



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Cost Containment Guidelines

National Macro Organisation of the State Project

National Treasury
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The document is available on the internet at: <http://www.treasury.gov.za/publications/guidelines> and
http://www.dpsa.gov.za/dpsa2g/nmos_documents.asp

Contents

1. Introduction	3
2. 2014 and 2015 budget processes.....	4
3. Guidance for costing applicable to interim and final arrangements for departments .	6
3.1 Costs related to accommodation charges	6
3.2 Costs related to the compensation of employees.....	8
3.3 Costs related to relocation	11
3.3.1 Accounting for the transfer of functions and the related resources.....	11
3.3.2 The procurement of goods and services	12
3.3.3 Costs related to information and communications technologies (ICT)	14
4. Contact details	14

1. Introduction

After the national elections held in May 2014, the President on 25 May 2014 announced the appointment of Ministers and Deputy Ministers in terms of sections 91(2) and 93(1) of the Constitution of the Republic of South Africa. The portfolios and respective mandates of these Ministers require the re-organisation of selected departments, including the establishment of new national departments. New structures will coexist with current structures until such time as the new organisational structures are finalised and functions and resources have been transferred to them.

These guidelines aim to provide departments that are undergoing organisational development change with guidance on how to minimise the associated costs. Costs related to departmental organisational development change must be restricted to the creation of structures that are necessary to effect the changes announced in Presidential proclamations. The guidelines should be read in conjunction with the *2013/14 National Treasury Instruction 01 on Cost Containment Measures*¹, which set out measures to contain operational expenditure and non-essential expenditure, and are applicable to all departments, entities and constitutional entities.

Minimising organisational development change costs is essential given that Government continues to face an extremely tight fiscal environment, and that expenditure must be well contained. Poor economic growth performance, rising interest rates and higher levels of inflation place additional pressure on government's fiscal programme, which seeks to stabilise the growth of debt and restore fiscal sustainability.

¹ These guidelines are available at <http://www.treasury.gov.za/legislation/PFMA/treasuryinstruction>.

2. 2014 and 2015 budget processes

The Minister of Finance tabled the 2014 Appropriation Bill in Parliament on 26 February 2014, based on the national government structure at the time. The 2014 Appropriation Bill lapsed on the last day of sitting of the National Assembly before the national elections in May 2014. The Appropriation Bill was revived by the National Assembly on 18 June 2014.

The Minister of Finance tabled technical corrections to the 2014 Appropriation Bill in the National Assembly to establish new budget votes. By July 2014, the 2014 Appropriation Bill was passed by both of the houses of Parliament. New budget votes reflect new departments as well as those that need to undergo organisational development changes. These are however only technical corrections to the Appropriation Bill, as no funding has been allocated to the new votes at this stage.

FUNDS FOLLOW FUNCTIONS

Funds will be transferred to new departments from existing budget votes, as functions are fully transferred to the new departments, and their departmental structures are properly established. Only then will it be possible to calculate accurate budget allocations in terms of the new vote structure.

In terms of Section 33 of the Public Finance Management Act, Act 1 of 1999, as functions are transferred between departments so are the associated funds. Treasury Regulation 6.5.1 stipulates that where a function is to be transferred between votes, the relevant treasury must be consulted in advance. It also states that in the absence of an agreement between the affected departments on the amount of funds to be transferred, the relevant treasury will determine the funds to be shifted. When the transfer of functions involves a change to the vote budget programme structure, a separate submission needs to be made in this regard to the National Treasury.

In order to transfer funds following a function/s shift/s, the department relinquishing the function/s must submit a formal request to the National Treasury

via their Public Finance representative. The request should include an explanatory memorandum motivating the function/s shift/s; the approval from the Department of Public Service and Administration for the transfer of the function/s between the relevant departments; a copy of the agreement between the transferring department and the recipient department which indicates that the departments are in agreement with the proposed function/s shift/s and quantum of funds being transferred; as well as the financial data (including carry through costs) pertaining to the shifting of funds.

