

PUBLIC SERVICE COMMISSION



ANALYTICAL BRIEF ON THE UTILISATION OF CONSULTANTS BY NATIONAL DEPARTMENTS

DECEMBER 2017

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ABBREVIATION AND ACRONYMS

AGSA	Auditor General South Africa
AO	Accounting Officer
DPSA	Department of Public Service and Administration
NDP	National Development Plan
NT	National Treasury
OPSC	Office of Public Service Commission
PFMA	Public Finance Management Act, Act 1 of 1999
PSC	Public Service Commission
PSR	Public Service Regulations

1. BACKGROUND AND INTRODUCTION

The use of consultants by Government initially was seen as an intervention to address the skills gap and fast track the implementation of priority programmes in departments.

In 2000 the Department of Public Service and Administration (DPSA) noticed the increase in the number of consultants appointed by departments. As a result the DPSA commissioned a study on the Use of Consultants in the Public Service (2001).¹ The purpose of this study was to gain an understanding of the underlying reasons for the increased dependency on the use of consultants. This included investigating the impact of the use of consultants on the transformational and service delivery challenges that the Public Service face.

Fast forward to 2013 and the issues remain the same. In the 2013 Auditor-General Consolidated General Report (January 2013)², the AG highlights the concern pertaining to the departments over-reliance on consultants. The AG further states that these consultants are used to do what the state is supposed to do. Subsequently, the National Treasury and the DPSA issued various guidelines (Guideline on Cost Containment Measures, August 2014)³ and regulations (Guide on the Hourly Fee Rates for Consultants, annually) to improve the overall management and use of consultants. Despite these guidelines, many weaknesses still exist.

Further to this, the Portfolio Committee on Public Service and Administration requested that the PSC investigate the role of outsourcing in the public service delivery and development. This request stemmed from the increase in outsourcing of core departmental functions such as building of roads and houses, payment of social grants and policy development (2014: v).

The need to monitor, investigate and evaluate the use of consultants by departments is evident. It is within this context and the mandate of the PSC [section 196(4) (b)]⁴ that this Analytical Brief is developed.

1 This study was tabled at the Public Service and Administration Portfolio Committee, dated 14 November 2001. Integrated Provincial Support Programme and Use of Consultants in Public Service: Briefing, accessed from <https://pmg.org.za/committee-meeting/1081/>, dated 27 November 2017 AND Department of Public Service and Administration Report on Use of Consultants in the Public Service, June 2001.

2 This Report was a Performance Audit focused on the Use of Consultants at Selected National Departments.

3 Instruction 01 of 2013/14

4 (4) The powers and functions of the Commission are – (b) to investigate, monitor and evaluate the organisation and administration, and the personnel practices, of the public service.

2. DEFINITIONS OF KEY CONCEPTS

Various terms are associated with the utilisation of consultants in the context of the Public Service. To ensure a common understanding, the NT Guideline definitions are used as basis for this factsheet⁵ (2014: 02, 03 and 05) (sic):

- **Consultant** means a *professional person appointed to provide technical and specialist advice or to assist with the design and implementation of projects and/or programmes. The legal status of this person can be an individual, a partnership, a corporation or a company. The fact that a consultant is defined as a professional person implies that the consultant is professionally qualified. The provision of advice or service provided by a consultant must be in line with a contractual arrangement (usually commissioned on a project basis). Remuneration will be based on an hourly fee or fixed for a product or a deliverable. Further to this, a consulting service refers:*
 - *to those specialist services and skills that are required for the achievement of a specific objective with the aim of providing expert and professional advice on a time and adhoc basis. These professional services may include:*
 - a) *the rendering of expert advice;*
 - b) *obtaining relevant information from the institution to draft a proposal for the execution of specific tasks that are of a technical or intellectual nature;*
 - c) *business and advisory services;*
 - d) *infrastructure and planning services;*
 - e) *laboratory services and*
 - f) *science and technology.*

