



FISCAL OVERSIGHT BY LEGISLATURES AND THE ROLE
OF PARLIAMENTARY BUDGET OFFICES
BONGANI KHUMALO (FFC)

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For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. International Trends and Innovation in Budgetary Oversight
2. Rationale for a Parliamentary Budget Office (PBO)
3. How PBO can enhance fiscal oversight of Parliament
4. International Experience with respect to PBOs
5. The South African Context
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 - 5.2 Parliamentary Oversight Tools
 - 5.3 Parliamentary Fiscal Oversight Bodies
 - 5.4 Parliamentary Oversight Cycle
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 - 5.6 Introducing a PBO
 - 5.7 Legislative Functions of Parliamentary Budget Office
 - 5.8 Assessing progress in Parliamentary oversight since establishment of PBO
6. Conclusion

1. INTERNATIONAL TRENDS AND INNOVATION IN BUDGETARY OVERSIGHT: ROLE OF LEGISLATURES

- Many legislatures played only a limited role in budget formulation, review or approval up until a few decades ago
- This limited role was due to a variety of reasons including: lack of expertise and technical staff, inadequate time-frame within which budget documentation and plans were to be reviewed in
- Recent years have seen an increase in the role and responsibilities that legislatures play in the budget process – revised roles that legislatures have either reformed or expanded upon include:
 - Approving ex ante fiscal frameworks
 - Broadening the portion of the budget subject to legislative review
 - Strengthening institutional budget and deliberative processes
 - Increasing legislature budget capacity
 - Changing appropriation structures and budget execution
 - Enhancing ex post oversight

1. INTERNATIONAL TRENDS AND INNOVATION IN BUDGETARY OVERSIGHT: ROLE OF LEGISLATURES [CONT.]

- Legislatures can be divided into three broad categories when it comes to influence over the budget process:

Budget-making legislatures	Have capacity to amend/reject executive proposals and substitute with their own Examples: Sweden, United States, Nigeria, Namibia
Budget-influencing legislatures	Similar to budget-making legislatures in that they can amend/reject executive budget proposals but, significant differences include that these legislature cannot substitute with their own independent budget as they lack capacity to formulate an independent budget. Also powers to amend are limited Examples: Italy, Malawi, Kenya
Legislature with little or no budget role	These legislatures lack capacity to amend/reject executive budgets – this position is adopted largely out of fear of destabilising government Examples: Mozambique

2. RATIONALE FOR A PARLIAMENTARY BUDGET OFFICE

- In attempting to deal with increased oversight and amendment functions of legislatures, especially with respect to the budget process, many countries found that existing parliamentary institutions have limited resources to undertake a high level analysis of fiscal matters
- Lack of institutionalised independent assurance or interpretation of the “official” view of the Budget and government financials
- To provide greater support, many legislatures around the world have established specialised research and analytical units such as the Parliamentary Budget Offices (PBOs)
- PBOs have the potential to improve transparency and enhance credibility of government budgets and public finances in general
- Even though Parliaments have internal research staff to assist committees and individual MPs, these organisational components provide information on a wide range of issues while PBOs tend to specialise in fiscal and financial analysis

3. HOW PBO CAN ENHANCE FISCAL OVERSIGHT OF PARLIAMENT

- As noted by Lienert (2010) PBO's can enhance the effectiveness of legislatures' oversight function in the following ways:
 - Dedicated to serving needs of Parliament by providing all members, irrespective of party affiliation, with independent analysis and advice that can serve to inform policy positions and decisions
 - Providing medium term fiscal projections that can differ from that of government, thus providing a platform for debate and improved understanding
 - PBOs assist in determining the impact of potential policies/new taxes on the country's resources and can in that way assist policymakers to make informed decisions when deciding whether to pass or object to proposed policies



In essence PBOs provide parliamentarians with capacity that has the requisite skills and time to conduct analysis that parliamentarians cannot or are unable to carry out themselves

4. INTERNATIONAL EXPERIENCE WITH RESPECT TO PBOs

- PBOs are relatively new in a lot of countries (e.g. Uganda established a PBO in 2001, Korea in 2003, United Kingdom in 2010, etc.)
- While PBOs internationally have different levels of institutional maturity, they also vary widely in financial and human resources
 - The US budget Office has an annual budget of \$45 million and 250 staff; Uganda’s PBO has a budget of \$0.4 million and about 27 experts, while PBO in Jordan has 3 staff members
 - Professionals typically include economists and accountants with expertise in macroeconomics, fiscal and tax policies while larger PBOs would include monitoring and evaluation capacity as well as sector specific expertise
- Most commentators agree there is no “best practice” model that can be applied from one country to another as PBOs are products of the historical and institutional frameworks of Parliament

