

Government Task Team to Effect Savings

Preliminary Report

27 October 2009

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1. *Introduction*

In July 2009, Cabinet established a Ministerial Task Team to scrutinise public expenditure trends and propose cost-cutting measures as part of the government's response to the economic meltdown and the negative impact of the current recession on the national fiscus.

The Task Team comprises the Minister of Finance, Mr. Pravin Gordhan, the Minister in the Presidency responsible for Performance Monitoring and Evaluation, Mr. Collins Chabane, and the Minister of Public Service and Administration, Mr. Richard Baloyi. The three Ministers have been given the responsibility of investigating and identifying instances where wastage and inefficient spending by government can be reduced, and to present these recommendations to Cabinet.

2. *The approach*

The Task Team's mandate is to analyse government expenditure and identify resources which can be channelled towards better service delivery and supporting the administration's key strategic priorities.

This process will inform the medium-term expenditure framework. Government is determined to work collectively in reviewing spending plans, in reprioritising the budget, in reducing wastage and inefficiency, in identifying and eliminating corruption, and in getting better value for each rand spent, across all spheres of government.

It was decided that government needs to achieve more with less, minimise bureaucratic structures, and re-think how it should work, and how it should work with the private sector and civil society partners.

Importantly, government should set an example of prudently managing public resources and should strive to achieve better fiscal management.

This process will involve three phases. In phase one, government will cut wasteful spending, including on unnecessary conferences, travel, entertainment, consultants and luxuries. Phase two will look at rationalising entities and agencies, shift resources from back-office operations to frontline services, and reform procurement processes. Phase three involves the comprehensive expenditure review, which will fundamentally reshape the way in which public services are delivered and resources allocated.

2.1 Areas of focus of the Task Team

1. Reduce wastage and inefficiency in spending
2. Finding savings in baseline expenditure to reprioritise in line with government's five main issues
3. Review the Ministerial Handbook
4. Rationalise entities
5. Achieve value for money
6. Combating corruption and fraud
7. Eliminate leakage and irregularities in the procurement system
8. Provide the basis for the envisaged Comprehensive Expenditure Review.

3. Short term Saving Proposals

It is the view of the Task Team that government can realise substantial savings over the short term as well as the medium to long term.

The first set of savings proposals for the 2010 MTEF at national level amounts to R14.5 billion, and at provincial level amounts to R12.6 billion.

Within the baseline spending of departments, specific areas of spending were identified where savings can be effected - compensation of employees; goods and services; transfers and

subsidies to public entities; and spending on machinery and equipment.

3.1 Savings identified

Government will focus resources and energies on five priorities as set out in the Medium Term Strategic Framework. Public spending over the next three years will focus on these five priorities, and lead to reductions in certain categories of expenditure and repriorisation of this funding.

Thus far, the analysis on public spending has identified two distinct sets of proposals for saving—

- The first set identifies savings that are available in the short term through changes in departmental spending habits, such as cost-cutting on unnecessary spending.
- The second set of proposals are achievable in the medium to long term, and involve taking policy decisions such as terminating non-performing programmes, projects or even entities.

Last year, national and provincial departments spending on procurement and travel amounted to more than R97 billion. To date, numerous instances of wastage and inefficiency in spending have been identified. A unique opportunity exists to reprioritise and reorganise the way government does its business, in order to leverage efficiencies.

3.2 Savings over the next three years

The Task Team's preliminary report has identified potential areas of savings at national government level where better financial management and systems have realised total government net savings of R14.5 billion.

These savings relate mostly to expenditure reductions on non-core goods and services items.

The largest savings were identified from the following national departments over the Medium Term Expenditure Framework:

- **All departments – R2 billion in total**
From reducing administrative spending in Programme 1 of departments and moving resources to frontline services.
- **Social Development – R1.5 billion**
From increased collections from wrongly paid or overpaid grant beneficiaries; an adjustment of the means test; and also as a result of slower than anticipated uptake of social grants from the implementation of the extension of the Child Support Grant to 15 years of age.
- **Defence and Military Veterans – R1.4 billion**
Detailed analysis of monthly spending showed that the department can realise savings by better financial management. Some savings have been realised on the Strategic Defence Procurement Programme, due to a more favourable exchange rate.
- **International Relations and Cooperation – R700 million**
Mainly as a result of revised foreign exchange rate assumptions from those used at the time of the 2009 Budget, which were based on the assumption of a weaker rand.
- **Trade and Industry – R700 million**
Mostly related to reductions in transfers and subsidies, due to underspending and the rescheduling of certain projects.

3.3 *Savings on baseline expenditure*

Analysis was also done of the budget baseline expenditure trends of departments to identify areas where savings can be realised.

Savings arise through effecting changes in departmental spending habits and instituting cost-cutting measures, particularly on non-core items and 'frills'. After the review, some programmes have already been scaled down or rescheduled. Comparisons were done across departments to identify spending norms and standards.

4. *Medium to long term Saving Proposals*

The second set of proposals identifies areas where savings may be achieved over the medium to long term, which may require changes on policy and decisions on whether to terminate non-performing programmes, projects or entities.

In these areas, a review of the performance, the workings and/or the necessity for continuing the specific programmes and entities, needs to be undertaken.