- **Contractor** means a *person appointed to provide services which are of non-specialized nature, that are not core business of the institution. It is normally not cost effective to maintain these skills within the institution. Contracting involves an activity of a short-term assignment on the specific projects.*

⁵ National Treasury. Guidelines on Cost Containment Measures: National Treasury Instruction 01 of 2013/14. Issued August 2014 by the Office of the Accountant-General

- **Outsource** services means *an activity outsourced when an institution appoints a third party to carry out specific projects on its behalf in which an institution remains accountable for such outsourced services. These projects usually take a longer period of time to complete and often spans over financial years.*

3. LEGISLATIVE FRAMEWORK

The Public Finance Management Act (PFMA, 1999), places the responsibility on the Accounting Officer (AO) to ensure that where external services are procured the department should get value for money. This Act places accountability with the AO, to ensure that departmental funds are used efficiently and effectively. The PFMA requirements are further articulated in the 2001 Public Service Regulations (PSR). For the purpose of this document the emphasis is Chapter 1, Part III, J.3 in terms of managerial review and oversight, which states:

*'From 1 April 2001, the annual report shall include such information on planning, service delivery, organisation, job evaluation, remuneration, benefits, personnel expenditure, the **utilisation of consultants**, affirmative action, recruitment, promotions, termination of services, performance management, skills development, injury on duty, labour relations, leave and discharge due to ill- health, as the Minister determines.*

In this regulation 'consultant' means a natural or juristic person or a partnership who or which provides in terms of a specific contract on an ad hoc basis any of the following professional services to a department against remuneration received from any source:

(a) the rendering of expert advice;

(b) the drafting of proposals for the execution of specific tasks; and

(c) the executing of a specific task which is of a technical or intellectual nature, but excludes an employee of a department'.

In addition, as stated in the NT Guideline, on the 23rd of October 2013 Cabinet resolved that all government departments, constitutional institutions and public entities listed in Schedule 2 and 3 to the PFMA (Act 1 of 1999) must implement measures to contain operational costs and eliminate all non-essential expenditure.

The Office of the Account General at NT issued a Guideline on Cost Containment Measures, to all institutions. The aim of the directive is to implement measures to contain operational costs and eliminate all non-essential expenditure. Accounting officers and accounting authorities, when appointing and managing consultants and consultancy projects, must critically evaluate the internal control processes of their respective institutions to ensure that value for money is achieved when making use of consultants.

In terms of the National Development Plan (NDP), Chapter 13, *Building a Capable and Developmental State*,⁶ it is emphasized that the tendency in the public service has been to value people who already have relevant experience and expertise. Where these skills are not available internally, departments often rely on outside consultants. The NDP states that this is a short-sighted approach that does not address where the next generation of senior public servants and technical specialists will come from.

4. APPROACH AND METHODOLOGY

The main approach used for the Analytical Brief is a document and literature study. The various departmental annual reports (utilisation of consultants) form the foundation of this Brief, supported by the verified information from the Auditor-General of South Africa (AGSA) annual consolidated general reports, and the review of other sources, such as the NT and the DPSA. This includes relevant research undertaken.

The process commenced with the capturing of the data, as sourced from the departmental annual reports, followed by the analysis of information to provide an account of the utilisation of consultants.

The analysis focuses on the past 3 financial years (FYs 2014/15, 2015/16 and 2016/17), depending on the availability of the required information in departmental annual reports.

⁶ National Planning Commission. (2012). National Development Plan: vision 2030.Presidency.

Financial Year(s)	Number of Departments With Required Information ⁷
2014/15	32 of 40 departments
2015/16	33 of 43 departments
2016/17	32 of 44 departments

Furthermore, it highlights those departments that are the main contributors to the high number and costs of consultants.

Because the information in annual reports was not consistently provided in the same format, this Brief does not provide a comparative analysis of departments or financial years. However, the information does provide a snapshot of the trend over the 3 financial years. Furthermore, the departments are not similar in terms of cluster, size, budgets and nature of work, which limits comparison of departments in terms of utilisation of consultants.

