



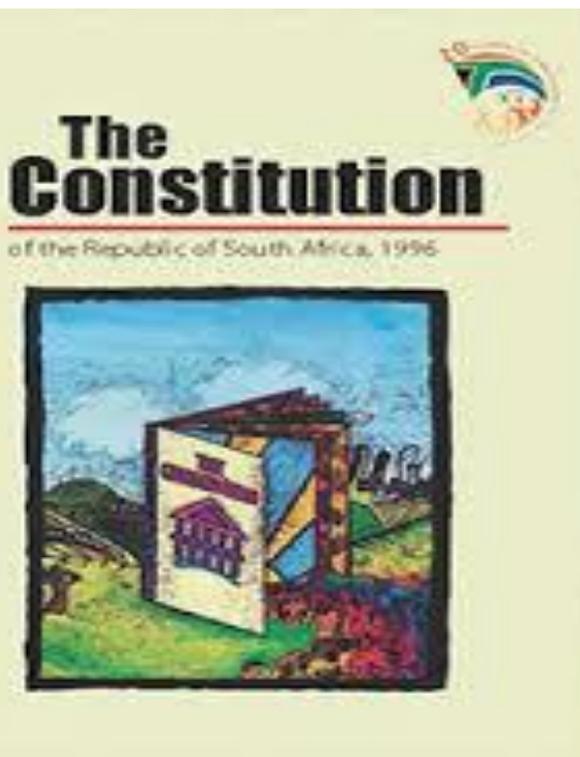
Custodian of Good Governance

PRESENTATION TO THE STANDING COMMITTEE ON APPROPRIATIONS

BRIEFING ON THE 2015 APPROPRIATION BILL

19 MAY 2015

Introduction



The Constitution

of the Republic of South Africa, 1996



- The PSC is established in terms of Chapter 10 of the Constitution.
- It derives its mandate from sections 195 and 196 of the Constitution, 1996, which sets out the values and principles governing public administration which should be promoted by the PSC, as well as the powers and functions of the PSC.
- It is vested with custodial oversight responsibilities for the Public Service and monitors, evaluates and investigates public administration practices.

Guardian of Good Governance

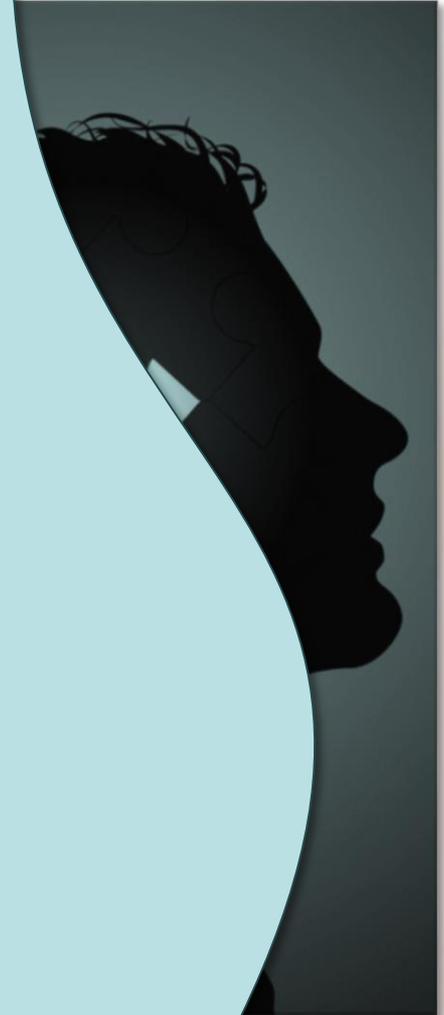
Introduction (2)

- The PSC has been requested to brief the Committee on –
 - Link between 2015 Appropriation Bill and the principles of efficiency, economy and effectiveness
 - Identifying spending areas where efficiencies may be realised
 - Identifying opportunities within national government with significant potential for value for money
 - Potential strategies for finding efficiencies in the public sector wage bill
 - The extent to which the 2015 Appropriation Bill gives effect to the National Development Plan's policy objectives (**NB: the PSC does not address this**); and
 - Any other matter that may assist the work of the Committee in considering the 2015 Appropriation Bill



Introduction (3)

- The PSC does not have comprehensive research on all the topics mentioned above. The comments should be viewed with this limitation in mind.
- However, the PSC is building a data sourcing and analytical capability with the 9 values governing public administration as frame, and this enables it to give some comment.
- Where appropriate, reference is made to key PSC reports that relate to the issues at hand.
- Government's spending plans are focused on achieving the objectives of the MTSP, which were derived from the NDP.
- Capital is the fastest growing item in the budget and goods and services the slowest (reflecting a shift towards investment).
- Apart from the priorities of education, health, local development and social infrastructure, and economic development, the Minister of Finance highlighted 9 strategic priorities that will be pursued this year.
- However, this presentation does not comment on this prioritisation.



Link between 2015 Appropriation Bill and the principles of efficiency, economy and effectiveness

- The concepts of efficiency, economy and effectiveness, and value for money, are linked.
- Efficiency is about the relationship between input (resource use), or the cost of that input, and output.
- Effectiveness is about achieving the intended effect, or outcome.
- Value for money similarly refers to the relationship between the resources expended and the value of the outputs and outcomes produced. One can also talk about cost-effectiveness.
- Therefore, two of the questions posed in the brief are dealt with jointly:
 - Identifying areas where efficiencies may be realised
 - Identifying opportunities with potential for value for money
- Economy is about the cost of inputs and since salaries are the biggest input, this will be addressed under “strategies for finding efficiencies in the public sector wage bill”.

