



MBPRMA AND PARLIAMENTARY COMMITTEES: IMPLICATIONS OF THE BUDGET REVIEW AND RECOMMENDATIONS (BRR) REPORTS

*A Briefing Document for the Standing Committee on
Appropriations by the Financial and Fiscal Commission*

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1 INTRODUCTION

The Money Bills Procedures and Related Matters Act of 2009 (MBPRMA) has a potentially profound effect on the operations of both Parliament as a whole, as well as parliamentary committees in particular. Since the MBPRMA requires the creation of new institutions such as the Parliamentary Budget Office, there will be a gradual process of institutional evolution as these are phased in. Parliamentary committees will also, in their business plans, programming and annual reporting for example, have to respond to these changes.

The Public Finance Management Act of 1999 (PFMA) sketched a budget reform blueprint for putting in place a modern, constitutionally compliant framework for fiscal government and the management of public revenues, expenditures, assets and liabilities. It also outlined an accountability framework for holding the executive accountable to Parliament (e.g. by defining the responsibilities of the Accounting Officer and Executive Authority). PFMA requires that national and provincial departments and other public entities produce strategic plans, budgets with measurable objectives, monthly financial in-year reports, quarterly performance reports and annual reports containing audited financial statements. These accountability documents need to be processed by Parliament, but the PFMA left the detailed modalities of this to Parliament itself, as is appropriate given the separation of powers.

The MBPRMA clarified the role of Parliament in amending money bills within a new three-stage budget process, with parliamentary action in relation to (1) the fiscal framework at an aggregate macro level, (2) the division of revenue at a meso-level and (3) individual departmental allocations at a micro level. In addition to creating specific committee structures and processes, it also sketches out statutory report requirements such as in relation to the Medium Term Budget Policy Statement, the Division of Revenue and the Budget Review and Recommendations Reports. This Briefing Document focuses specifically on the Budget Review and Recommendations (BRR) Reports. The BRR Reports are important because they are one of the key components of the MBPRMA which could be implemented immediately. Given the experience of BRR Reports in 2010/11, now is an appropriate time to reflect on lessons learnt and possible improvements in the 2011/12 year.

2 STATUTORY REQUIREMENTS FOR THE BRR REPORTS

The Medium Term Budget Policy Statement (MTBPS) has to be tabled at least 3 months before the National Budget is tabled. The MTBPS is tabled in October every year, along with the adjustments budget which authorises changes to the original budget appropriated at the start of the financial year. As indicated in section 6(2) of MBPRMA, MTBPS tabled by the Minister of Finance annually must include:

- a) A revised fiscal framework for the present year and the proposed fiscal framework for the next 3 years;

- b) An explanation of the macro-economic and fiscal policy position, the macroeconomic projections and the assumptions underpinning the fiscal framework;
- c) Spending priorities of the national government for the next three years
- d) The proposed division of revenue between the spheres of government and between the arms of government within a sphere for the next three years.
- e) The proposed substantial adjustments to conditional grants allocations to national and provincial governments, if any
- f) A review of actual spending by each national department and each provincial government between 1 April and 30 September of the current fiscal year

While elements (a) and (b) are dealt with by the Finance Committees of both Houses, elements (c), (d) and (e) are processed by the Appropriations Committee of both Houses in terms of s6(3). The Appropriations Committees have – in terms of s6(10) of the MBPARMA – 30 days after the tabling of the MTBPS to submit to their respective houses a report on the proposed division of revenue and conditional grant allocations to national and provincial governments.

National Assembly committees, through s5 of MBPARMA, also feed into MTBPS processing. S5 of the MBPRMA provides that the National Assembly, through its committees, must annually assess the performance of each national department. These Committees must annually submit Budgetary Review and Recommendations (BRR) reports for tabling in the National Assembly, based on this performance assessment. These should be considered by the Committee on Appropriations when it is considering and reporting on the MTBPS to the House.

The BRR reports, must, in terms of s3 of MBPARMA:

- a) Provide an assessment of the Department's service delivery performance given available resources;
- b) Must provide an assessment on the effectiveness and efficiency of the Department's use and forward allocation of available resources; and
- c) May include recommendations on the forward allocation of resources.

This is of enormous significance, since it means that sector portfolio committees which would not traditionally make budget-related recommendations now have an opportunity to do so. No matter how excellent the policy, implementation is unlikely to happen without sufficient funding. It is more than likely that portfolio committees, in their quest to promote achievement of government's policy objectives, will increasingly have to engage with the financial dimensions. The capacity to do so, will have to be built up over time, and will be significantly enhanced with the establishment of the Parliamentary Budget Office. The issue to be confronted is: how should this be approached in the interim?

