unforeseen expenditure during a financial year.

U

Unallocated Reserves: Funds available for expenditure that have not yet been allocated to a particular use. It consists of the contingency reserve and amounts of money left unallocated by the provinces.

Unauthorised Expenditure: Spending of funds on purposes other than what it was allocated for in the budget, and/or overspending.

Unconditional Transfer: Revenue transferred to government spheres and programmes which is not earmarked for specific programmes and has no specified conditions.

V

Value-Added Tax (VAT): A type of consumption tax that is placed on a product whenever value is added at a stage of production and at final sale. Value-added tax (VAT) is most often used in the European

Union. The amount of value-added tax that the user pays is the cost of the product, less any of the costs of materials used in the product that have already been taxed.

Vertical Division: The division of revenue between spheres of government. Before the money available in the National Revenue Fund is divided between the three spheres, government takes a slice off the top to pay for debt service.

Vertical Imbalance: The imbalance of revenue between spheres of government which means that sub-national governments rely on intergovernmental transfers to fulfil their expenditure mandates.

Virement: The transfer of resources between different programmes within the same department vote during the financial year by Accounting Officers. In terms of Section 43(2) of the PFMA, not more than 8% of what was originally budgeted for in a programme may be moved to another programme in the same vote. Virement regulations must reconcile the tension between administrative flexibility on the one hand and accountability on the other. A balance is essential since both are necessary conditions for effectiveness and efficiency.

Vote: An appropriation voted for by Parliament. Each department budget is a separate vote.

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