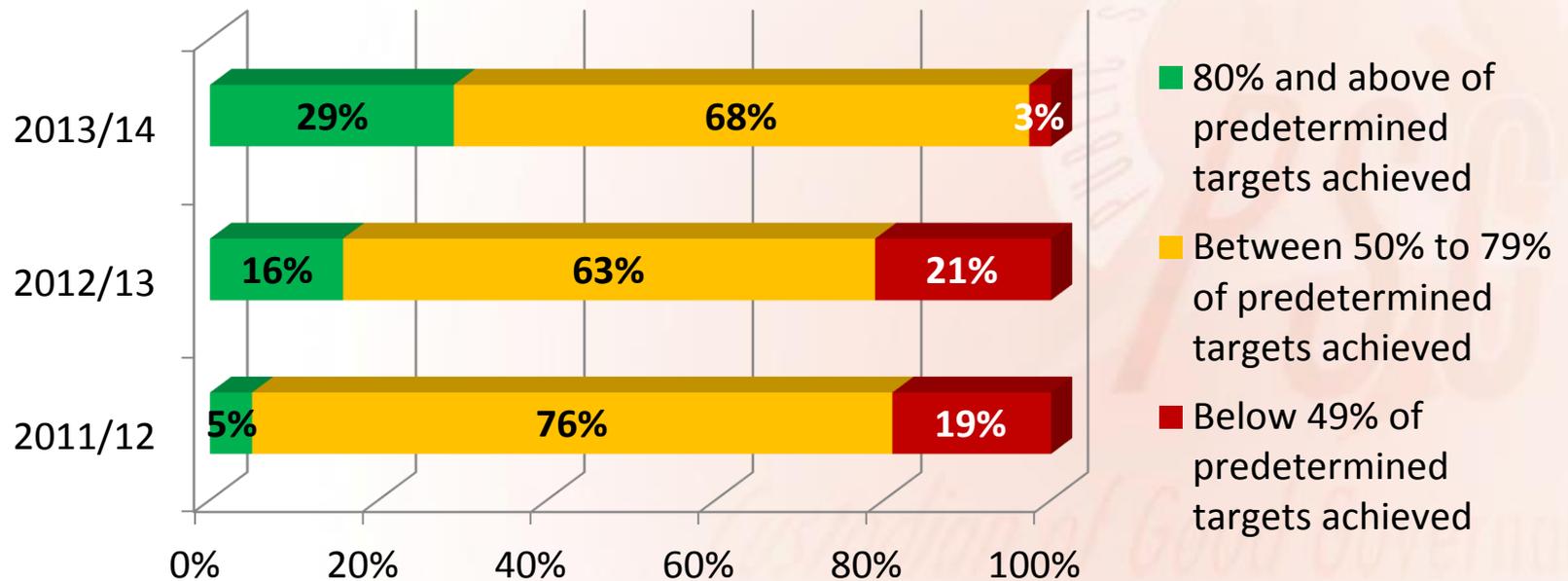
Link between 2015 Appropriation Bill and the principles of efficiency, economy and effectiveness

- An indicator that has become well-established is the relationship between percentage of outputs achieved and percentage of budget spent.
- It is not a direct relationship in the sense of knowing that if x amount more is spent, this will lead to x number of additional outputs.
- Since the indicator measures whether pre-determined objectives, or targets, have been achieved, the indicator is heavily dependent on the accuracy of target setting (without taking into consideration other limitations).
- Nevertheless, the indicator gives a good sense of the efficiencies in the public service.
- The assurance Parliament has about the accuracy of these numbers has also increased since the Auditor-General started auditing the performance information provided by departments in annual reports.
- The indicator does not say much about effectiveness since outcome data is seldom provided in annual reports (and may not be demonstrable in the short-term).
- **Continued effort to improve the meaningfulness of information in the annual reports is therefore still very important.**

Link between 2015 Appropriation Bill and the principles of efficiency, economy and effectiveness

- *% of planned outputs achieved*

The % of national departments that managed to achieve more than 80% of their planned targets increased from 5% to 29% from the 2011/12 to the 2013/14 financial year.