New departments which would have finalised the national macro organisation of the state approval process by 19 September 2014, should submit a separate Adjusted Estimates of National Expenditure chapter and database to the National Treasury. The *Treasury Guidelines: Technical guidelines for the preparation of the Adjusted Estimates of National Expenditure*² provide guidance on the information requirements and process that should be followed in this regard. The budget of the new department will then be allocated in the 2014 Adjustments Appropriation Bill, to be tabled in Parliament in October 2014.

INTERIM ARRANGEMENTS

In the interim, funding for current unavoidable operational activities in respect of new departments which have not completed the national macro organisation of the state approval process, should be allocated against the budget vote of the department to which the new department has been aligned for transitional purposes. Expenditure incurred by an existing department on behalf of a new department must be in terms of a *memorandum of understanding* agreement entered into between the two departments. This agreement must, amongst others, regulate the approval of expenditure, the accountability for expenditure and the allocation of PFMA responsibilities, between the Executive Authorities and Accounting Officers of the respective departments.

² These guidelines are available at <http://www.treasury.gov.za/publications/guidelines>.

PREPARATION FOR THE 2015 MTEF

Cabinet decides on allocations to national departments for the 2015 MTEF period in November 2014. Organisational development changes which are completely finalised by then will be reflected in the 2015 Budget, will be made effective from 1 April 2015 for the 2015/16 financial year, and be set down for the 2015 Medium Term Expenditure Framework period. The *Treasury Guidelines: MTEF Technical guidelines for the preparation of expenditure estimates for the 2015 Medium Term Expenditure Estimates (MTEF)*³ provide guidance on the information requirements and process that should be followed in this regard.

New departments may submit budgetary proposals when their new department's budget programme structure and organisational structure are finalised. An early indication of estimates of expenditure should be provided as soon as possible, even where new departments are not able to meet all information requirement detail as per the guidelines.

3. Guidance for costing applicable to interim and final arrangements for departments

3.1 Costs related to accommodation charges

The Department of Public Works (DPW) provides for and manages the accommodation, housing, land and infrastructure needs of national departments. It is thus responsible for arranging and renegotiating accommodation contracts that provide for the accommodation requirements of new ministries and new / reorganised departments.

The following cost containment measures will generally be applied in meeting accommodation requirements for executive authorities:

- Only the needs emanating from the newly created ministries will be considered and attended to;

³ These guidelines are available at <http://www.treasury.gov.za/publications/guidelines>.

- The generic ministry structure contained in the Ministerial handbook will be used as a basis for determining accommodation requirements;
- The new ministries will be accommodated within existing facilities and no new accommodation will be procured; and
- Stringent procurement measures, taking into account the availability of funding, must be utilised to source new and used interior decor items required for these ministries.

The following cost containment measures will generally be applied in meeting accommodation requirements for departments:

- Departments should continue to be housed in the facilities they are currently accommodated in, until such time as this arrangement becomes impractical;
- Departments will only be in a position to effectively determine their accommodation requirements once they have completed an organisational scoping and staff audit exercise;
- Optimal usage of accommodation is done most cost effectively when planned over the medium to long term; excessive costs accompanying hasty changes in the short term should be avoided;
- Departments will need to cost their accommodation requirements and to provide the DPW with their requirements over different time horizons;
- DPW will optimise the usage of existing accommodation (owned and leased) by trying to obtain the best fit between all the departments' needs and the available accommodation. This may mean that certain officials may be relocated from one building to another or that facilities will be shared between departments;
- Where there is a need for additional or new accommodation, the DPW will apply the space and norm costs to every request;
- Accommodation option analyses will be done by the DPW with the aim of minimising costs;

- Decisions on accommodation should take into consideration the availability of funding and proximity to application systems and related network infrastructure costs.

3.2 Costs related to the compensation of employees

At departmental level, functions will need to be transferred between departments, including to new departments. As part of this process, the staff currently employed by the affected departments who are performing such functions will need to be identified and effectively transferred. The Department of Public Service and Administration's *Guide on Transfer and Ring-Fencing of Staff*⁴ should be utilised by departments when auditing and when transferring employees between the relinquishing and receiving departments. The processes involved are rather complex and require proper planning and management.

