


10 September 2014
SC Approp

2014/09/10



STANDING COMMITTEE ON APPROPRIATIONS

STATE OF EXPENDITURE FOR THE 2014/15 FINANCIAL
YEAR AS AT 30 JUNE 2014


&

REPORT ON THE IMPLEMENTATION OF COST
CONTAINMENT MEASURES

for


VOTE 3: COOPERATIVE GOVERNANCE AND
TRADITIONAL AFFAIRS

Presented: Ms D Snyman
10 September 2014




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CONTENT OF THE PRESENTATION



- Purpose
- State of Expenditure for the 2014/15 financial year as at 30 June 2014.
- Report on the implementation of cost containment measures.



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PURPOSE



The purpose of the presentation is to brief the Standing Committee on Appropriations on:

- The state of expenditure of the Department as at 30 June 2014; and
- The implementation of cost containment measures

All amounts in the presentation are in Rand values; rounded off to the nearest R1000.

STATE OF EXPENDITURE AS AT 30 JUNE 2014 PER PROGRAMME



COGTA	Actual 2014/15 Financial Year			
	Original Budget 2014/15	Expenditure end of June 2014	% Spending	Available Budget end of June 2014
	R'000	R'000		
Per Programme				
1. Administration	252 080	59 568	23.6%	192 512
2. Policy, Research & Knowledge Management	21 079	4 912	23.3%	16 167
3. Governance & IGR	44 618 802	102 102	0.2%	44 516 700
4. National Disaster Management Centre	650 808	18 612	2.9%	632 196
5. Provincial & Municipal Governance Systems	289 508	9 000	3.1%	280 508
6. Infrastructure & Economic Development	17 268 579	471 831	2.7%	16 796 748
7. Traditional Affairs	111 864	26 929	24.1%	84 935
Total	63 212 720	692 954	1.1%	62 519 766

STATE OF EXPENDITURE AS AT 30 JUNE 2014 PER ECONOMIC CLASSIFICATION

Departmental Economic Classification	Actual for 2014/15			
	Original Budget	Expenditure end of June 2014	% Spending	Available Budget end of June 2014
COGTA	R'000	R'000		R'000
Compensation of employees	256 568	58 078	22.6%	198 490
Department of Cooperative Governance	220 692	52 270	23.7%	168 422
Community Works Program	35 876	5 808	16.2%	30 068
Goods & Services	2 434 144	409 557	16.8%	2 024 587
Department of Cooperative Governance	212 180	45 030	21.2%	167 150
Community Works Program	2 221 964	364 527	16.4%	1 857 437
Transfers & Subsidies	60 513 311	221 602	0.4%	60 291 709
Department of Cooperative Governance	100	-	0.0%	100
Municipal Infrastructure Support Agent	294 162	82 309	28.0%	211 853
Department of Traditional Affairs	111 864	26 929	24.1%	84 935
Add Major Transfers & Subsidies	60 107 185	112 364	0.2%	59 994 821
Payment for Capital Assets	8 697	3 699	42.5%	4 998
Department of Cooperative Governance	8 697	3 699	42.5%	4 998
Payment for Financial Assets	-	18		(18)
Grand Total	63 212 720	692 954	1.1%	62 519 766



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EXPENDITURE ANALYSIS PER ECONOMIC CLASSIFICATION AS AT 30 JUNE 2014 (Cont.)

Transfers and subsidies	Actual for 2014/2015 Financial Year			
	Original Budget	Expenditure end of June 2014	% Spending	Available Budget end of June 2014
	R'000	R'000		R'000
South African Local Government Association	26 904	6 726	25.0%	20 178
Municipal Demarcation Board	44 230	0	0.0%	44 230
South African Cities Network	6 071	0	0.0%	6 071
UCLGA	5 594	3 209	57.4%	2 385
Local Government Equitable Share	44 490 145	67 798	0.2%	44 422 347
Municipal Infrastructure Grant	14 683 835	12 000	0.1%	14 671 835
Municipal Systems Improvement Grant	252 152	0	0.0%	252 152
Disaster Relief Fund	534 600	9 802	1.8%	524 798
Municipal Disaster Recovery Fund	29 406	0	0.0%	29 406
Municipal Infrastructure Support Agency	294 162	82 309	28.0%	211 853
Department of Traditional Affairs	111 864	26 929	24.1%	84 935
Total	60 478 963	208 773	0.3%	60 228 402



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EXPENDITURE ANALYSIS AND MOTIVATIONS FOR DEVIATIONS



OVERALL EXPENDITURE:

The total expenditure of the Department amounts to R692.9 million at 30 June 2014. The amount spent represents a 1.1 per cent spending rate of the total appropriation.