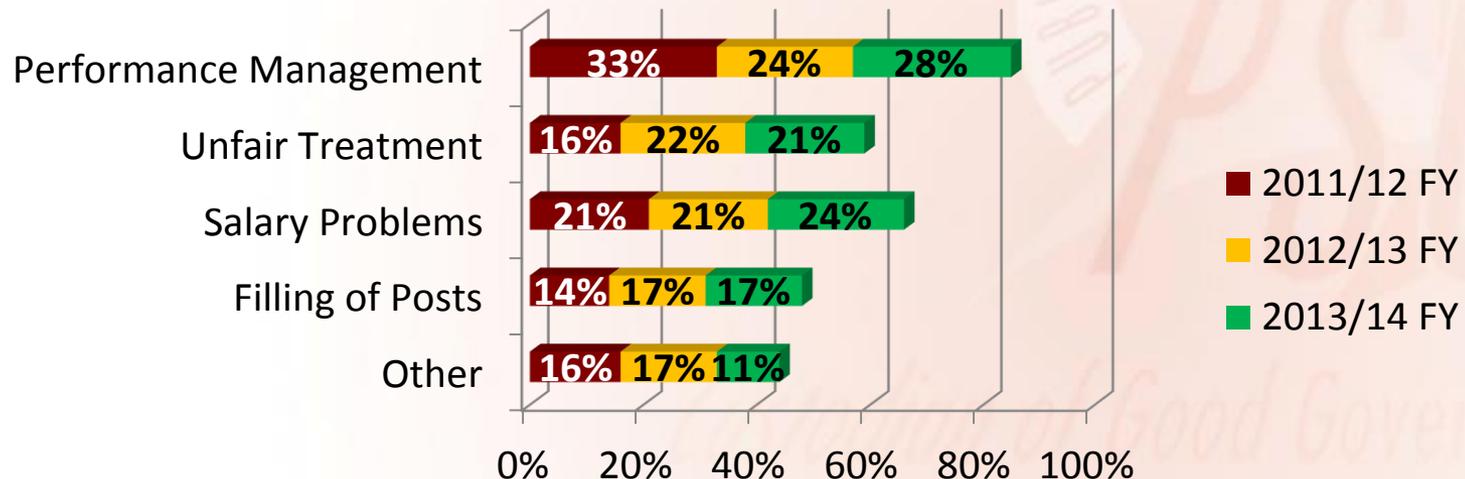


Link between 2015 Appropriation Bill and the principles of efficiency, economy and effectiveness

- Departments have achieved a high level of predictability in budget spent (an average of **98%** spending of their budget across the board for national departments) during the 2013/14 financial year.
- The challenge is to increase the efficiency of the spending and the quality of the outputs, or service delivery.
- The % of planned outputs achieved can be increased by proper target setting, redesigning delivery models and processes and by performance management.
- Performance management should be improved at both the organisational level and the individual staff assessment level.
- The organisational level entails better measurement of unit performance and appropriate management action in the case of poor performance.
- Appropriate management action includes consequences for poor performance, but even more importantly, giving managers the authority and means to take all necessary steps to improve performance.
- In the public service, managers often feel they don't have the power to make a difference (they lack urgency).
- **To improve this will require careful design of organisation structures to better align responsibility, authority and accountability.**

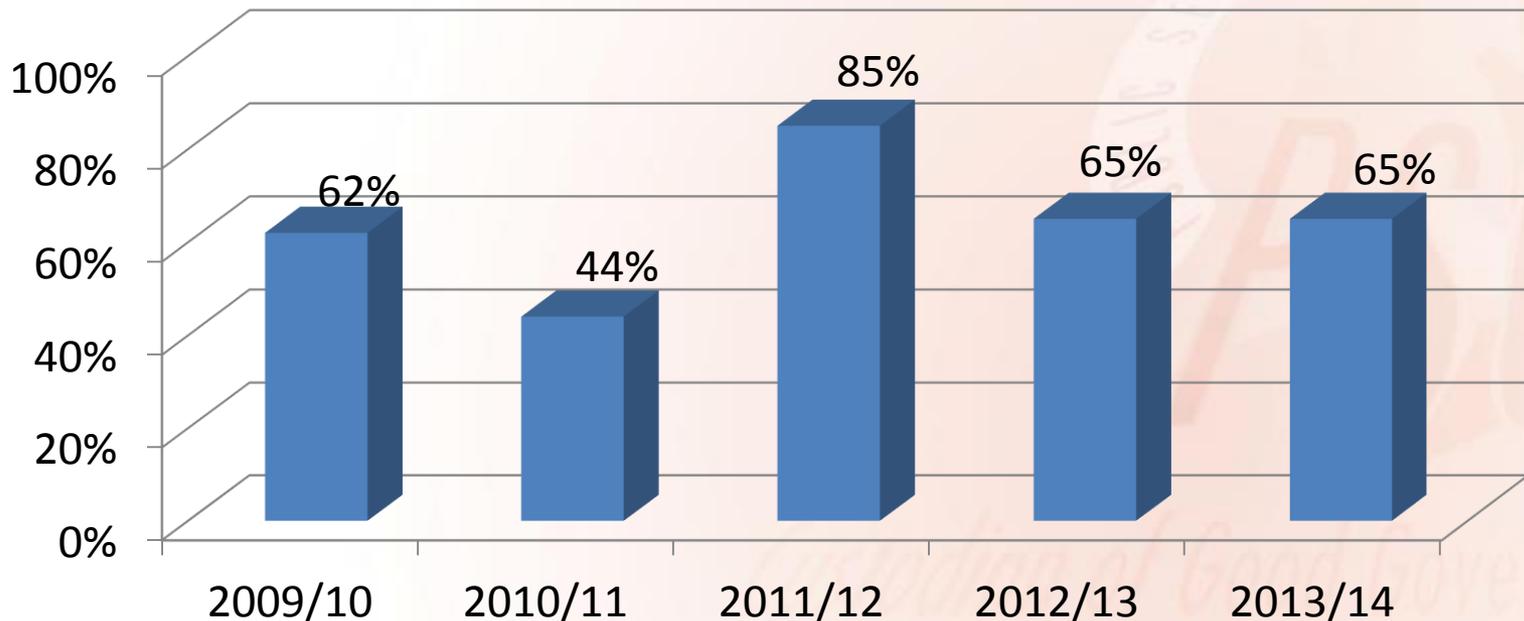
Link between 2014 Appropriation Bill and the principles of efficiency, economy and effectiveness

- At the level of individual staff assessment there are many problems with the PMDS system.
- A PSC discussion document (**Building a capable, career-oriented and professional public service**) covered performance management at both organisational and individual levels and suggested that the PMDS system should be fundamentally reviewed.
- The PMDS is a major subject for grievances. The figure shows a frequency distribution of the reasons for grievances lodged in the Public Service.