All employees identified for transfer as a result of the scoping report and the human resources staff ring-fencing process will be transferred to the recipient department in terms of section 14 of the Public Service Act, 1994. Unfunded posts need to be abolished prior to the ring-fencing process. Data mismatches and discrepancies between PERSAL and budget systems mean that PERSAL cannot be solely relied upon to quantify the vacant funded posts. Posts that have no matching funds available in budgets must be considered to be unfunded, even if they are tagged as funded on the PERSAL system. Filling such posts without appropriated funding would give rise to unauthorised expenditure.

The principle that function follows structure and that staff follow function based on validated job content is applicable. All affected employees will be transferred to the recipient departments on the same salary level as the current post they occupy. Any additional critical staff requirements identified after the transfer process is complete will have to be included in the new structure of the recipient department. The normal processes for obtaining approval for any new structures

⁴ This guide is available at:
[http://www.dpsa.gov.za/dpsa2g/documents/nmos/Work%20Stream%201%20\(WS1\)/WS1%20Ring%20Fencing%20guide%202014.pdf](http://www.dpsa.gov.za/dpsa2g/documents/nmos/Work%20Stream%201%20(WS1)/WS1%20Ring%20Fencing%20guide%202014.pdf)

and for the filling of posts should be followed, including the consideration of the availability of funding.

As the transfer process explained above may take a few months to complete, new departments may in the interim find themselves without the staff required to perform certain functions. The following principles should be applied in the interim:

- Staff should be seconded / assigned from existing structures to avoid the recruitment of people / consultants before organisational structures are fully in place;
- The use of consultants to assist with the organisational design is to be avoided as the requisite capacity to undertake this task exists within the affected departments, the DPSA and the National Treasury;
- S32 of the Public Service Act, 1994 whereby staff can be directed temporarily to perform any functions other than those ordinarily assigned to them, can be utilised by new departments where necessary;
- In terms of public service regulations regarding the transfer of functions, transfers take place cognisant of the Labour Relations Act, Act 66 of 1995. This essentially means that transfers take place as if programmes are going concerns. As such, all existing staff must be assigned to functions. The DPSA's *Guide on Transfer and Ring-Fencing of Staff*⁵ provides information on the ring-fencing of support services staff using a prorata approach. If staffing requirements have increased, a human resources needs analysis should be conducted. After that the normal processes for obtaining approval for any new structures and for the filling of posts should be followed, including the required consultation with the Minister of Public Service and Administration where changes affect the senior management level of the department;
- The *Treasury Guidelines: MTEF Technical guidelines for the preparation of expenditure estimates for the 2015 Medium Term Expenditure*

⁵ This guide is available at [http://www.dpsa.gov.za/dpsa2g/documents/nmos/Work%20Stream%201%20\(WS1\)/WS1%20Ring%20Fencing%20guide%202014.pdf](http://www.dpsa.gov.za/dpsa2g/documents/nmos/Work%20Stream%201%20(WS1)/WS1%20Ring%20Fencing%20guide%202014.pdf).

*Estimates (MTEF)*⁶ together with the *Guidelines for costing and budgeting for Compensation of Employees*⁷ summarise the steps that institutions should follow in preparing their personnel budget for inclusion in institutional budget baselines. Institutions must cost and budget realistically for all compensation expenditures;

- Institutions are expected to budget for compensation of employees within their existing baselines, achieving value for money and controlling growth in personnel expenditure. It should be noted that in general, going forward there is very limited scope to augment resources to support any wage increases that are higher than budgeted for;
- Institutions must ensure alignment between compensation of employees budgets and personnel headcount. Where it is not possible to avoid the creation of new posts as part of a minimalist approach to integrating new functions into a department's new organisational structure, the creation of such posts should be provided for through the reallocation of funded vacancies. Funding for the employment of personnel over and above already agreed funded establishments will be considered only where critical skills are required and where properly motivated to the relevant Treasury. In most instances, these allocations will need to be financed through the reallocation of resources from elsewhere within the institution's baseline and / or by reallocating resources from other institutions;
- Shared services / agency agreements should be reached to achieve economies of scale. An agency agreement is an arrangement whereby an entity (acting as the agent) provides goods and / or services on behalf of another entity for a predetermined fee (if any fee). These arrangements are also referred to as Service Level Agreements (SLAs). Shared Services agreements refer to the provision of a service, which was previously provided by more than one institution, by one institution; resulting in the

⁶ These guidelines are available at <http://www.treasury.gov.za/publications/guidelines>.