Programme 1: Administration

R'000

Budget (2014/15):	R252 080
Actual expenditure (30 June):	<u>R 59 568</u>
<i>Variance</i>	R192 512 (23.6 per cent spent)

The spending is less than the target of 25 per cent for a three-month period.

This lower expenditure is mainly due to delay in the receipt of some invoices up to the end of June 2014.



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EXPENDITURE ANALYSIS AND MOTIVATIONS FOR DEVIATIONS (Cont.)



Programme 2: Policy, Research and Knowledge Management

R'000

Budget (2014/15):	R21 079
Actual expenditure (30 June):	<u>R 4 912</u>
<i>Variance</i>	R16 167 (23.3 per cent spent)

The spending is less than the target of 25 per cent for a three-month period.

The lower spending is mainly due to the delay in the receipt of some invoices up to the end of June 2014.



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EXPENDITURE ANALYSIS AND MOTIVATIONS FOR DEVIATIONS (Cont.)



Programme 3: Governance & Intergovernmental Relations

R'000

Budget (2014/15):	R44 618 802
Actual expenditure/Transfers (30 June):	<u>R 102 102</u>
<i>Variance</i>	R44 516 700 (0.2 per cent spent)

The spending is less than the target of 25 per cent for a three-month period.

The lower spending is mainly due to the scheduling of the Local Government Equitable Share transfers to municipalities.

EXPENDITURE ANALYSIS AND MOTIVATIONS FOR DEVIATIONS (Cont.)



Programme 4: National Disaster Management Centre

R'000

Budget (2014/15):	R650 808
Actual expenditure/Transfers (30 June):	<u>R 18 612</u>
<i>Variance</i>	R632 196 (2.9 per cent spent)

The spending is less than the target of 25 per cent for a three-month period due to disaster relief grants, which is only paid when required and after approved by National Treasury as a result of the uncertainty of disasters.

EXPENDITURE ANALYSIS AND MOTIVATIONS FOR DEVIATIONS (Cont.)



Programme 5: Provincial & Municipal Government Systems

R'000

Budget (2014/15):	R289 508
Actual expenditure/Transfer (30 June):	<u>R 9 000</u>
<i>Variance</i>	R280 508 (3.1 per cent spent)

The spending is less than the target of 25 per cent for a three-month period.

The under-spending is mainly due to the scheduling of the transfer of the Municipal Systems Improvement Grant will only be transferred in July 2014 due to the financial year of municipalities.

EXPENDITURE ANALYSIS AND MOTIVATIONS FOR DEVIATIONS (Cont.)



Programme 6: Infrastructure and Economic Development

R'000

Budget (2014/15):	R14 716 577
Actual expenditure/Transfer (30 June):	<u>R 19 187</u>
<i>Variance</i>	R14 697 390 (0.1 per cent spent)

The spending is less than the target of 25 per cent for a three-month period.

The lower spending is mainly due to the scheduling of the Municipal Improvement Grant that will be paid in July 2014.

EXPENDITURE ANALYSIS AND MOTIVATIONS FOR DEVIATIONS (Cont.)



Programme 6.1: Community Work Programme R'000

Budget (2014/15):	R 2 257 840
Actual expenditure (30 June):	<u>R 370 335</u>
Variance	R 1 887 505 (16.4 per cent spent)

The spending is less than the target of 25 per cent for a three-month period.

The lower spending is mainly due to the delay in the appointment of additional capacity for the CWP unit, delays in the receipt of invoices from the new Implementation Agents and procurement of goods.

EXPENDITURE ANALYSIS AND MOTIVATIONS FOR DEVIATIONS (Cont.)



Programme 6.2: Municipal Infrastructure Support Agency (MISA) R'000

Budget (2014/15):	R294 162
Actual expenditure/Transfer (30 June):	<u>R 82 309</u>
Variance	R211 853 (28.0 per cent spent)

The spending is more than the target of 25 per cent for a three-month period.