Link between 2014 Appropriation Bill and the principles of efficiency, economy and effectiveness

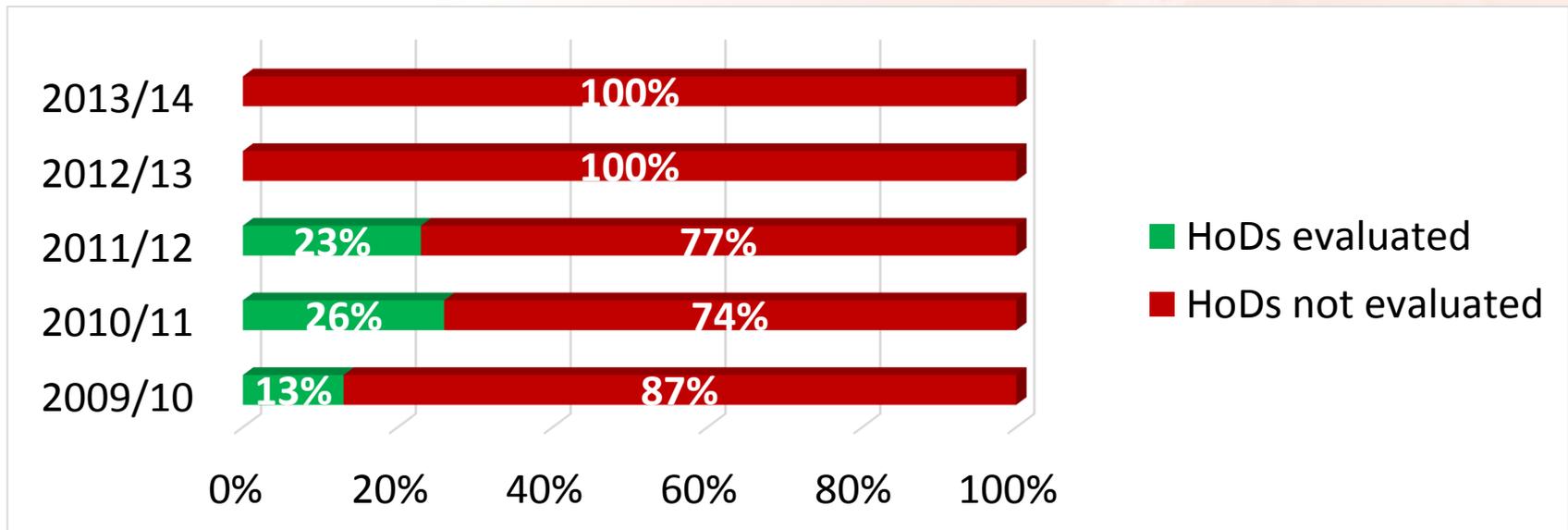
- ***Filing of Performance Agreements of HoDs***
 - The tone for performance management should be set from the top.
 - HoDs in the Public Service are required to enter into Performance Agreements (PAs) with their EAs.
 - Overall there has not been an improvement in the compliance rate for the submission of PAs.



Link between 2014 Appropriation Bill and the principles of efficiency, economy and effectiveness

- *Evaluation of Heads of Department (HoDs)*

- It should be noted that the HoD Evaluation function was not allocated to the PSC in the latter financial year.
- In the last two financial years (2012/13 and 2013/14) no HoD evaluations were done.



Link between 2014 Appropriation Bill and the principles of efficiency, economy and effectiveness

- Evaluation of Heads of Department (HoDs)*

The table below shows a detailed breakdown on the evaluation of HoDs.

	2009/10	2010/11	2011/12	2012/13	2013/14
No. of HoDS of Departments	43	47	48	48	44
No. of HoDs evaluated	2	8	7	0	0
No. of HoDs not evaluated	14	23	23	37	38
No. of qualifying HoDs	16	31	30	37	38
No. of HoDS not qualifying	29	16	18	11	6
Evaluation rate	13%	26%	23%	0%	0%

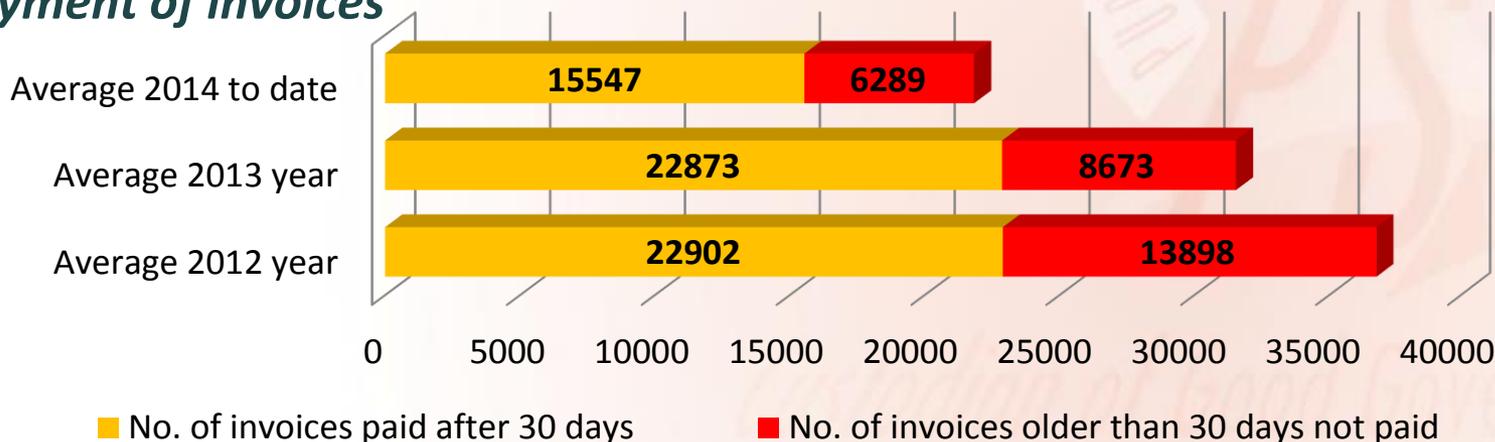
Spending areas where efficiencies may be realised and opportunities with significant potential for value for money