5. OBJECTIVES

The objective of this Analytical Brief is to provide a snapshot of the utilisation of consultants and the related costs in national departments.

6. ANALYSIS OF THE UTILISATION OF CONSULTANTS

In the 2014 Budget Speech, the then Minister of Finance, Pravin Gordhan stated that ‘circumstances dictate that we cannot add resources to the overall spending envelop. The emphasis falls therefor on ensuring expenditure is allocated efficiently, enhancing management, cutting waste and eliminating corruption.’

He goes further and says that a series on initiatives are focused on these concerns:⁸

- *Spending reviews are under way to examine programme performance and value-for-money, conducted by the National Treasury and the Department of Performance Monitoring and Evaluation, and by provincial treasuries.*

⁷ Note that the 44 departments are not a total representation of the total number of national departments during the respective financial years.

⁸ Ministry of Finance. 2014. Minister of Finance Budget Speech. National Treasury. South Africa

- *The Office of the Accountant-General has stepped up efforts to strengthen the financial control environment, and has undertaken 27 forensic reviews over the past 12 months, leading to both criminal investigations and internal disciplinary action.*
- ***As part of efforts to combat waste, cost-containment instructions were issued in January 2014. Budgets for consultants, travel, accommodation and venue hire have been curtailed, which will contribute to savings over the next three years.***
- *Forthcoming regulations will strengthen the National Treasury’s oversight of public entities by requiring compliance with reporting requirements for expenditure, revenue, borrowing and performance.*

These interventions were all aimed at improving the quality of public services and cutting waste.

6.1 Number of Consultants Utilised

One of the major concerns is that government departments employ a large number of consultants to address critical competency areas. These critical competency areas range from performance and financial reporting to the development of departmental strategies plans and policy development.

Based on the departmental annual reports there is a slight decline (1.5% reduction from the 2015/16 FY) in the number of consultants used over the last 2 financial years (FYs, 2015/16 and 2016/17), refer to **Figure 1**.

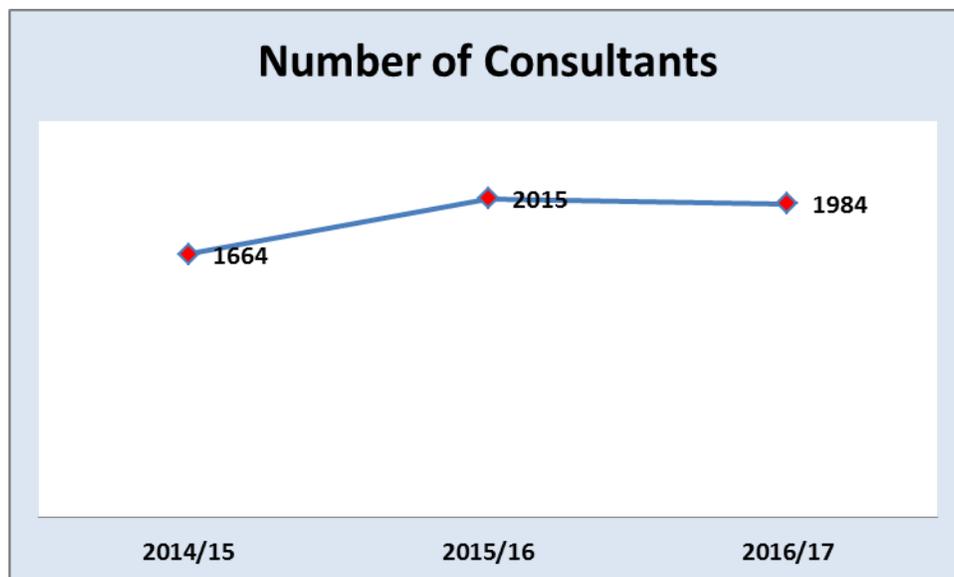


Figure 1 Number of Consultants Utilised Over 3 FYs

A similar decline is noted in the number of posts filled in the Public Service at the end of September 2017, reflecting a 6.2% reduction from December 2016.⁹