4. INTERNATIONAL EXPERIENCE WITH RESPECT TO PBOs [CONT.]

- As noted by Johnson and Stapenhurst (2008), PBOs have faced various challenges during its operations:
 - Viability of PBOs have been compromised by changes in political landscape
 - e.g. In Bolivia, the PBO was terminated after 7 years due to political issues which was separate from the performance of the PBO
 - Non-partisan and independent PBOs can sometimes be undermined by being underfunded
 - e.g. In Canada, the PBO's budget was cut from CAD \$ 2.8 million to CAD \$ 1.8 million after publishing a controversial costing report on the Canadian mission in Afghanistan
 - PBO reports deal with future initiatives and can therefore have significant political repercussions, including derailing the executive's policy agenda
 - In Australia, the Australian Treasury asserted the PBO would not be able to effectively cost election commitments as it did not have the same resource pool as the Australian Treasury

5. THE SOUTH AFRICAN CASE

- The Constitution of South Africa vests Parliament with the powers to hold the executive to account, including implementation of legislation (S55 (2))
- The budget process is a critical area where Parliament is expected to provide oversight over the executive and ensure proper stewardship of public resources is promoted and service delivery is achieved
- In terms of Section 77 of the Constitution, any Bill that appropriates money, imposes taxes, or authorizes a direct charge against the National Revenue Fund is referred to as a Money Bill
- Section 77 (3) of Constitution states “...An Act of Parliament must provide for a procedure to amend money Bills before Parliament”
- Up until 2008, Parliament could merely accept or reject Money Bills. When the Money Bills Procedure and Related Matters Act (MBPRMA) was introduced in 2009, it gave effect to the Constitutional powers of Parliament to amend money Bills
- Amending Money Bills is seen as an important expression of Parliament’s independence and a powerful tool to exercise oversight over the executive

5.1. MONEY BILLS AMENDMENT PROCEDURE AND RELATED MATTERS ACT (MBPRMA)

- MBAPRMA of 2009:
 - Sets the framework for a 3 stage budget process
 - (1) BRR reports, the Medium Term Budget Policy Statement (MTBPS), fiscal framework and revenue laws; (2) Division of Revenue (DORA) and (3) Appropriation Bill with individual departmental budgets
 - Creates an institutional framework for budget process (but not substantive fiscal rules):
 - **Structures:** finance and appropriations committee, **Parliamentary Budget Office**
 - **Processes and timeframes** (very tight)
 - **Information flows:** e.g. Contents of Budget Review and Recommendations (BRR Reports), MTBPS, etc.
 - **Committee roles and relationships:** Shift towards other committees being more actively involved in the budget process

5.2. PARLIAMENTARY OVERSIGHT TOOLS

- South African Parliament has four categories of tools that are used to enhance oversight and accountability
- Parliamentary Budget Office play critical advisory role wrt category 3

Category 1: Tools of Established Legislation	Category 2: Tool Relating to Annual, Monthly and Weekly Activities	Category 3: Financial Instruments	Category 4: Issues Arising from Institutions Supporting Constitutional Democracy
Constitution of the Republic, Legislation, Government Programme of Action	State of the Nation Address, Questions (written/oral), Debates in the House, Matters from constituency work, Committee reports on oversight activities, Departmental strategic plans, Departmental current and past annual performance plans	Budget speech, Estimates of National Expenditure, Division of Revenue Bill, Budget Review, Departmental budget votes, Medium Term Budget Policy Statement, Audit reports, Statistics South Africa reports	Reports from investigated matters of relevance by institutions supporting constitutional democracy (ISDs)/other statutory institutions supporting democracy

5.3. PARLIAMENTARY FISCAL OVERSIGHT BODIES

- Most of Parliament's oversight work takes place within the committee structures. For example, the Joint Budget Committee and Committees on Finance are instrumental in providing oversight over financial matters in Parliament
- The Constitution also created Institutions Supporting Democracy (ISDs) that are required to support Parliament in its fiscal and budgetary oversight functions
- These independent ISDs provide Parliament with evidence-based information on financial matters not derived from the executive. Some of these institutions include:
 - Financial and Fiscal Commission
 - Auditor-General
 - Office of the Public Protector



- The Kader Asmal report found Parliament often don't make adequate use of ISDs

5.5. PARLIAMENT'S FISCAL OVERSIGHT ROLE: KEY CHALLENGES

- According to an Independent Panel Assessment of Parliament (2008), the following oversight challenges were highlighted:
 - There is a lack of an impact assessment of legislation passed by Parliament, including the budgetary, financial and economic costs *inter alia*
 - Legislation passed is not monitored to detect unintended consequences, failure by executive or other organs of state to take required actions in response to legislation
 - In exercising oversight, sometimes there is a lack of balance between short-term delivery focused oversight and policy oversight which generally is long term in nature
 - e.g. A committee may assess a department's delivery target of low-cost housing in a particular year without evaluating whether the targets are appropriate given the long term trends in demand for low-cost housing, etc.