- In his budget speech the **Minister of Finance** referred to cost cutting measures. The following areas were mentioned:
 - Revised spending plans across the whole of government, aimed at greater efficiency, reduced waste and an improved composition of spending
 - Reductions in budget allocations targeted at non-critical activities
 - Cost containment and reprioritisation measures limiting growth in allocations for goods and services to 5% a year.
 - Spending on catering, entertainment and venues is budgeted to decline by 8% a year.
 - Travel and subsistence will be cut back by 4% a year.
 - The introduction of a Central Supplier Database to ease off the administrative burden from SCM practitioners and address AG's concerns
- In line with above, Departments are urged to take seriously the Minister's statement.
- Compliance on the above measures will be reported by the Auditor-General

Spending areas where efficiencies may be realised and opportunities with significant potential for value for money

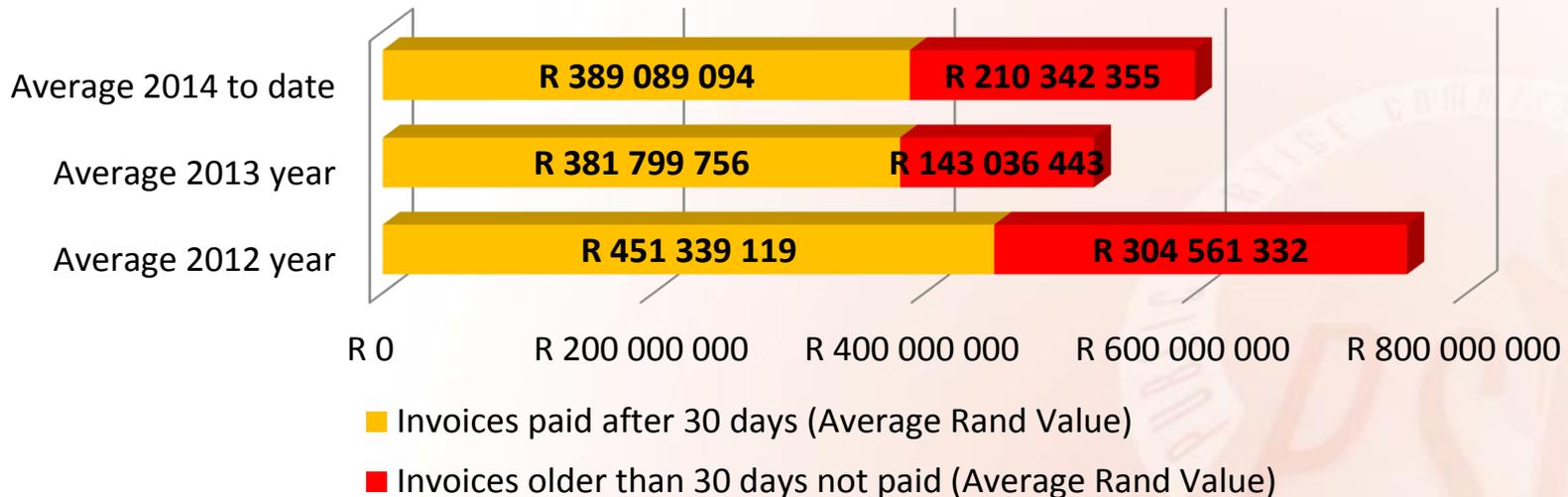
- The National Evaluation Plan of the DPME includes some cost-benefit analyses to enrich the information that is available to decision-makers in this regard.
- **It is also important that micro efficiencies are addressed, like the payment of invoices and service delivery turnaround times.**
- These are good indicators of general administrative efficiencies in departments.

- ***Payment of invoices***



Spending areas where efficiencies may be realised and opportunities with significant potential for value for money

- *Value of invoices*



- Late payment of suppliers negatively impacts on the sustainability of SMMEs and some are resorting to retrenching employees to sustain their businesses whilst others resort to more drastic measures, such as liquidation and acquiring credit lines with unscrupulous credit providers.

Spending areas where efficiencies may be realised and opportunities with significant potential for value for money