	2016/June	2016/Dec ¹⁰	2017/Sept ¹¹
Number of Posts	343 816	338 303	328 855
Number of Posts Filled	320 360	331 376	310 788
Vacancy Rate	6.8%	7.4%	5.5%

Table 1 Number of Posts vs Number of Posts Filled in the Public Service 2016/2017

This is attributed to the cleaning of PERSAL and abolishing of posts in departments. These reductions are seen as direct result of the bold steps taken by NT in the 2016/17 Budget to contain human resource expenditure in the public sector.

The number of consultants should be closely monitored as departments are becoming creative in the reporting of consultant utilised. For instance, previous consultants are appointed as employees additional to the establishment to reflect a reduction in the number and costs of consultants. Some departments simply do not report the numbers of consultants utilised, such as the South African Police Service (SAPS), the Department of Defence and Department of Rural Development and Land Reform, whilst reporting high costs related to consultants.

The challenge with further analysis of the number of consultants is that the reporting requirements do not allow for details pertaining to the nature of the service rendered by the consultants. Therefore, most departments merely list the project names in the reporting table.

6.2 Cost of Consultants

Since the adoption of the NDP in 2012, reforms were introduced, such as professionalisation of the public service through building required skills and capacity, overhauling procurement and supply chain management practices, and reprioritisation of government expenditure programmes and resource allocation.

Although **Figure 1** shows a slight decline in the number of consultants utilised, **Figure 2** shows a significant decline in the cost of consultants, from R 4.2bn in 2015/16 to R 2.8bn in 2016/17.

⁹ DPSA Report on Strategic HR Performance dated end December 2016 and end September 2017.

¹⁰ Figures for Dec 2016 excludes the following departments; Defence, Home Affairs and National Treasury

¹¹ Figures for Sept 2017 excludes the following departments; Defence, Home Affairs, National Treasury and Rural Dev & Land Reform

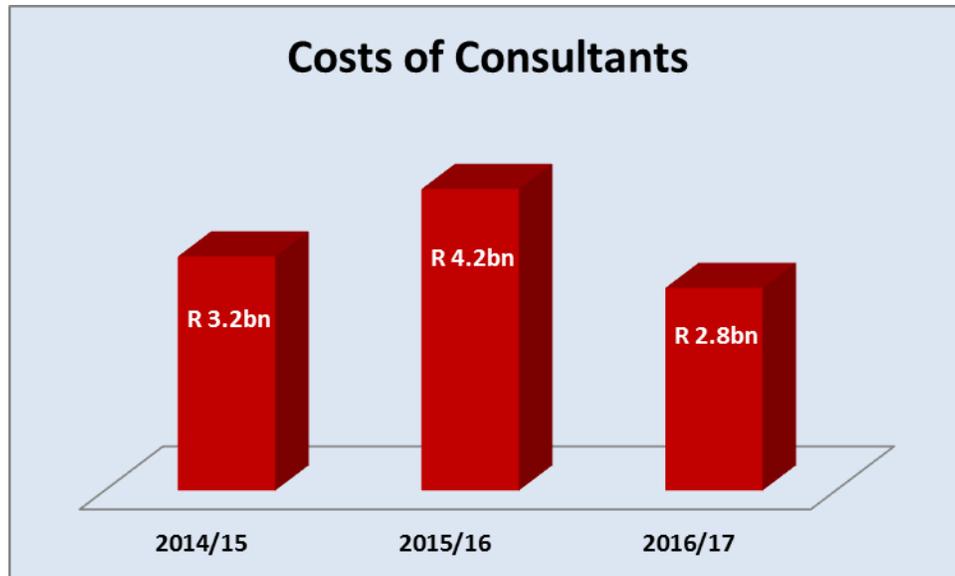


Figure 2 Costs of Consultants Over 3 FYs

This decline could be attributed to Government’s cost containment measures. On the other hand, it could be attributed to the shifted of budget expenditure from consultants (under goods and services) to compensation of employees (under employees additional to the establishment), to reduce the cost of consultants.