The higher spending rate is mainly due to the fact that MISA function as an independent Government Component since 01 April 2014 and funds are transferred on a quarterly basis.

EXPENDITURE ANALYSIS AND MOTIVATIONS FOR DEVIATIONS (Cont.)



Programme 7: Traditional Affairs (DTA)

R'000

Budget (2014/15):	R111 864
Actual expenditure (30 June):	<u>R 26 929</u>
Variance	R 84 935 (24.1 per cent spent)

The spending is in line with the target of 25 per cent for a three-month period.

EXPENDITURE ANALYSIS AND MOTIVATIONS FOR DEVIATIONS (Cont.)



COMPENSATION OF EMPLOYEES:

R'000

Budget (2014/15):	R256 568
Actual expenditure (30 June):	<u>R 58 078</u>
Variance	R198 490 (22.6 per cent spent)

The spending is less than the target of 25 per cent for a three-month period.

The lower spending is mainly due to the delays experienced with the filling of posts for the CWP and MIG Administration functional areas.

EXPENDITURE ANALYSIS AND MOTIVATIONS FOR DEVIATIONS (Cont.)



GOODS AND SERVICES:

	<u>R'000</u>
Budget (2014/15):	R2 434 144
Actual expenditure (30 June):	<u>R 409 557</u>
Variance	R2 024 587 (16.8 per cent spent)

The spending is less than the target of 25 per cent for a three-month period.

The lower spending, relates to the following areas:

- CWP reflects an under-expenditure of R164.213 million due to delays in the receipt of invoices from the new Implementing Agents.
- An under-spending of R9.6 million on the operational budget of the CoGTA, which is mainly due to delays in the start of planned projects.

EXPENDITURE ANALYSIS AND MOTIVATIONS FOR DEVIATIONS (Cont.)



PAYMENTS OF CAPITAL ASSETS:

	<u>R'000</u>
Budget (2014/15):	R 8 697
Actual expenditure (30 June):	<u>R 3 699</u>
Variance	R 4 998 (42.5 per cent over-spent)

The spending is higher than the target of 25 per cent for a three-month period.

The higher expenditure is mainly due to expenses for ICT equipment for flowing from the previous financial year that was paid in the current financial year.

EXPENDITURE ANALYSIS AND MOTIVATIONS FOR DEVIATIONS (Cont.)



TRANSFERS AND SUBSIDIES:

	<u>R'000</u>
Budget (2014/15):	R60 513 311
Actual expenditure/Transfers (30 June):	<u>R 221 602</u>
<i>Variance</i> spent)	R60 291 709 (0.4 per cent)

The spending is less than the target of 25 per cent for a three-month period.

The lower spending is mainly due to the scheduling of the transfer of Conditional grant funds.

REPORT ON THE IMPLEMENTATION OF COST CONTAINMENT MEASURES



BACKGROUND



- ❑ Section 38(1) (b) of the Public Finance Management Act, 1999 (Act 1 of 1999) as amended (PFMA) makes Accounting Officers of departments and constitutional institutions responsible for effective, efficient, economic and transparent use of the resources of their institutions.
- ❑ Sections 38(1) (c) (iii) and 51(b) (iii) of the PFMA require also that Accounting Officers take effective and appropriate steps to effectively and efficiently manage the available working capital of their respective institutions.
- ❑ Accounting Officers should therefore ensure that appropriate expenditure control measures are instituted to provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly, recorded adequately and reported accordingly, as prescribed.

BACKGROUND (Cont.)



- ❑ On 23 October 2013, Cabinet resolved that all departments, constitutional institutions and public entities must implement measures to contain operational costs and eliminate all non-essential expenditure.
- ❑ Then National Treasury issued Instruction 01 of 2013/2014 dated 19 December 2013 to facilitate the implementation of the Cost Containment Measures approved by Cabinet, for implementation from the 01 January 2014.
- ❑ This instruction 01 of 2013/2014 comprises of two sections.
 - The cost containment measures that are mandatory and must be implemented by Accounting Officers; and
 - Guidelines that may be considered to further contain costs.