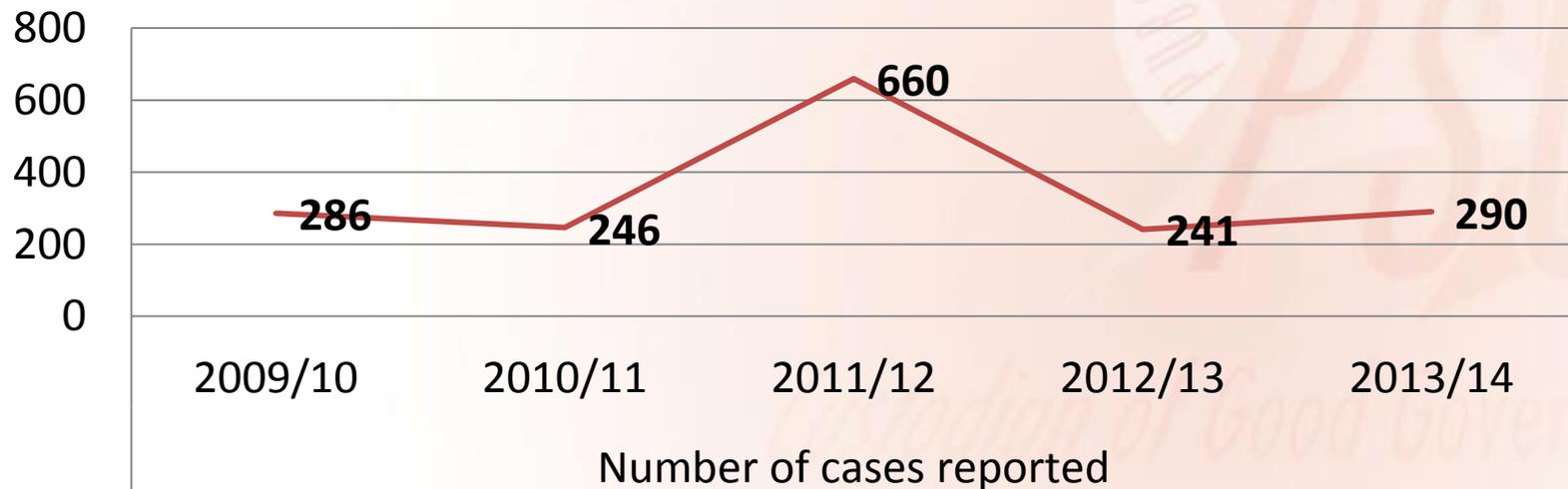
PSC public hearings on payment of invoices

- Public hearings conducted by the PSC indicate systems' problems within departments to monitor and track the payment of service providers.
- Furthermore, there was a lack of empowerment of service providers when engaging with government in terms of what is required to enable payment within 30 days.
- The application of the Batho Pele principles was lacking when interacting with service providers.
- The misconception is that this area of work does not fall within front-line service delivery.
- To deal with this challenge, a mechanism has been put in place in the DPME to monitor government's payment of service providers.

Link between 2015 Appropriation Bill and the principles of efficiency, economy and effectiveness

Financial Misconduct

- Another good indicator of micro efficiency is the incidence of financial misconduct, but especially the recovery of money from guilty parties.
- Like prompt payment of invoices, this is an indicator of financial admin efficiencies.
- The graph below shows the number of financial misconduct cases reported to the PSC.

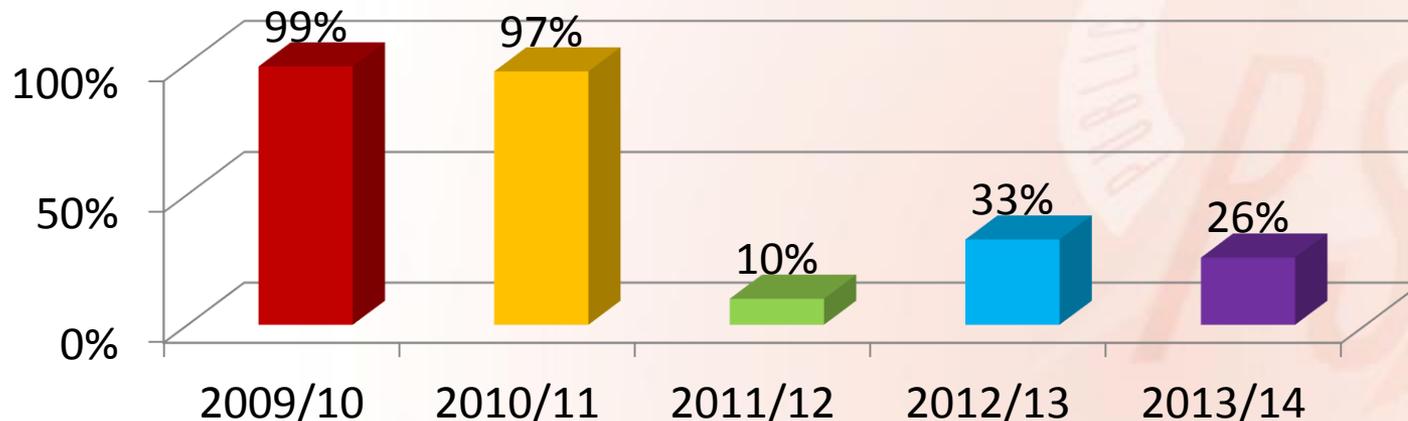


Link between 2015 Appropriation Bill and the principles of efficiency, economy and effectiveness

Financial Misconduct

- The graph below shows the cost of financial misconduct from 2009/10 to 2013/14.

2009/10		2010/11		2011/12		2012/13		2013/14	
Amount Involved	Amount not recovered								
R	R	R	R	R	R	R	R	R	R
265,3m	262m	181,7m	175,9m	149,4m	14,8m	28,4m	9,2m	47,6m	12,2m



- From 2009/10 and 2013/14 the % not recovered decreased from 99% to 26% of the total amount involved in financial misconduct.

Spending areas where efficiencies may be realised and opportunities with significant potential for value for money

- Currently the indicators monitored by the PSC (or any one else) do not allow us to identify areas for efficiency savings or opportunities for value for money.
- However, the next few slides reflect on studies conducted by the PSC in the last two years, which have huge implications for efficiency, effectiveness and value for money:
 - Hospital Public Private Partnerships
 - Outsourcing of government services, and
 - Coordination in the rural development setting

Hospital PPPs

- The problem with Hospital PPPs is not that the private sector does not deliver a quality service in accordance with the PPP agreement.
- Rather, the problem is that a very high level of service is specified for the PPP, which diverts funds from other services or units. Government is buying a Rolls Royce that it cannot afford.
- The concern about the PPP was the cost-benefit to the Public Sector in view of the large amounts of money spent on modernising a limited number of health facilities through the PPP approach, this against the background where limited resources are available to similar programmes such as the hospital revitalisation programme.
- Since the PPP contract is long term, the department involved is locked into this cost for the long term.
- For instance, the maintenance cost of one PPP hospital may consume an inordinate proportion of the entire provincial hospital maintenance budget, with serious implications for the maintenance of the other hospitals.
- The PPP models do not model these wider budget implications.
- The national treasury should reconsider these models. Specifically, the level of service for the entire provincial health budget should first be modelled so that rational trade-offs can be made to arrive at an affordable service of acceptable quality.
- Although the PSC study focused on the Health sector, the PPP model would pose similar challenges to other sectors of government service delivery.