6.3 Findings and Analysis

The DPSA commissioned study (2001), as mentioned above, noted that departments were in critical need for a) management, b) information technology, c) project management, d) planning, policy development and e) financial management skills. Based on the findings of the AGSA Consolidated Reports over the last 3 FYs, these skills remain in short supply in the Public Service. This study goes further and states that it had become *‘easy to appoint a consultant by citing limited capacity as the underlying reason. The cost of consultants are not reflected in personnel expenditure and thus the illusion is created that personnel expenditure does not increase or that it is actually in decline. In fact a parallel administration consisting of consultants could easily be created in some instances, especially in projects that are not monitored as strictly as personnel expenditure’*. In addition, what creates the dependency on consultants is the *‘insufficient monitoring of skills transfer and capacity building is indicative of a broader problem, namely the ability of the Public Service to actually manage consultants and ensure maximum utilisation of consultants.’*

The 2014 PSC study and the 2016/17 AGSA Consolidated General Report (2017:34) literally repeat the reasons provided by the departments for the utilisation of consultants, which is limited capacity in departments to implement projects.

Table 2 below shows departments that reflect the number of consultants (exceeded 100) and related costs over the period under review.

Departments	Number of Consultants			Cost of Consultants		
	2014/15	2015/16	2016/17	2014/15	2015/16	2016/17
1. Human Settlements	289	159	Number not provided	R85.6m	R40.6m	R57.9m
2. National School of Government	164	139	158	R22.6m	R21.9m	R29.4m
3. Planning, Monitoring and Evaluation	23	159	218	R29.9m	R167.7m	R34.6m
4. Public Service & Administration	32	171	130	R7.1m	R11.7m	R7.4m
5. Trade and Industry	101	114	140	R27m	R24.5m	R19m
6. Water and Sanitation	115	377	375	R19.2m	R156.3m	R114.4m

Table 2 Depts that shows an increase in the utilisation the number (exceeded 100) of consultants and related costs over the period under review

Overall **table 2** shows an increase in both the number and costs of consultants, and an average payment of approximately R 500k or R 1million per consultant. In a climate of increased pressure on the Public Service to deliver services to citizens, far more emphasis should be placed on holding consultants to the contractual obligations in terms of services rendered and products delivered.

Table 3 provides information pertaining to the % expenditure for consultants in relation of the actual compensation for employees for the departments listed in **table 2**:

Departments	% Expenditure of Consultants vs Actual Compensation of Employees		
	2014/15	2015/16	2016/17
1. Human Settlements	29% <i>R 85 630 435.08 vs</i> <i>R 290 856 000.00</i>	13% <i>R 40 600 000.00 vs</i> <i>R 310 151 000.00</i>	18% <i>R 57 993 171.00 vs</i> <i>R 325 288 000.00</i>
2. National School of Government	61% <i>R 22 665 919.30 vs</i> <i>R 36 953 000.00</i>	50% <i>R21 975 072.00 vs</i> <i>R44 055 000.00</i>	60% <i>R 29 412 111.09 vs</i> <i>R 49 100 000.00</i>
3. Planning, Monitoring and Evaluation	21% <i>R 29 950 594.80</i> <i>vs R 143 375 000.00</i>	95% <i>R 167 744 192.00</i> <i>vs R 176 910 000.00</i>	17.1% <i>R 34 614 746.45</i> <i>vs R 202 190 000.00</i>
4. Public Service & Administration	3% <i>R 7 125 284.60</i> <i>vs R 240 701 000.00</i>	5% <i>R 11 729 253.93</i> <i>vs R 242 534 000.00</i>	3% <i>R 7 419 113.24</i> <i>vs R 254 534 000.00</i>
5. Trade and Industry	3% <i>R 27 044 324.33 vs</i> <i>R 889 062 000.00</i>	3% <i>R 24 586 743.84 vs</i> <i>R 874 175 000.00</i>	2% <i>R 19 053 034.69 vs</i> <i>R 915 498 000.00</i>
6. Water and Sanitation	2% <i>R 19 279 300.00 vs</i> <i>R 1 275 705 000.00</i>	11% <i>R 156 398 890.84 vs</i> <i>R 1 360 369 000.00</i>	8% <i>R 114 498 292.62 vs</i> <i>R 1 439 945 000.00</i>