⁷ These guidelines are available at <http://www.treasury.gov.za/publications/guidelines>.

funding and resourcing of the specific service being shared by all the institutions involved. Shared services agreements can work well in certain instances, such as when departments are merely splitting. Such agreements need to be used extensively in the short term and should be considered in terms of their effectiveness and cost efficiency even in the medium and long term.

For the expenditure of the offices of the new Ministers / Deputy Ministers, provision must be made on existing votes, mostly through reprioritisation of the budget of the department to which the new department has been aligned for transitional purposes, at an average cost of R4 million for a new Deputy Ministry and R8 million for a new Ministry. The carry through costs of this should be provided for in each year of the 2015 MTEF period, through reprioritisation. Where insufficient funds are identified through the reprioritisation exercise, an application for funding could be put forward through the in-year adjustments budget process, in terms of section 30(2) of the PFMA. Departments must provide explanations for expenditure which cannot be accommodated within the baseline budget of the department to which the new department has been aligned, and submit requests by 15 August 2014. Any such funds approved by the Ministers' Committee on the Budget will be communicated to departments in allocation letters and then appropriated in the 2014 Adjustments Appropriation Bill.

3.3 Costs related to relocation

3.3.1 Accounting for the transfer of functions and the related resources

In terms of section 3 of the Public Service Act and Part III H of the Public Service Regulations, all concomitant resources of a department pertaining to a function need to be transferred when such a function is effectively transferred. As such, relevant assets and liabilities need to be identified and transferred to the recipient department. Assets can be defined as resources controlled by an institution as a result of past events and from which future economic benefits or service potential are expected to flow to the institution. Liabilities can be defined as present

obligations of the institution arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits or service potential from the institution.

The key principles listed below should be followed. The *Financial Accounting and Reporting guide: Transfer of Functions*⁸ should be consulted for detailed guidance on the application of each of these principles.

- All transfers of functions made by the end of September 2014, and which will be reflected in the adjustments budget to be tabled in October 2014, are effective retrospectively from the beginning of the financial year unless stipulated otherwise in legislation;
- Transfers of functions made after this date will be reflected in subsequent budget legislation;
- All associated resources such as staff debt, payables, capital assets, commitments and accruals, must follow the function transferred to the recipient department;
- Current year figures should be compiled in accordance with the departmental accounting framework;
- Agreements drawn up between the transferor and the recipient department must set out the roles and responsibilities of each department including the accountability arrangements;
- An additional disclosure note should be added to the financial statements of both the transferor and the recipient department. The amounts disclosed by the two departments must reconcile.

3.3.2 The procurement of goods and services

The Constitution as well as the PFMA prescribe that the procurement of goods and services must be made through a system which is fair, equitable, competitive, transparent and cost-effective. To this end the National Treasury issued a *Framework for Supply Chain Management (SCM)* which is captured in

⁸These guidelines are available at: http://www.dpsa.gov.za/dpsa2g/nmos_documents.asp.

*Treasury Regulation 16A*⁹. It is essential that appropriate sourcing strategies should be utilised when goods and services are procured and that value for money is obtained. When procuring goods and services, departments should take cognisance of the availability of funding, the market value of the goods and services and ensure that elevated prices are not paid.

Prescripts regarding preferential treatment of historically disadvantaged individuals and the promotion of specified RDP goals are captured in the Preferential Procurement Policy Framework Act, 2000 and its related Preferential Procurement Regulations, 2001.

To enhance cost-effectiveness, the National Treasury facilitates the arrangement of transversal term contracts, where more than one client institution is in need of the same goods and / or services. Departments, who opt to participate in any such contracts, may not advertise any bids for such or similar commodities during the tenure of the transversal term contract.