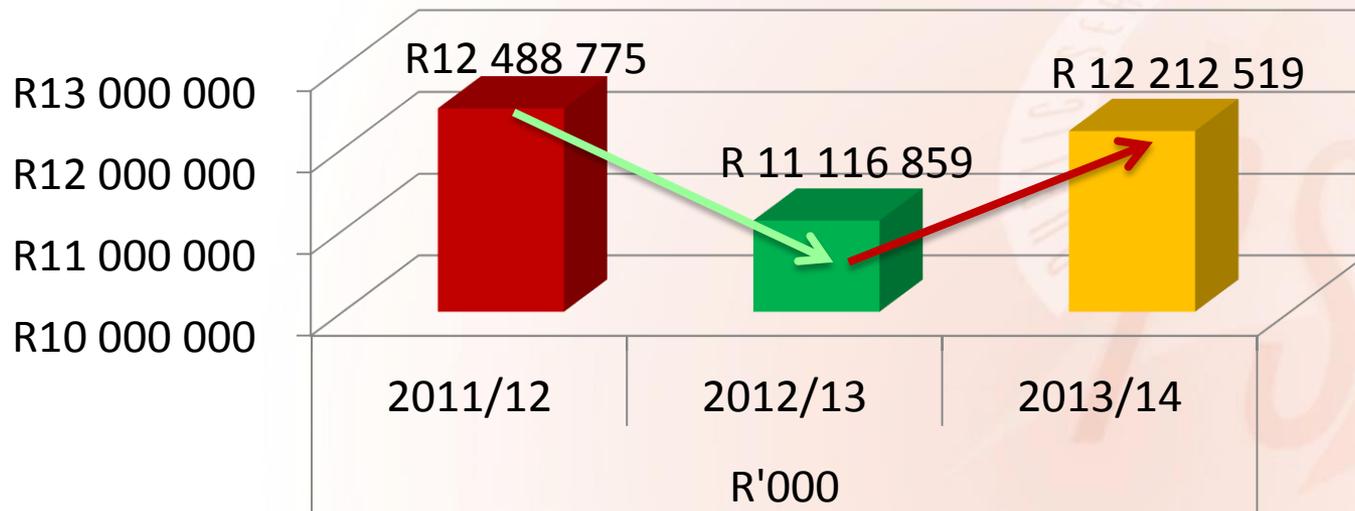
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PSC study on Outsourcing

- SA attained its freedom at a time when the New Public Management influenced public administration across the globe. Many departments adopted outsourcing but SA is not outsourcing more than countries that followed the same trend. However, government discourse now requires that outsourcing be considered carefully in the light of broader government objectives and not only narrower efficiency concerns.
- Research by the PSC reveals that during the financial year 2011/12, both national and provincial departments spent R33.7 billion (3.8)% of the total budget of R891.4 billion on outsourcing
- It is a problem if core functions are outsourced, especially if capacity has been created in a department and the appointed staff proves inadequate to the task.
- It is also a problem if outsourcing is not done in accordance with an agreed service delivery model, which spells out what exact role government and other sectors of society will play to achieve policy objectives. The private and other sectors could play a meaningful role, which does not exclude outsourcing. The only delivery model is not to create a bureaucracy to produce a service in-house.
- The costing systems of government are not sophisticated enough to make valid comparisons of outsourced costs compared with the cost of producing the service in-house.
- The PSC recommended that the national treasury develop guidelines on outsourcing.

PSC study on Outsourcing

- The use of consultants without such guiding models would lead to concerns about the possible duplication of skills and effort, especially where these already exist in departments.
- *Cost of consultants*



Collaboration in the rural development setting

The PSC study on collaboration/coordination in the rural development setting indicates:

- Programmes like the Comprehensive Rural Development Programme (CRDP) are pushed to the provinces and municipalities by national departments.
- This has many inbuilt inefficiencies:
 - It duplicates programmes already undertaken by the province. The CRDP specifically duplicated the War on Poverty Programme, not to mention agriculture programmes, housing programmes, and social development programmes.
 - This is done in the name of coordination, but this has huge inbuilt costs. A coordination function, with associated costs, is created instead of programme managers doing the coordination.
 - Coordination committees duplicate pre-existing committees. There is a proliferation of committees with huge costs. The CRDP Council of Stakeholders duplicates Integrated Development Plan Structures. If the IDP is not working, the solution is not to create another committee next to it.
- The coordination problem should first be solved by proper organisation structure, eg, by merging programmes, not by creating coordination superstructures at huge cost.