This is especially crucial, given the wide scope of the performance assessment of national departments required by s5 of MBPARMA which – under tight time frames – includes:

- a) The medium term estimates of expenditure of each national department, its strategic priorities and measurable objectives, as tabled in the national assembly with the national budget;
- b) The prevailing strategic plan;
- c) The expenditure report relating to the department published by the National Treasury in terms of s32 of the PFMA;
- d) The financial statements and annual reports of the department;
- e) The reports of the Committee on Public Accounts relating to the Department; and
- f) Any other information requested by or presented to a House or Parliament.

3 RAPID ASSESSMENT OF 2010/11 BRR REPORTS IN RELATION TO STATUTORY OBLIGATIONS

A rapid assessment was taken of 18 of the BRR reports submitted by Committees in November 2010. Given the fact that this was the first time BRR reports were submitted without previous precedent to draw on, this has been a good start, especially taking the binding capacity constraints into account as well as time constraints. The BRR Report of the Portfolio Committee on Human Settlements¹ is an example of good practice, which could be emulated by other Committees and is of a standard which would compare favourably with international best practices. The same would apply to the BRR report from the Joint Budgetary Review and Recommendation Report of the Portfolio Committees on Basic Education and Higher Education and Training, dated 26 October 2010. There thus are already good practices which are emerging and can be shared.

While obviously not applicable to each of the individual BRR reports, the following trends/generalisations can be made:

1. There has been some degree of standardisation across all BRR reports (e.g. all of them sketch the Committee's mandate, the Department's mandate, analyse performance in terms of planned strategic objectives and measurable objectives in relation to actual service delivery achievement, and all generate recommendations, some of which pertain to the budget directly).

¹ *The Budgetary Review and Recommendation Report of the Portfolio Committee on Human Settlements on the performance of the Department of Human Settlements for the financial year 2009/10, dated 26 October 2010*

2. However, there is wide variation across Committees in terms of what they cover in the BRR Report. Some Committee's BRR reports have fallen short of the minimum statutory requirements; in other Committees, these requirements have been exceeded to include for example: other policy sources such as the State of the Nation Address, the Financial and Fiscal Commission's recommendations etc
3. In general, there has been an over-reliance on information reported by the Departments themselves, and their perceptions of their own performance, without sufficient triangulation with other external sources in order to verify their veracity. Some BRR reports do however draw on reports by the Human Rights Commission, Public Service Commission and the other institutions supporting democracy.
4. In many cases, the BRR Report tended to be overly descriptive rather than analytical. In some cases the conceptual link between the analysis presented and the recommendations ultimately made were not clear.
5. There may be other transversal themes such as impact on job-creation or on the lives of women, children, youth and persons with disability which could feature in BRR reports but did not. Consideration should be given to including them as a feature in all BRR reports, as a good practice.
6. Insufficient analysis of PFMA s32 reports was evident in some cases, even though spending capacity in the current year is a powerful predictor of ability to utilise allocations effectively and efficiently in subsequent years.
7. In many cases the analysis tended to be retrospective (i.e. says what actual spending and delivery outcomes were), but was not prospective (i.e. anticipating the effect on future budget and actual outcomes over the MTEF).
8. There was insufficient emphasis on conditional grants analysis. Where there was some analysis it tended to focus on spending vs budget rather than whether the aims of the grant were being achieved. This is probably because the Departments did not provide the right kind of information and in the right format, in adequate time.
9. Where recommendations were made in relation to budgets, they were virtually all for budget increases. Very little emphasis was placed on potential savings, potential reprioritisation or potential efficiencies. While individual Committees are at liberty to do so, and may indeed have cogent evidence-based justifications, fiscal envelopes are likely to be tight in the medium term. It would fall to the finance cluster to reconcile recommendations emanating from BRR reports with the available finances and capacity to spend – should specific recommendations to the executive be made in this regard.

4 SUGGESTIONS FOR IMPROVING BRR'S IN THE CURRENT CYCLE

Given that the procedure to amend money bills legislation is still new and the systems and processes needed to give effect to legislation are still emergent, it is hardly surprising that different actors in the process may have different understandings: (a) relating to the process of putting together BRRs, (b) the interaction required among committees (e.g. between the Appropriations Committee and other portfolio committees) and (c) minimum standards in relation to BRR Report content.

Based on the analysis delineated above, the following broad responses should be considered by the Appropriations Committee and its fellow parliamentary committees:

4.1 Creating a common understanding of the content of BRR reports

The minimum statutory requirements should be clearly delineated, as well as possible good practices over and above this. In particular there needs to be an agreement of what an assessment of "efficiency and effectiveness" as required by MBPARMA entails. This could entail refining the existing standard report structure.