MANDATORY COST CONTAINMENT MEASURES

□ Engagement of Consultants

- Departments may only enter into contacts with consultants after a gap analysis has confirmed that the department does not have the requisite skills or resources. Based on a business case, the appointment of consultants may only be approved by accounting officers.
- Consultants may only be remunerated according to the rates determined in the "Guideline for fees", issued by the South African Institute of Chartered Accountants (SAICA); the "guideline on Hourly Fee Rates for Consultants" by the Department of Public Service and Administration (DPSA) or prescribed by the body regulating the profession of relevant consultants.
- Hotel accommodation costs related to consultants may not exceed the prescribed rate in terms of the National Treasury Instruction, air travel must be restricted to economy class and claims for kilometres may not exceed the rates approved by the Automobile Association of South Africa.
- All contracts of consultants must include penalty clauses for poor performance and in this regard, Accounting Officers and Accounting Authorities must invoke such clauses where deemed necessary.
- Accounting Officers must develop consultancy reduction plans by 31 March of each year for implementation in the ensuing financial year. The first consultancy reduction plan must be developed before 31 March 2014 for implementation in the 2014/15 financial year.



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MANDATORY COST CONTAINMENT MEASURES (Cont.)

□ Travel and Subsistence

- Only economic class tickets for flights where the flying time is five (5) hours or less.
- For flights exceeding five (5) hours, business class tickets may only be purchased for Directors-General, Deputy Directors-General.
- The accounting officer may approve business class travel for employees with disabilities or special needs.
- First class travel is prohibited.
- Domestic hotel accommodation may not exceed one thousand three hundred rand (R1 300) per night per person (including dinner, breakfast and parking). The National Treasury may periodically review this amount. Accounting Officers may approve accommodation costs that exceeds the amount during peak holiday periods and when South Africa is hosting an event in the country or in the country or in that particular geographical area.
- Employees of departments may not hire vehicles from a category higher than Group B or an equivalent class. Where a different class of vehicle is required for a particular terrain or to cater for the special needs of an employee, such a vehicle may only be hired with the prior written approval of the relevant accounting officer.
- The number of employees traveling to Parliament on official duty for the same matter is limited to (3) employees, unless otherwise approved in advance by the relevant accounting officer.
- The number of employees of a department travelling by air to other centres (e.g. regional or district offices) on the same engagement is also limited to three (3) employees, unless otherwise approved in advance by the relevant accounting officer.



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MANDATORY COST CONTAINMENT MEASURES (Cont.)

- ❑ **Expenses related to catering and events**
 - Departments, may not incur catering expenses for internal meetings, (e.g. for meeting attended) only attended by persons in its employ, unless approved by the accounting officer.
 - Unless approved otherwise by the relevant accounting officer, entertainment allowances of qualifying persons may not exceed two thousand rand (R2 000) per person per financial year. The National Treasury may periodically review this amount.
 - Departments may not include expenses on alcoholic beverages, unless such expenses are approved by the relevant accounting officer as per the conditions set out by the National Treasury.
 - The accounting officer must ensure that team building exercises and social functions, including year-end functions, are not financed from the budget of their respective establishments.
- ❑ **Arrangements related to debit and credit cards**
 - Departments may only operate debit and credit cards in accordance with the arrangements set out in Government Gazette No. 37042 dated 15 November 2013.

ADDITIONAL COST CONTAINMENT MEASURES

- ❑ **Additional cost containment measures to enhance fiscal prudence**
 - The additional cost containment measures for consideration by Accounting Officers include aspects related to the following cost to generate further savings and operational efficiencies:
 - ❖ Travel and Subsistence
 - ❖ Inventory
 - ❖ Water and Electricity
 - ❖ Communication
 - ❖ Advertising
 - ❖ Financial assets
 - ❖ Hiring of venues
 - ❖ Miscellaneous measures

IMPLEMENTATION STATUS



- ❑ The Department has developed and implemented a departmental Circular in support to the mandatory cost containment measures set out in National Treasury Instruction 01 of 2013/2014, to give effect to the additional cost containment measures proposed by the National Treasury and to ensure the uniform implementation of the measures in the Department during the interim, until the respective policies and procedures are reviewed, amended and approved.
- ❑ The cost containment measures is in the process of implementation and the status of compliance with these measures will be accessed by the Internal Audit Unit, as part of their 2014/15 internal audit plan.
- ❑ The Department is also in the process to strengthen its operational and technical capacity to review and improve the implementation and compliance of, amongst other, the cost containment measures.

THANK YOU!