**RESPONSE TO THE SCOF QUESTIONS ARISING FROM NT 2016/2017 QUARTER THREE (3) PRESENTATION 28 MARCH 2017**

1. ***EMOLUMENTS ATTACHMENT ORDERS – ASSESSMENT/ FEEDBACK ON THE VALUE FOR MONEY FOR EMBARKING ON THIS PROJECT AND HOW MUCH WOULD HAVE BEEN SPENT TO DATE ON THE PROJECT VS. SAVED (FOR EASE OF REFERENCE USE 31 MARCH 2017 CUT-OFF)***

# **Background**

In December 2013, Cabinet authorised the Ministers of Finance and Trade and Industry to take measures to assist over-indebted households and prevent further over-indebtedness. One of the measures identified was to address unlawful Emolument Attachment Orders (EAOs), particularly against public servant salaries. Government, through the National Treasury, appointed service provider Q LINK Holdings (Pty) Ltd for a period of two years to:

* + Investigate EAOs granted against public servants (in the national and provincial spheres of government) and deducted from their salaries via PERSAL and address any abuse; and
	+ Implement an on-going solution for managing EAOs to ensure that no illegally-issued EAOs are enforced against public servants. The solution was implemented in July 2016.

The Department of Public Service Administration (DPSA) was also given a mandate by the Ministerial Committee on Public Service Bargaining Issues (Cabinet Mandate Committee) to implement a Public Service Debt Relief Programme to relieve public servants of their high level of indebtedness. This Programme has three components:

* Task 1: Escalation of existing Financial Wellness Management initiative
* Task 2: PERSAL deductions (including EAOs) filtering and review
* Task 3: Financial-based Interventions for debt relief and rescue

To ensure that there were no duplications of efforts, National Treasury and DPSA are coordinating their initiatives. To this end, the project in respect of PERSAL deductions is assisting in achieving Task 2 of the Debt Relief Programme and its implementation is fully supported by the DPSA.

**Q Link’s fees**

Section 65 (J)(10) of the Magistrates’ Courts Act 32 of 1944 (the Act) allows that an employer may recover a commission of up to 5 per cent of all amounts deducted and payable to credit providers in respect of services rendered in terms of EAOs.

The Q LINK contract stipulates that the 5 per cent deduction that government could have recovered under the Act would be forfeited to the service provider. While Q LINK does invoice the National Treasury, the amount that is paid to Q LINK equals the exact amount withheld by PERSAL from the credit provider/debt collector, in terms of the Act. The total cost of the project is therefore 5 per cent (inclusive of VAT) of the value of each EAO instalment as a monthly administration fee. There are no additional fees/charges to government. It is important to highlight that the 5 per cent commission is effectively paid by the judgement creditor, not the employee or the employer.

The June 2016 commission figure was R2 667 217. Based on this monthly figure, the estimated revenue for the period July 2016 to March 2017 would have been R24 004 953. However, the actual Q LINK cost for the period July 2016 to March 2017 was R23 068 616. This declining trend will continue due to paid-up EAOs, and the termination of certain deductions as a result of the audit of EAOs.

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| --- | --- | --- | --- |
| **Month** | **Deduction count[[1]](#footnote-1)** | **Deduction value** | **Q LINK Invoice** |
| July 2016 | 109 120 | R61,917,354 | R3,095,867 |
| August 2016 | 103 911 | R58,478,465 | R2,923,293 |
| September 2016 | 97 197 | R54,789,820 | R2,739,491 |
| October 2016 | 91 537 | R51,236,030 | R2,561,801 |
| November 2016 | 88 326 | R49,039,969 | R2,451,998 |
| December 2016 | 88 264 | R48,631,558 | R2,431,577 |
| January 2017 | 85 675 | R47,443,249 | R2,372,162 |
| February 2017 | 82 925 | R45,645,299 | R2,282,265 |
| March 2017 | 80 375 | R44,203,251 | R2,210,162 |
| **TOTAL** |  |  | **R23,068,616** |

It must be noted that, before July 2016, the 5 per cent commission was inconsistently applied across government departments, as it was a departmental choice. The commission was only withheld from 62% of credit providers/debt collectors.
Some departments did not deduct the 5 per cent, potentially in the mistaken belief that the forfeited commission would be applied by debt collectors to reduce employees’ debt. This is not the case; the 5 per cent is simply absorbed by the debt collectors, to the detriment of employees and the fiscus.

Q LINK has advised that as at the end of March 2017 it had realised over R140 million in savings for public servants. The savings are achieved mainly from EAOs against employees that have been terminated or amended due to irregularities.

**Project value for money**

The EAO service on offer from Q LINK comprises the following main components.

**Scrutinise and audit the following EAOs:**

* + All EAOs currently on the payroll
	+ All new EAOs received on an on-going basis
* Historical EAOs paid up in the past 5 years will be audited and all identified irregularities will be challenged.

**Establishment of a Central Collector Code File**

To accurately manage EAO deductions, and reduce the opportunity for fraud through fictitious debt collector codes under the guise of EAOs, the deduction code file maintenance on PERSAL has been centralised. Prior to this, the dedication code file maintenance was handled on a decentralised basis, implying that a collector could potentially have 176 different codes on PERSAL.

Through this exercise, the number of collectors codes were reduced from 138 449 to the current 2656 codes on PERSAL.

**Implementation of the correct practice in respect of the 5 per cent commission**

 The employer is entitled to deduct an administration fee of up to 5 per cent of each instalment they pay over to the debt collector. This 5 per cent must be deducted from the instalment payable to the judgment creditor. However, the judgment creditor must still credit the debtor’s balance with the full amount of the instalment. This did not always happen, and consistent implementation is now being ensured.