The information requirements that this assessment will require (if any over and above what is already required by the PFMA and sector legislation) should be clearly communicated to departments in advance.

For instance, if committee reports relating to oversight over departmental strategic plans and budgets were standardised (e.g. in respect of analysis of planned departmental strategic outcomes and measurable objectives) and those relating to annual reports (e.g. in relation to actual achievements of strategic outcomes and measurable objectives), then both of these could feed directly into the BRR report, simply a "cut and paste" of the relevant tables and narrative. The main point being made is that there are upstream budget oversight reports which could contribute to, and be extended by, the BRR reports. BRR reports are part of a three phase cycle, and can build on and update what was done before.

4.2 Clarifying the detailed business process for BRR reports within the context of the three stage budget cycle introduced by the MBPARMA

Roles and responsibilities have already been broadly defined in the Act, but deciding on a more detailed business process for BRR reports is important. S4(5) of the MBPARMA explicitly makes provision to accommodate finance cluster committee coordination. S6(9) also opens the door to institutionalise processes of cooperation and consultation between the Appropriations Committee and other Committees in the standing rules (based on a clear business process).

To illustrate: when analysing conditional grants, the conditional grant appears in the budget of the national transferring department. It also appears in the budget of the recipient provincial department or municipality. Which committees should analyse these? Is their scope for sharing analysis based on a rational division of labour.

A similar set of issues relates to oversight over the national department (institutional oversight) vis-à-vis oversight over the policies which the national department administers (sector oversight e.g. in health or education where policy is set by national sector departments, but subnational departments implement). From a budget accountability perspective, the national department accounting officer can only be held accountable for funds directly within her budget and for conditional grants. However, when analysing strategic goals and objectives, national sector departments are accountable for monitoring, support and supervision of the entire sector. The fact that provincial legislatures are exercising oversight over a similar terrain further complicates issues. Clear principles should ideally be articulated for how BRR reports should deal with this, especially when the issues under discussion are not department specific, but arise systemically.

4.3 Gradually improving the quality of BRR Reports

If Committees want to influence budget allocations, they have to do it early enough in the cycle. Efforts via the BRR reports are likely to yield much more impact than efforts applied later in the cycle. Efforts applied to the outer years of the MTEF are likely to be even more successful, provided they are backed by coherent, evidence based research on implementation and financial risks as well.

Some of the measures which could be considered include:

1. Sensitising committee researchers to the large array of source of independent analysis and research relevant to the BRR, including those from Chapter 9 Institutions Supporting Democracy and the FFC.
2. Requiring each new BRR report to reflect on progress with previous BRR recommendations and Ministerial responses to BRR reports.
3. Encouraging an approach where recommendations for more money in one programmatic areas is accompanied by suggestions for reprioritisation, savings and increasing efficiency.
4. Briefing departments and other stakeholders on the information they are required to bring to hearings well in advance and ensuring that hearings allow views from stakeholders and committee oversight visits to validate departmental assessments of their own performance.
5. Identifying cross cutting themes (e.g. impact on vulnerable groups, employment creation or personnel related expenditure) that cut across all BRR Reports.

4.4 Dissemination of BRR reports

It was not easy to get access to the BRR Reports. These should ideally be put on Parliament's website with a link to National Treasury website's detailed budget document

5 FUTURE BRR TRENDS: KEEPING SCORE

As the *Report of the Independent Panel Assessment of Parliament* notes:

"The ability of Parliament to amend money Bills raises a number of concerns from the Treasury and other actors. These concerns relate to, among others, the balancing of expenditure with revenue generation when budget changes are effected, the disruption of the budget cycle, and inadequate resources within Parliament to analyse the full implications of budgetary adjustments. The panel recognises these concerns and acknowledges that the ability of Parliament to amend money Bills is a highly complex requiring thorough procedures and a significant expansion of capacity"(p.24)

In order to manage the risks that parliamentary simply add to expenditure requirements, the Appropriations Committee will have to – over time – develop a system for "keeping score" to ensure the internal consistency and coherence of Parliament's recommendations. This would entail ensuring that the aggregate of all committees budget related recommendations are consistent with the resources available in the fiscal framework (through reprioritisation, savings, dis-establishing programmes which are not needed or are dysfunctional etc). This is likely to colour the Appropriations Committees agendas for the next 5 years at least.

This analysis is merely to provide an independent perspective to the Appropriations Committees to stimulate their thinking in this regard. The FFC hopes to engage on these issues with the Committee in the future.