# NATIONAL ASSEMBLY

**FOR WRITTEN REPLY**

**QUESTION NO. 1450**

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**(INTERNAL QUESTION PAPER NO. 15)**

**Ms R N Komane (EFF) to ask the Minister of Health:**

What (a) are the reasons that his department is failing to pay service providers within the 21 day-period, as required for payment of service providers and (b) steps has he taken to remedy the specified situation? **NW1678E**

**REPLY:**

The Department is required to pay invoices within 30 days **(not within 21 days)** in terms of Treasury regulations 8.2.3 which states *“Unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, the date of settlement or court judgement”*

**National Department of Health**

1. The department pays majority of its invoices within 30 days upon receipt of a valid invoice. The delays were due to budgetary constraints within some programmes and some suppliers changing their banking details after the invoice is submitted for payment or in some cases the suppliers ‘s bank details are inactive. Suppliers fails to submit proof of delivery even when they were requested to do so.
2. The department reprioritise within the programmes and economic classification where possible for payment of service providers and constantly engage with the National Treasury to increase the earmarked funds particularly for the CCMDD programme. The department continuously engage with service providers to address challenges that causes the delays on payments of invoices.

**Eastern Cape**

1. The EC Department of Health has been and is still experiencing challenges on paying creditors within 21 days. This is due to Accruals and Payables, which are reflected below:
* 2019/20 = R3,808 billion,
* 2020/21 = R4,433 billion,
* 2021/22 = R4,659 billion and
* 2022/23 = R4,202 billion (draft stage because of verification and validation processes, which will lead to the inclusion of the final figure of the Accrual and Payables on the 2022/23 Annual Financial Statements to be submitted to AGSA on 31 May 2023). Cumulatively, these Accruals and Payables amount to R17,102 billion. They are not budgeted for instead they consume the budgetary allocation given in a particular financial year. In other words, the department with its limited equitable share allocation attempts to prioritise the payment of SMMEs, which are the priority of the present administration and partially pay the major suppliers, which supply medication for the patients. The department negotiates with the major service providers for medicines to continue rendering services to the department for the sake of our patients. If patients cannot get the medication the department can and is exposing its self to be sued by the health services consumers.
* The cycle of non-payment of creditors within 21 is repetitive in nature due to these Accruals and Payables and inadequate allocation on the Equitable Share. There are no challenges on Conditional Grants payments because they are ring-fenced and are timeously transferred to the EC Province.
1. **The Eastern Cape** Department is doing the following:
* Negotiating with the EC Provincial Treasury to finance the Accruals and Payables
* Increased its legal capacity to fight the medico legal cases – The Noyila case, which was decided in favour of the department will go a long way in averting the lump sum payments not only for the EC Department of Health but for entire Health Sector in the public administration. This case is at the Supreme Court of Appeal and the EC Department is vigorously defending it. The medico legal court orders have been major contributors to the high value of the Accruals and Payables.
* Negotiating with National Department of Health to share substantially NHLS, SANBS and AFROX costs because of the dual and implicit nature of transactions related to the services rendered by these creditors.
* Developed cost saving projects to deal with the major cost drivers in the department.

**Free State**

1. Free State Department of Health had cash flow challenge in the last quarter of 2022/23 Financial Year which resulted in supplier invoices not being paid within the prescribed period.
2. Free State Department is currently prioritising invoices aging 30 days and older to reduce payables.

**KwaZulu-Natal**

1. The Department has always endeavoured to process all invoices received within the prescribed 30-day period by Treasury Regulation paragraph 8.2.3 and to this effect, achieved the following outcomes during 2022/23:

| **NUMERATOR** | **DENOMINATOR** | **PERCENTAGE** |
| --- | --- | --- |
| 13699 | 15483 | 88.48% |
| 27005 | 28471 | 94.85% |
| 26561 | 27563 | 96.36% |
| 25091 | 26234 | 95.64% |
| 27871 | 28905 | 96.42% |
| 31169 | 31954 | 97.54% |
| 35810 | 36874 | 97.11% |
| 26880 | 27905 | 96.33% |
| 22246 | 23428 | 94.95% |
| 29508 | 30824 | 95.73% |
| 29340 | 30226 | 97.07% |
| 31714 | 33008 | 96.08% |
| **326894** | **340875** | **95.90%** |

As can be seen from the table above, the Department’s overall compliance level is quite substantial. The Department is acutely aware of the impact that non-compliance has on its suppliers and is constantly striving to improve its performance in this regard. However, it should be noted that the Department does face the following constraints on a daily basis and it is highly unlikely that the Department will be able to substantially improve on its current 95.90% performance to achieve the ultimate goal of 100% payments processed within 30 days:

* The sheer size of the Department results in enormous volumes of payments being processed on a monthly basis. This is hampered by critical skills and staff shortages at many of the institutions due to limited financial resources and the inability to fill posts.
* The decentralised nature of the Department makes it vulnerable to factors outside of its control. Such factors would include problems with the system downtime, slow processing power, IT connectivity issues, stolen copper lines, load shedding etc.
* Problems being experienced with suppliers, i.e., partial delivery of goods, erroneous and/or incorrect invoices, outstanding credit notes, delays being experienced with suppliers registering/verifying their details on National Treasury’s Central Suppliers Database and closed/inactive supplier bank accounts has resulted in payments being rejected by the banks.
* The challenges experienced with the network by various institutions also cause delays in processing of payments.
1. The Department has implemented LOGIS which is a computerized Logistical system, at Head Office, Umgungundlovu District Office and Greys Hospital Office which will provide warning of invoices that are about to reach 30 days on the system. Further to that the Department has engaged with Telkom SA who is currently implementing the alternative connectivity strategy through the existing DOH/Telkom Master Service Agreement (MSA) LAN Connectivity – The one site network was completed at 42 hospitals on the 28th April 2023. The WAN/ Internet connectivity – This has been delayed pending the exemption from Honourable Minister of Communications and Digital Technologies.

**Limpopo**

1. Limpopo Department of Health has paid 99% of valid invoice received as at 31 March 2023. However, the non-compliance is due to slowness//non availability of the payments systems and negligence on part of officials.
2. Timeous notify the system controller on the performance of the system-by-system users (Hospitals, Districts and vertical programmes). Corrective action has been taken against responsible officials.

**Mpumalanga**

1. The Department pays most of its service providers within 10 days as per provincial policy, however, some invoices are disputed due to incorrectness. This causes delaysin the finalization of payments within the PFMA payment period or agreed period.
2. The Department continuously engages service providers and in cases where such challenges are experienced, requests speedily redress.

**Northern Cape**

1. The Northern Cape Department of Health is currently unable to pay all its invoices as and when they become due and payable. While the Department is doing everything possible and committed to comply with the 30-day payment instruction, the current demand on services and the inadequate budget allocation makes it a challenge to meet this obligation.

Below is our performance in the past two financial years:



1. The Department is strengthening its financial control environment to ensure prudent budget allocation and implementation.
* The roles and responsibilities of programme managers are clearly defined and are gatekeepers to ensuring that the budget of the Department is not overloaded.
* Strict monitoring of financial outcomes and adequate funding of new projects before implementation.
* Strict accountability and consequence management on financial transgressions.

**North West**

1. The North West Department of Health could not pay all its invoices for goods and services for the 2021/2022 financial year, starting from the third quarter. In the main, the challenge has been inadequate budget allocation over the years as opposed to the ever-increasing burden of diseases and price escalation on non-negotiable items such as medicine supplies, laboratory services, security services, patient catering, etc.

This was confirmed by the consultants appointed by the National Treasury in a project to review the public finance management practice in the health sector in North West Province. According to their diagnostic report, it appears that in terms of the comparisons made, the North West Department of Health in terms of a fair budget allocation can argue that it is indeed underfunded by R1,1 billion, R2 billion and R2,6 billion over the MTEF up to 2023/2024 financial year. In light of the above, accruals amounting to R1,3 billion had to be settled in 2022/2023 financial year which then negatively affected the current year budget allocation for goods and services.

1. The Department had to prioritize the contractual obligations payments from the third quarter to ensure that accruals which will be carried over to the 2023/2024 financial year are reduced. As a result, the department is projecting accruals percentage reduction of more than 50% from the previous year. The Provincial Treasury has since injected an amount of R200 million into the departmental budget over the MTEF period effective from 2022/2023 financial year and this is a positive move towards ultimately dealing with the accruals. Over and above the contribution by the Provincial Treasury, the Department has reprioritized an amount of R150 million from compensation of employees to goods and services and this is bearing desired results considering the projections.

**Western Cape**

1. The department strives to pay its service providers within 30 days of receipt of the invoice and in terms of Treasury Regulation 8.2.3. Treasury Regulation 8.2.3 states that: “Unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, the date of settlement or court judgement”.
2. The department continues to monitor internal controls to track the movement of invoices from the date of receipt to the date of payment. The department will upskill staff to ensure that strengthened internal controls are adhered to and tracking of goods delivered or services rendered against correct orders and ensuring that the quantity and quality of goods and services to be received and received are in line with ordered goods/ services and ensure that payment of supplier’s invoices are made timeously.

END.