**Training of payroll and HR personnel**

Finally, to ensure knowledge and skills transfer, the Q LINK project involves the training of payroll administrators and HR personnel. The training will focus on increasing knowledge and understanding of the EAO process amongst HR officials and payroll administrators. Going forward, curbing these abusive practises will rely significantly on their diligence.

1. ***WHEN IS THE NEW IFMS GOING TO BE IMPLEMENTED AND STATUS UPDATE***

# **Strategic Overview - status**

* Software licenses purchased and planning for implementation has begun;
* Service providers for blueprinting have been contracted, with Oracle Corporation (South Africa) providing quality assurance for the design;
* A Design Authority is presently being established by the IFMS team, to play the role of custodian for all intellectual products relating to solution design and compliance with the solution architecture endorsed by Cabinet; and
* The baseline programme plan has been amended to include pilot sites (NT and DPSA) for conducting pre-implementations – for testing prior to conducting lead site implementations.

# **Present Activities**

* Consideration is being given to the hardware requirements for completing blueprinting and possibly software deployment to pilot sites;
* SITA, as the technology partner, is presently taking the necessary steps to ensure that the required cloud infrastructure will be available for deploying software to lead sites, in alignment with the adjusted programme plan;
* The Business Owners Committee (BOC) has been established with the purpose of aligning HR, Financial Management and SCM policies and procedures with those of the software recently acquired. The product of these analyses will then be used as inputs to consult and make the necessary changes, in order to render the system ready to deploy. Direct consultations with the Office of the Auditor-General and other stakeholders will be necessary, in order to systematically conduct the transition of systems, with concomitant introduction of specific financial management policy;
* Teams are being on-boarded for purposes of conducting the blueprinting exercise;
* Preparatory workshops are being held to clarify the engagement between the range of service providers and to establish the appropriate governance procedures coordinated by the IFMS Programme Management Office (PMO);
* The team is presently considering the requirements for acquiring the services of software implementation partners, together with logistics relating to management of teams in the Eastern and Western Cape (location of current lead-site departments); and
* Final discussions with lead sites will be concluded over the next few months, to conclude arrangements relating to costs, infrastructure requirements and change management (both IT and financial management processes).

# **Key Dates**

* Procurement of hosting environment for the IFMS development and testing environment (implemented end Q1 of 2017/2018);
* Procurement of System Implementers (published Q4 of 2017/2018, completed Q2 2018/19);
* Commencement of design and blueprinting (early Q2 of 2017/2018);
* Assessment of state of alignment between IFMS solution architecture and presently employed policies and procedures Business Owner’s Forum), (end Q2 of 2017/2018);
* SITA cloud infrastructure ready for IFMS deployment (Q2, 2018/2019); and
* Pilot site implementation and testing (Q2 of 2018/2019).
1. ***WHAT IS THE RATIO OF EXTERNAL SOURCING IN NT VS. INTERNAL SKILLS, KEY FOCUS ON OCPO, I.E. AMOUNT SPEND ON EXTERNAL CONSULTANTS VS CAPACITATING THE UNIT***

The OCPO operating model is focused on generating efficiency and effectiveness in procurement. A procurement spent review was conducted in the early years of the establishment of the OCPO supporting the CPO and management to direct efforts towards high value and high impact commodities. The sourcing model is a blend of commodity experts mostly sourced in and permanent staff institutionalising the procurement efforts of government. The OCPO consists of 92 full time staff appointed at the following levels:

|  |  |
| --- | --- |
| **Salary Level** | **Number of employees** |
| Level 15 | 0 |
| Level 14 | 6 |
| Level 13 | 22 |
| Level 12 | 1 |
| Level 11 | 28 |
| Level 10 | 0 |
| Level 9 | 11 |
| Level 8 | 5 |
| Level 7 | 15 |
| Level 6 | 1 |
| Level 5 | 3 |

Twenty-two (22) Consulting firms were insourced from 1 April 2016 to 31 March 2017 to execute the work of the OCPO

1. ***REPORT ON ESKOM INVESTIGATION – STATUS UPDATE – OCPO***

The OCPO received on average between 20 and 25 complaints/compliance related queries/orders from inter alia the Courts, Public Protector, Provincial Treasuries, Parliament and others per day.

The requests can be broadly categorised as follows:

1. Compliance related requests to deviations from competitive procurement processes or expansion/variation of contracts
2. Exemptions from procurement regulations eg PPPFA Regulations
3. Complaints
4. Court orders
5. Condonations; and
6. Investigations

A number of investigations are currently conducted at Eskom, PRASA, SABC and SAA. The investigations are conducted in accordance with accepted procedure. Both Eskom and PRASA were requested for management comments and once inputs were received, will be issued in the last week of April or beginning of May 2017.

1. ***OCPO OPERATIONS – A PRESENTATION ON THE OPERATIONS OF OCPO WITH A PARTICULAR EMPHASIS ON HOW OCPO CAN DETERMINE PROCUREMENT ACROSS SUCH A WIDE RANGE OF HIGHLY SPECIALISED AREAS OF OPERATIONS (EXAMPLE GIVEN NUCLEAR) TO ALSO INCLUDE STATUS OF PROCESS TO APPOINT A CPO.***

OCPO operates in terms of the PFMA and MFMA vest procurement decisions in the Accounting Officer or Accounting Authority (Sec 38 (1) (a) (iii) and Sec 51 (1) (a) (iii) of PFMA as well as sec 65 (2) (j) of the MFMA).

The OCPO provides policy guidance, advice and support on a daily basis to enable Accounting Officers and practitioners to execute their mandate accordingly.

In terms of the appointment of CPO, the position was advertised on 16 April 2017. Normal recruitment and selection processes will be followed and a recommendation from the Minister of Finance to Cabinet for endorsement will ratify the appointment.

1. [↑](#footnote-ref-1)