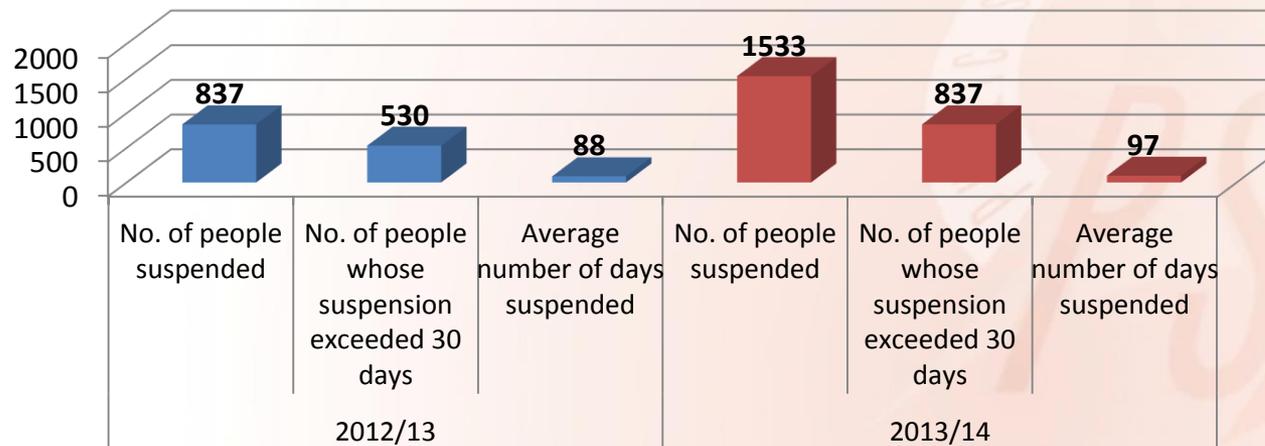
Potential strategies for finding efficiencies in the public sector wage bill

The Budget indicated that any additions to personnel headcounts for 2015/16 and 2016/17 will be paid from existing allocations.

- The wage bill depends on –
 - 1) the level of wages,
 - 2) the distribution of posts between lower and higher graded posts (there has been a creep upwards, over time, with a tendency to create higher graded posts), and
 - 3) the size of the establishment.
- When uniform job grading (where occupational classes and grades were centrally prescribed) was replaced with job evaluation, the grading of posts was delegated to individual departments and this contributed to grade creep.
- In the past the size of the establishment was also much more tightly controlled centrally through various measures, including post establishment norms.
- New controls on job grading and growth in post establishment – not necessarily the re-introduction of the previous system – that suit the current environment will have to be designed.

Potential strategies for finding efficiencies in the public sector wage bill

- Efficiencies in general HR administration also affect the wage bill.
- A good indicator of the health of the HR administration is precautionary suspensions.
- If officials are placed for long periods on suspension, it means a department does not deal promptly with discipline processes. If the department is not dealing promptly with discipline, the probability is high that other HR processes are also inefficient.



- For the 2012/13 financial year, 837 officials were placed under precautionary suspension, of which 530 exceeded 30 days. In 2013/14 1533 officials who were placed under precautionary suspension of which 837 exceeded 30 days.

Link between 2015 Appropriation Bill and the principles of efficiency, economy and effectiveness

- Suspensions affect the wage bill because officials are paid whilst on leave and costs (e.g. acting allowances) may be incurred.
- The cost of suspensions was higher in the 2012/13 financial year. It decreased to R 34 million in 2013/14.
- It should be noted that there seems to be no direct correlation between the number of officials suspended and the cost of suspensions.



Potential strategies for finding efficiencies in the wage bill

- Though the wage bill is a significant part of it, fiscal sustainability is affected by many other factors, amongst others:
 - How ministers and departments interpret their legal mandate
 - The trade-off between government priorities, level of service, the size of the social or economic problem to be addressed, the number of beneficiaries targeted, the performance of the programme and the value for money derived from a programme
 - The service delivery model employed. Government still tends to choose huge bureaucracies or labour intensive models as the only mode of delivery and then may still outsource part of the same function.
 - The macro-organisation of the state, resulting in bureaucracies in each sphere of government for the same function without a clear demarcation, or even an overlap, of roles between spheres.
- This requires broad administrative reforms, not just wage bill reform.
- Fiscal sustainability should also not be laid at the door of the public service only. Legislatures, the judiciary, municipalities and many agencies and state owned enterprises are also funded from the fiscus and the implications of this for fiscal sustainability should also be considered.

Concluding remarks

- It is encouraging to note that, overall, the % of national departments that managed to achieve more than 80% of predetermined objectives improved from 5% to 29% between 2011/12 and 2013/14.
- The % of planned outputs achieved can be increased by proper target setting, redesigning delivery models and processes and by performance management.
- Performance management at the organisational level entails better measurement of unit performance and appropriate management action in the case of poor performance.
- Appropriate management action includes consequences for poor performance, but even more importantly, giving managers the authority and means to take all necessary steps to improve performance.
- In the public service managers often feel they don't have the power to make a difference (they lack agency).
- To improve this will require careful design of organisation structures to better align responsibility, authority and accountability.

Concluding remarks

- Micro-efficiencies also need to be addressed. Indicators such as paying invoices within 30 days and recovering money where financial misconduct was involved, give a good indication of such micro-efficiencies. If departments perform well on these two indicators, they will probably also be efficient in other processes.
- The models that are used to consider the appropriateness of a PPP are too narrowly focused on the specific case (e.g., the specific hospital) and do not consider the wider budget implications.
- The level of outsourcing is not too high. In many instances outsourcing is appropriate but it is a problem if core services are outsourced.
- Government tends to create duplicate structures (e.g., for coordination of rural development) with huge cost implications.
- To get the wage bill under control will require administrative reforms on a broad front and should not only focus on the factors directly affecting the wage bill, such as level of wages, job grading and growth in the post establishment.



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