

Parliamentary

Strategic plan review: SCoA

Budget
Office



Outline

- Purpose
- Mandate of the Committee
- PBO support
- PBO considerations and analysis
- South Africa needs fundamental change in structures, systems, institutions and management
- Examples of previous budget analysis and presentations
- National Development Plan

Purpose

- The Money Bills Amendment Procedure and Related Matters Act enables Parliamentary Committees to amend Money Bills and provides for the establishment of a Parliamentary Budget Office (PBO)
- The PBO supports Parliament in its oversight role by providing advice and analysis on Money Bills and related matters
- The PBO do not make recommendations, however the analysis guides discussions and possible recommendations

Mandate of the Committee

A committee on appropriations consider and report on spending matters focusing on the:

- Medium Term Budget Policy Statement
- Division of Revenue Bill
- Appropriation Bill
- Supplementary Appropriations Bills
- Adjustments Appropriation Bill

Any amendments to the Division of Revenue Bill (if materially unchanged), the revenue Bills or the Appropriation Bill must be in accordance with the estimates of revenue and expenditure (Budget) and fiscal framework, excluding statutory expenditure, debt service cost and the contingency allowance

Mandate of the Committee (cont.)

Consider:

- Recommendations of the Financial and Fiscal Commission,
- Reports on actual expenditure published by the National Treasury
- Consult with any other committee in considering matters referred to it. (How?)

Allow the Minister the opportunity to respond to any amendments proposed to the Division of Revenue at least 3 days prior to the submission of the report to the relevant House

Mandate of the Committee (cont.)

Demonstrate:

- How the amendment takes into account the broad strategic priorities and allocations of the relevant budget
- The implications of each proposed amendment for an affected vote and the main divisions within that vote
- The impact of any proposed amendment on the balance between transfer payments, capital and recurrent spending in an affected vote
- Set out the impact of any proposed amendment on service delivery

What to assess:

- Responsiveness: Does expenditure respond to the needs
- Efficiency: The input-output ratio is the most basic measure of efficiency. For example, education spending (input) affects educational attainment rates (output)
- Effectiveness: What impact did it make
- Economical: Value for money

PBO support

- Medium Term Budget Policy Statement analysis
- Budget analysis
- Quarterly Economic Brief
- Policy analysis focussing on the monitoring of the implementation of the NDP
- Forecast audits:
 - GDP
 - Revenue
- Research
- Other depending on capacity

PBO considerations and analysis

- Fiscal Policy: Fiscal consolidation and efficiency measures
 - The effectiveness of efficiency measures
 - Risks
 - Debt
 - Capital spending
 - Expenditure trends
- Strategic direction: SONA
 - Policy expenditure priorities
 - Shift in expenditure per function
- Economic performance: The budget depends on the economy to generate the resources to finance these investments
 - Forecast audits
- Topical from risks: Credit rating, wage bill, SOEs and contingent liabilities

South Africa needs fundamental change in the structure, systems, institutions, management.... So where do we start?

Efficiency measures

- Consultants or professional services
- Travel and accommodation
- Catering
- Social events
- Entertainment allowances
- Communication and advertising
- Hiring of venues
- The size of delegations to events

Should government not have a more structured approach?

- Sector specific measures
- Communication of efficiencies
- Spending reviews: ?improvement

What happened during the national adjustments process?

Declared unspent (R1 308 million) of which:

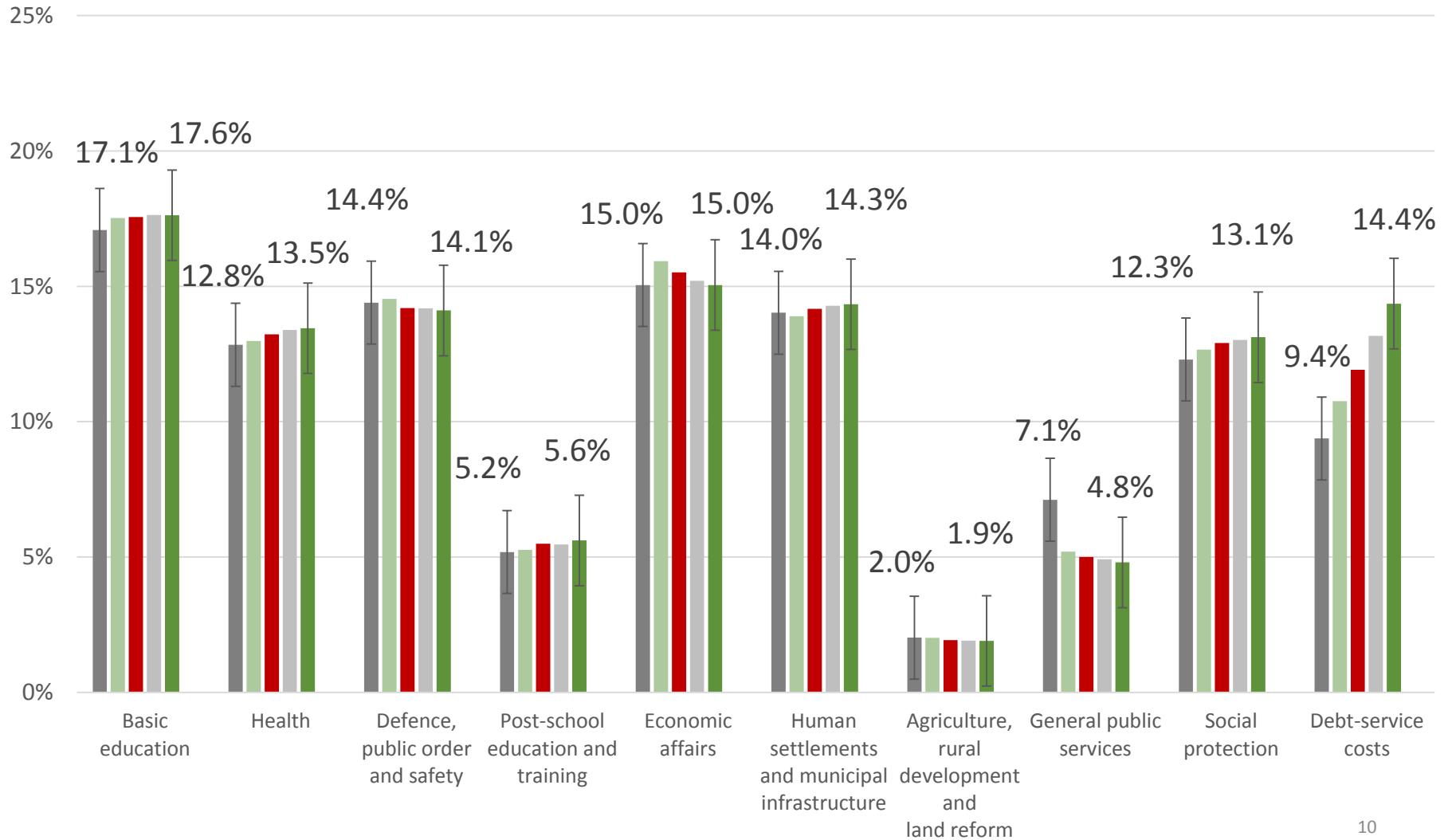
- R243.3 million from Compensation of Employees
- R317.8 million shifted from Compensation of Employees
- Reallocation of savings due to cost containment measures
 - Travel and communication for ministerial outreach
 - Vehicles for Judges and Ministers

Approval mechanism

- Executive
- National Treasury
- Parliament (Money Bills Amendment Procedure and Related Matters Act and Appropriation Act)

Proportion of allocations per function

■ 2015/16 Outcome
 ■ 2016/17 Revised
 ■ 2017/18 Medium-term estimates
■ 2018/19 Medium-term estimates
 ■ 2019/20 Medium-term estimates



Functional changes since 2016 MTBPS

	2016/17	2017/18	2018/19	2019/20
R million				
Basic education	-1 773	-1 816	-630	-480
Health	1 637	3 085	2 511	2 941
Defence, public order and safety	579	777	150	318
Post-school education and training	355	942	-267	512
Economic affairs	-5 988	-1 312	2 216	4 415
Human settlements and municipal infrastructure	-1 299	-1 843	-1 936	-1 871
Agriculture, rural development and land reform	-317	-411	-497	-443
General public services	2 135	918	-565	-830
Social protection	-194	85	223	199
Debt-service costs	-1 408	-1 290	-153	144
Consolidated expenditure	-6 272	-864	1 052	4 907