The review of the Ministerial Handbook is a further step to ensuring appropriate levels of spending. The Handbook was developed several years ago and certain aspects of it may no longer be suitable or relevant. The review will look at the issue of unnecessary spending, and will seek to ensure that the responsibilities of Ministers are adequately supported.

Finding savings is not only about reducing budgets and reprioritising expenditure; it is also about combating wastage, leakage and corruption in government, specifically in the procurement system.

The work of this Task Team will also lay the basis for the envisaged Comprehensive Expenditure Review which will be a thorough analysis of how and where government spends its money, and whether it receives value for the money it spends. The Review will investigate

which spending programmes are delivering on their mandate as well as whether the same service can be delivered better and more cheaply. Such a review will be conducted by the Presidency, together with the National Treasury and relevant line departments. In some cases, the Review may find that we should spend more on a particular area because it saves us money in other areas (for example, good quality early childhood education reduces rates of grade failure in high school, thus saving the fiscus money). Similarly, the Review may find areas where government should be spending far less because the money spent does not contribute significantly to government's key priorities.

4.1 Procurement of goods and services

Government departments procure goods and services, sometimes at prices higher than their market value. A set of guidelines and policies must be developed which is aimed at reducing these costs.

For example, government spending on information technology is substantial. The service costs charged by the State Information Technology Agency (SITA) need to be reviewed, and departments should be considering better coordination when they contract information technology services to maximise leverage.

Government departments should ultimately be given the option to acquire information technology services at market related prices. Savings costs that could be realised from SITA, under guidance from the Minister of Public Service and Administration, include—

- The total estimated amount projected for placement of temporary and contract workers for the year is R400 million. It is recommended that a target of 20 percent saving is set for the current year. This should translate to a saving of R80 million. To be successful, the recruitment process will have to be revised
- Savings may also be realised on non-labour operating costs as labour costs cannot be decreased in the short term
- A revision of professional and special services is crucial as this is a major cost driver

- Scaling back on the number of initiatives may need to be renegotiated and prioritised to reduce labour costs in the long term
- Non-labour operating costs at SITA amounts to R428 million, and a savings target of 10 percent will result in a saving of R43 million
- The budget for capital expenditure originally approved amounted to R598 million. It is recommended that this amount be reduced to R300 million, with the provision that all capital expenditure be approved by the Capex Review Committee, to ensure that expenditure is limited to only critical capital expenditure
- The implementation by various provinces of different IT systems in the health sector has led to inefficiencies in the sector. All future procurement, adoption and implementation of IT systems in health systems across the provinces must be consistent and coordinated.

The expenditure analysis will continue to identify projects, programmes and entities where discontinuation or rescheduling may be considered. Areas of reprioritisation must also be identified where alternative funding mechanisms can be considered.

4.2 Combating corruption and fraud

The Public Finance Management Act (PFMA, 1999) accords certain powers to the National Treasury to “investigate any system of financial management in any department”; and further that it “must intervene by taking appropriate steps”.

An interdepartmental working group was set up to strengthen compliance and enforce uniform norms and standards in managing tenders. The emphasis will be on preventing fraud and corruption before it actually happens. The working group comprises the National Treasury, South African Revenue Service, Financial Intelligence

Centre, Auditor-General and the Special Investigations Unit. It reports to the Minister of Finance.

Its task is to establish if there are leakages in the procurement system and if there are instances of weak management which result in unwarranted cost escalation. For example, some of this leakage happens in the government feeding scheme, school construction, and in procuring office equipment and other goods and services.

Intense work has been done over the past six weeks, aimed at improving compliance levels within the Supply Chain Management (SCM) policies and procedures in all three spheres of government. It has already started yielding results.

A large number of government employees in national departments, provinces and municipalities have been identified as suspects in defrauding the state. A short list of cases has been identified for immediate action. A range of enforcement sanctions are being considered including internal disciplinary procedures, civil recovery, tax collection, criminal sanction and blacklisting from doing government business.

The interdepartmental working group has adopted a two-track approach, which is to take action against immediate and obvious criminal activities, while dedicating capacity to investigate the more complex cases.

5. *Timeframes to implement Saving Proposals*

The Task Team proposes the following schedule that the review process on public finance expenditure trends should follow over the medium term period.

Potential savings identification stage	Implementation date
2010 MTEF: 1 st phase of immediately cashable savings mainly on frills and non-core items	2009 MTBPS & 2010 Budget
Selection of potential saving areas for investigation in the medium term	December 2009
First set of investigations and recommendations complete and ready for planning and implementation of decisions (mainly reprioritisation and rationalisation)	March 2010
2011 MTEF: savings mainly on frills and on non-core items	2010 MTBPS & 2011 Budget
Second set of investigations and recommendations complete and ready for planning and implementation of decisions (after Comprehensive Expenditure Review)	October 2010

6. Conclusion

This action by government requires cooperation, commitment and engagement from all political principals and their respective departments. The work of the Task Team will also be monitored by Minister Chabane, as this will lay the basis for the envisaged Comprehensive Expenditure Review. There will be regular reporting to the relevant cabinet structures and between departments.

These measures will not only apply during this time of crisis but should become the blueprint for how we do things and manage public resources in future.