The following documents must be utilised by departments in respect of procuring goods and services:

- *Supply Chain Management: A Guide for Accounting Officers and Accounting Authorities*¹⁰;
- *Treasury Regulation 16A of the Treasury Regulations*⁹;
- *Further instructions and guidelines issued to assist with the implementation of SCM*¹⁰;
- *The Asset Management Framework*¹¹;
- *The Preferential Procurement Policy Framework Act, 2000*¹⁰; and
- *The Preferential Procurement regulations, 2001*¹⁰.

⁹ These guidelines are available at <http://www.treasury.gov.za/legislation/PFMA/treasuryregulations>.

¹⁰ These guidelines are available at <http://www.treasury.gov.za/legislation/PFMA/supplychainmanagement>.

¹¹ These guidelines are available at <http://www.oag.treasury.gov.za/publications/assetmanagement>.

3.3.3 Costs related to information and communications technologies (ICT)

The following principles are applicable to ICT related re-organisation costs:

- Where existing printers cannot be re-allocated, shared printing environments should be utilised;
- Where functions are transferred, the user's ICT assets need to be transferred to the new department along with the user;
- Where departments are split, core infrastructure should be provided through one of the departments;
- Core infrastructure for new departments will be provided by the State Information Technology Agency using a shared infrastructure model for amongst others, messaging, directory services, storage, desktop management and for the ICT service desk;
- Where possible ICT support should be provided through existing contracts.

4. Contact details

Departments should consult with the relevant National Treasury representatives for clarification regarding any costing arrangements and when making organisational design decisions that have a budgetary and financial impact. These representatives will assist departments with their budgeting and organisational design process. The table below lists the respective Public Finance representatives that should form part of the budget and financial workstream of the NMOS project in each affected department:

Public representative:	Finance	Department:	E-mail address:	Telephone number:
Rezah Atcha / Marissa Moore		Communications	Rezah.Atcha@treasury.gov.za Marissa.Moore@treasury.gov.za	012 315 5287 / 012 315 5789
Japie Jacobs / Gillian Wilson		Government Communication and Information System	Japie.jacobs@treasury.gov.za Gillian.Wilson@treasury.gov.za	012 315 5546 / 012 315 5195
Rezah Atcha / Marissa Moore		Telecommunications and Postal Services	Rezah.Atcha@treasury.gov.za Marissa.Moore@treasury.gov.za	012 315 5287 / 012 315 5789
Mmatshupo Maldi / Gillian Wilson		The Presidency	Mmatshupo.Maldi@treasury.gov.za/ Gillian.Wilson@treasury.gov.za	012 395 6718 / 012 315 5195

Public representative:	Finance	Department:	E-mail address:	Telephone number:
Mmatshupo Maudi / Gillian Wilson		Performance Monitoring and Evaluation	Mmatshupo.Maudi@treasury.gov.za/ Gillian.Wilson@treasury.gov.za	012 395 6718 / 012 315 5195
George Tembo / Gillian Wilson		Women, Children and People with Disabilities	George.Tembo@treasury.gov.za Gillian.Wilson@treasury.gov.za	012 315 5514 / 012 315 5195
Zaheera Mohamed / Dondo Mogajane		Social Development	Zaheera.Mohamed@treasury.gov.za Dondo.Mogajane@treasury.gov.za	012 315 5046 / 012 315 5799
Ulrike Rwida / Marissa Moore		Human Settlements	Ulrike.Rwida@treasury.gov.za / Marissa.Moore@treasury.gov.za	012 315 5578/ 012 315 5789
Ulrike Rwida / Marissa Moore		Water Affairs	Ulrike.Rwida@treasury.gov.za / Marissa.Moore@treasury.gov.za	012 315 5578/ 012 315 5789
Nonhlanhla Ngwenya / Owen Willcox		Trade and Industry	Nonhlanhla.Ngwenya@treasury.gov.za Owen.Willcox@treasury.gov.za	012 395 6599 / 012 315 5651
Thabiso Molewa / Owen Willcox		Economic Development	Thabiso.Molewa@treasury.gov.za Owen.Willcox@treasury.gov.za	012 395 6780 / 012 315 5651
Nonhlanhla Ngwenya / Owen Willcox		Small Business Development	Nonhlanhla.Ngwenya@treasury.gov.za/ Owen.Willcox@treasury.gov.za	012 395 6599 / 012 315 5651