Economic changes since 2016 MTBPS

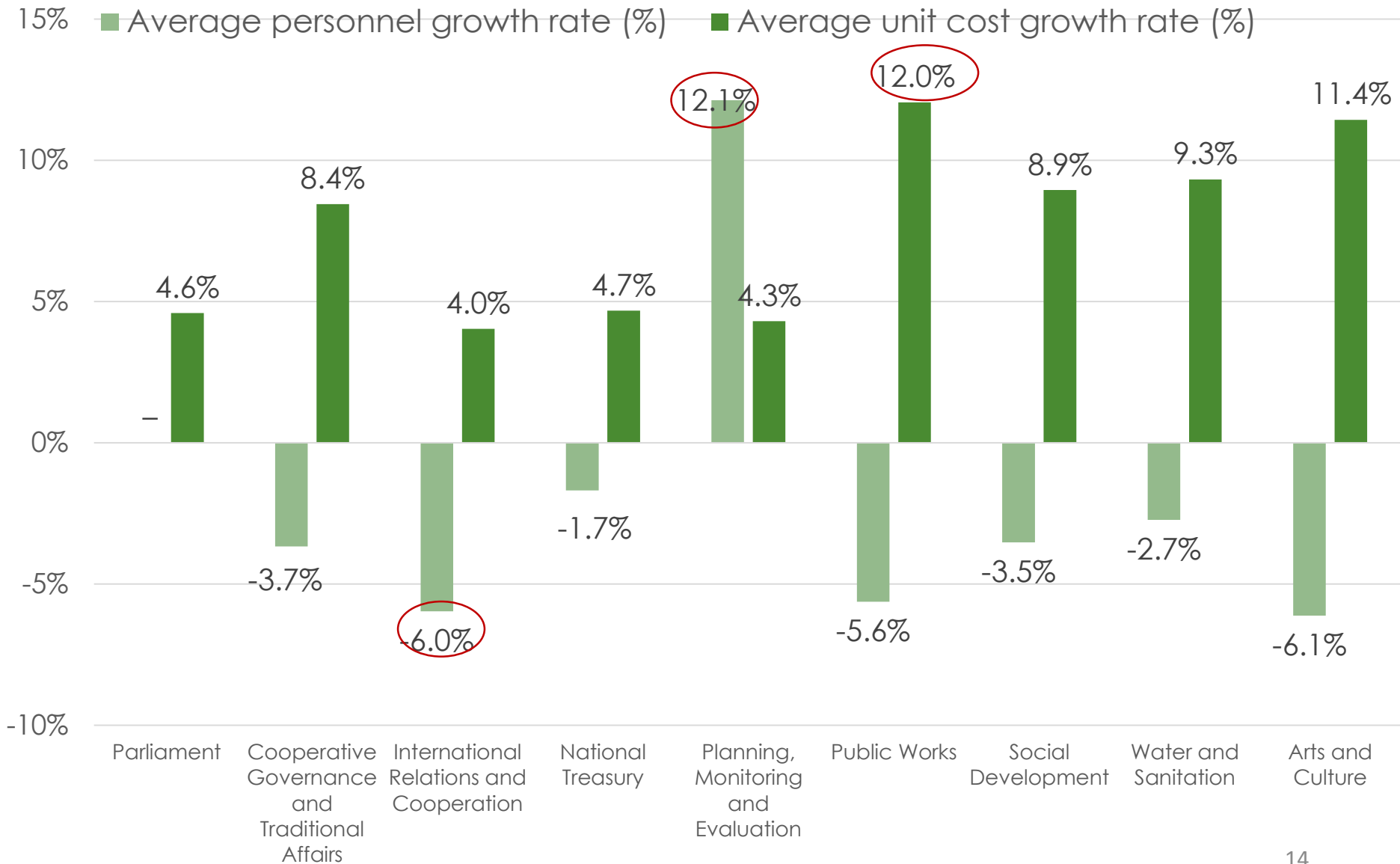
R million	2015/16 Outcome	2016/17 Revised estimate	2016/17	2017/18	2018/19	2019/20
Current payments	798 900	873 876	-185	1 582	3 666	5 774
Compensation of employees	472 779	512 240	-2 782	935	1 667	1 352
Goods and services	190 855	208 276	3 727	2 032	2 883	3 684
Transfers and subsidies	441 362	471 908	1 774	175	2 054	9 293
Provinces and municipalities	108 160	112 736	-364	1 894	2 006	283
Departmental agencies and acc	26 101	24 852	-22	-1 245	-1 323	-1 073
Higher education institutions	27 479	30 651	147	397	-1 095	-3 806
Public corporations and private enterprises	30 695	31 941	1 148	-2 838	-3 174	3 393
Households	218 673	239 779	1 211	1 643	4 475	9 226
Payments for capital assets	102 586	93 013	-8 105	-3 008	-4 590	-10 043
Consolidated expenditure	1 373 106	1 445 205	-6 272	-864	1 052	4 907

Measures addressing fiscal risks

Fiscal risks	Measures
Wage Bill	Reduce appointments in non-critical positions to stabilise headcounts
Inefficiencies in expenditure	<ul style="list-style-type: none">▪ Improve budget execution▪ Improve In-year monitoring▪ Procurement reforms
Financially troubled public entities	Budget neutral assistance by National Treasury
Contingent liabilities <ul style="list-style-type: none">▪ PPPs▪ Government guarantees▪ Multilateral institutions	


High oversight expectations of Parliament

Estimated changes to headcounts




South African foreign currency government debt is downgraded to non-investment grade status