5.5. PARLIAMENT'S FISCAL OVERSIGHT ROLE: KEY CHALLENGES [CONT.]

- The ability of Parliament to amend money Bills raised 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
- There is a lack of understanding of the broader societal issues which inform particular departmental policies and an interrogation of appropriateness of these policies

5.6. INTRODUCING A PBO

- The Parliamentary Budget Office (PBO) was established in terms of Section 15 of the MBAPRMA
- The establishment of a PBO corrects the previous imbalance in budgetary skills between the executive and Parliament
- Parliament can draw on the expertise in the PBO to potentially address some of the fiscal oversight issues highlighted by the Independent Panel, especially with respect to amendments to money bills and assessing the long term implications of fiscal policy
- Requisite technical and strategic capacity is critical if the budget office is to play an important role and ably advise Parliament

5.7. LEGISLATIVE FUNCTIONS OF PBO

- According to Section 15 of the MBAPRMA the functions of the PBO are:

15 (2) .. To support the implementation of this Act by undertaking research and analysis for the committees referred to in section 4, including: -

- a) Annually providing reviews and analysis on the documentation tabled in Parliament by the Executive in terms of this Act;
- b) Providing advice and analysis on proposed amendments to the fiscal framework, the Division of Revenue Bill and money Bills and on policy proposals with budgetary implications;
- c) Monitoring and synthesising matters and reports tabled and adopted in a House with budgetary implications, with particular emphasis on reports by other committees;

5.7. LEGISLATIVE FUNCTIONS OF PBO [CONT.]

- d) Keeping abreast of policy debates and developments in key expenditure and revenue areas;
- e) Monitoring and reporting on potential unfunded mandates arising out of legislative, policy or budgetary proposals, and
- f) Undertaking other work deemed necessary by the Director to support the implementation of this Act

15 (3) The Parliamentary Budget Office may undertake research on request by the Houses, other committees of members of Parliament on matter related to the budget and other money Bills, subject to capacity

- Director may be removed from office only due to misconduct, incapacity or incompetence
- Must receive annual transfer of funds from Parliament

5.8. ASSESSING PROGRESS IN PARLIAMENTARY OVERSIGHT SINCE ESTABLISHMENT OF PBO

Year	Number of Recommendations by Appropriations Committees	Number of Recommendations by Finance Committees
2013	<ul style="list-style-type: none"> On 2012 MTBPS: 4 recommendations Adjustments Appropriation Bill: 1 recommendation On DoR Amendment Bill: 0 recommendations Proposed DoR and conditional grant allocations to provincial/ local spheres as per 2013 MTBPS: 0 recommendations TOTAL RECOMMENDATIONS: 5	<ul style="list-style-type: none"> on 2012 Revised Fiscal Framework: 4 recommendations
2014	<ul style="list-style-type: none"> On 2013 MTBPS: 6 recommendations Adjustments Appropriation Bill: 3 recommendations On DoR Amendment Bill: 7 recommendations Proposed DoR and conditional grant allocations to provincial/ local spheres as per 2013 MTBPS: 8 recommendations TOTAL RECOMMENDATIONS: 24	<ul style="list-style-type: none"> On 2013 Revised Fiscal Framework: 8 recommendations
2015	<ul style="list-style-type: none"> On 2014 MTBPS: 10 recommendations On DoR Amendment Bill: 5 recommendations Proposed DoR and conditional grant allocations to provincial/ local spheres as per 2014 MTBPS: 5 recommendations TOTAL RECOMMENDATIONS: 20	<ul style="list-style-type: none"> On 2014 Revised Fiscal Framework: 9 recommendations
2016	<ul style="list-style-type: none"> On 2015 MTBPS: 14 recommendations Adjustments Appropriation Bill: 3 recommendations On New Development Bank Special Appropriations Bill: 4 recommendations On DoR Amendment Bill: 5 recommendations Proposed DoR and conditional grant allocations to provincial/ local spheres as per 2015 MTBPS: 2 recommendations TOTAL RECOMMENDATIONS: 28	<ul style="list-style-type: none"> On 2015 Revised Fiscal Framework: 12 recommendations

- Various sections (e.g. s2(3), s6(5)(6), S8(4), S10, s11, s12) of MBAPRMA allow the Finance and Appropriations Committees to make recommendations and/or amend money bills

- Number of recommendations by the Finance and Appropriations Committees rising steadily over the years especially since 2014, coinciding with when PBO began advising Committees

- To date, recommendations made by these Committees generally accepted by the Minister of Finance, which suggests influence of Committees over fiscal matters are increasing

6. CONCLUSION

- Given the potentially broad scope and limited resources of the PBO, Parliament should focus on where PBO can add the most value to its oversight function
- Vigorous exercise of Parliament's oversight role will require high quality research and analysis focused on long term trends, emerging social issues and concerns
- A critical consideration is whether South Africa should have an activist Parliament or activist judiciary to support financing of progressive realisation
- Importantly, aggregation of individual committee budget-related recommendations must be cumulatively coherent
 - Therefore need a “scorekeeper”: should this be the role of the appropriations committee and PBO?
 - Tight fiscal environment implies increased aggregate spending must be offset by increased taxation, reprioritisation, savings or increased efficiencies
 - Implications of fund-shifting must also be understood so that no harm is done “Noli Nocere”

At the same time, accountability should not be compromised

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