Table 3 Expenditure of Consultants vs Actual Compensation of Employees

Table 3 supports the findings as stated in the 2014 PSC study, that there is no service delivery model approach to outsourcing or utilisation of consultants, based on the differences in information on a year on year basis.

Based on the scan of services rendered (where information was provided or its clear from the project title) by the consultants the most common services rendered are internal audit, information technology related services, financial reporting and performance information reporting. This includes conduct research, reviews, assessments and analysis of programmes and/or policies.

What should be noted is that most departments have research and policy or M&E units that should have the competencies to undertake these tasks. In addition, it is evident that there are no skills transfer plans in place for the areas of concern raised by the AGSA of financial reporting and management and preparation of performance information, which are core functions.

7. CONCLUSION

- 7.1 Information not provided or not provided consistently in the annual reports. To conduct a comprehensive analysis on the usage of consultants the detail pertaining to the nature of services rendered by these consultants is essential. The current annual report template merely provides for information pertaining to the project title, which in most cases is not very descriptive to determine what service is being rendered. This includes the total number of consultants that worked on the project, the duration (work days) and the contract value. Some departments merely use the name of the consultant organisation as a project title or cite independent contractor.
- 7.2 It has been noted that for purposes of managerial review and oversight, departments were compelled in terms of PSR, 2001, Chapter 1, Part III, J.3 to include as part of their annual reporting matters related to the utilisation of consultants. However, following the scrutiny of the PSR, 2016, it is clear there is no provision of such reporting legislation specifically on the utilisation of consultants aside from the annual report requirement covered in Section 31. It is important to note that Section 31 of the PSR 2016 draws on the references to sections 40(1)(d) and 64(1) of the PFMA pertaining to the requirements for annual reports. The limitation is that these sections of the PFMA do not explicitly state the reporting requirements regarding the utilisation of consultations. This creates a loophole in terms of the enforceability with regard to how departments are expected to effectively and transparently report on this matter. It is therefore prudent that the legislative oversight be expressed both to the National Treasury and the DPSA for further interrogation.
- 7.3 **Table 2** shows more or less an average payment of approximately R 500k or R 1million per consultant. Further to this, the decline in the costs can be attributed to the reduction in consulting days.

- 7.4 The National Treasury and the DPSA issued various guidelines and regulations to improve the overall management and use of consultants. Despite these guidelines, many weaknesses still exist. The main reason for this is that developed guidelines and regulations focus mainly on the appointment of consultants. There is a need to provide guidelines for the oversight and management of consultants. In addition to this, this guideline should articulate an approach for skills and knowledge transfer when consultants are used. To this end, the DPSA study recommended that *'consideration should be given as to how the DPSA and the South African Management and Development Institute could assist departments to follow best practice frameworks for skills transfer when consultants are used'* (2001: 22).
- 7.5 The utilisation of consultants to deliver core and non-core functions have become part of the formal structure of departments. Therefore, the PSC (2014: vii) study recommended that *'departments develop service delivery models, which will direct them on when to use outsourcing, insourcing or provide services in-house. It is further recommended that departments first analyse their internal human resource capacity and determine the cost-benefit of the different models to ensure that rational decisions are taken on the best model to use in a specific situation'* (2014:vii).

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