Fitch	Moody's	S&P		Countries (selected)	
A+	A1	A+	Upper medium grade	Botswana	Slovakia
A	A2	A		Czech Rep.	Poland
A-	A3	A-		Japan	Malaysia
BBB+	Baa1	BBB+	Lower medium grade	Mexico	Peru
BBB	Baa2	BBB		Uruguay	India
BBB-	Baa3	BBB-			Indonesia
BB+	Ba1	BB+	Non-investment grade speculative	South Africa	Russia
BB	Ba2	BB		Brazil	Turkey
BB-	Ba3	BB-		Bangladesh	Ivory Coast
B+	B1	B+	Highly speculative	Angola	Kenya
B	B2	B		Cambodia	Rwanda
B-	B3	B-		Argentina	Egypt
CCC	Caa1	CCC+	Substantial risks	Mongolia	Belarus
	Caa2	CCC	Extremely speculative	Greece	Belize
	Caa3	CCC-	In default with little prospect for recovery	Venezuela	Mozambique



Investment Grade



Non-investment Grade

What are the fiscal implications of the sovereign credit rating downgrade?

- Direct effects
 - The interest paid on future government debt issued will increase
 - Less money will be available for government's policy priorities
 - Creates a vicious cycle of higher debt and further downgrades
 - Key South African financial institutions also downgraded
- Indirect effects
 - Damaged investor sentiment – slower growth and lower tax revenues
 - Forced selling of government bonds and further Rand depreciation
 - Higher inflation – government spending must grow faster to compensate
 - Higher short-term interest rates – slower growth and lower tax revenues

National Development Plan

- The National Development Plan (NDP) propose the incorporation of its proposals into the existing activities of departments and broken down into the short and medium -term plans of government at national, provincial and municipal level
- The MTSF is detailed 5-year implementation plans structured around the 14 NDP priority outcomes
- It is the mechanism through which all plans of government institutions should align to the NDP therefore seeks to ensure policy coherence, alignment and coordination across government plans and budgets
- Cabinet uses the MTSF to monitor the implementation of the NDP across government through the Programme of Action report (POA)
- The POA should enable Parliament, provincial legislatures and the public to monitor the overall impact of implementing the MTSF on society

National Development Plan (cont.)

- The Speaker requested the PBO to provide an update on the status of the NDP
- This is what we did:
 - Analysis of the performance on the achievement of the MTSF targets for the 2014/15 and 2015/16 financial years
 - Assessment of the alignment of the 2014-2019 MTSFs of government with the actions and objectives of the NDP, including technical analysis
 - Assessment of the reporting systems for performance, monitoring and evaluation
 - Assessment of the budget allocations that contribute to the implementation of the NDP
 - Assessment of the conditional grant allocations towards the achievement of the 14 outcomes
 - An assessment of the alignment of the composition of the management structures of the 14 outcomes with the budget function groups

Targets achieved per outcome: 2015/16

Outcome	% achieved 2014/15	Number of Targets	Targets achieved	% achieved 2015/16
Outcome 1: Quality Basic Education	37%	59	15	25%
Outcome 2: A Long and Healthy Life for All South Africans	45%	55	23	42%
Outcome 3: All people in South Africa are and feel safe	29%	76	19	25%
Outcome 4: Decent employment through inclusive economic growth	45%	96	33	34%
Outcome 5: A skilled and capable workforce to support an inclusive growth path	52%	61	23	38%
Outcome 6: An efficient, competitive and responsive economic infrastructure network	46%	28	5	18%
Outcome 7: Comprehensive rural development and land reform	0%	39	19	49%
Outcome 8: Human Settlements	13%	26	13	50%
Outcome 9: Responsive, accountable, effective and efficient developmental local government system	64%	26	16	62%
Outcome 10: Protect and Enhance Our Environmental Assets and Natural Resources	29%	62	32	52%
Outcome 11: Create a better South Africa, contribute to a better and safer Africa in a better world	44%	40	29	73%
Outcome 12: An efficient, effective and development-oriented public service	39%	46	27	59%
Outcome 13: An inclusive and responsive social protection system	40%	7	2	29%
Outcome 14: Nation Building and Social Cohesion Alignment and Progress	42%	59	22	37%

Discussion

1. Do allocations address the pressures and support the government's strategic direction?
2. What can government do to ensure that government spending is more efficient and effective?
3. What are the priority areas and have we effectively allocated the budget according to these priorities?
4. What are the obstacles to effective allocation?
5. Should efficiency measures be more targeted?
6. Appropriate allocation of budget between the three spheres of government given roles and responsibilities?
7. The role of Metros in rural development?
8. Can the adjustment-budget-approval- process be improved?

Thank you