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: www.treasury.gov.za/publications/guidelines

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1. Introduction

After the 4th democratic general elections the President, 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 on 10 May 2009. The portfolios of these Ministers necessitate a re-organisation of departments, including the renaming of national departments and the establishment of new national departments, in support of the Ministers in the execution of their respective mandates. To ensure continuity, national departments that were in existence before 10 May 2009 will continue to exist until such time as the functions of the affected departments, that are either split or transferred as a whole, are effectively separated and transferred.

These guidelines aim to provide departments that are undergoing organisational development change with guidance on how to minimise the associated costs. Minimising organisational development change costs is essential given the current recessionary economic environment. South Africa is currently in a recession, the first in seventeen years. The economic forecasts announced at the time of the budget are likely to be revised. Tax revenue trends are indicating that the amount of revenue collected will be substantially less than originally budgeted. It is therefore vital that available resources are channelled towards service delivery, placing emphasis on the efficient allocation of resources, away from spending on non-essential items and frills.

Costs related to departmental organisational development change should be restricted to the creation of structures that are necessary to effect the changes announced in the form of Presidential proclamations. Any other organisational design changes should only take place after the National Macro Organisation of the State project, managed by the Department of Public Service and Administration (DPSA) is fully completed.

Requests for funding in relation to new policy options, emanating from new departmental structures, should be submitted in terms of the normal Medium

Term Expenditure Framework budgetary process. The *Treasury Guidelines: Preparation of Expenditure Estimates for the 2010 Medium Term Expenditure Framework* publication, which can be found on the National Treasury website at: www.treasury.gov.za/publications/guidelines, provides guidance on the information requirements process that should be followed in this regard.

2. Costs related to accommodation charges

The Department of Public Works (DPW) aims to provide for and manage the accommodation, housing, land and infrastructure needs of national departments. DPW is responsible for arranging accommodation and renegotiating accommodation contracts, where additional accommodation is required in terms of the organisational design process.

The DPW is providing the required accommodation in two phases. The first phase relates to executive authority accommodation needs and is in essence complete and the second phase relates to departmental accommodation requirements.

The following principles were generally applied in the first phase:

- Only the needs emanating from the newly created ministries were considered and attended to;
- The generic ministry structure contained in the Ministerial handbook was used as a basis for determining ministerial accommodation requirements;
- The new ministries were all accommodated within existing facilities and no new accommodation was procured;
- Stringent procurement measures were utilised to source new and used interior decor items required for these ministries.

The following principles should be applied in the second phase:

- 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 are relocated from one building to another or that facilities are 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 analysis will be done by the DPW with the aim of minimising costs;
- Decisions on accommodation should take into consideration the proximity to applications systems and the related network infrastructure costs.

3. Costs related to the compensation of employees

At the 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 performing such functions will need to be ring-fenced and effectively transferred. The DPSA has released a *Guide on Auditing and Transfer of Staff* that should be utilised by departments when auditing and transferring employees between the relinquishing and recipient 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. 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 staff requirements after the transfer process is complete will need to be addressed via the normal budgetary process.

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 employment of new 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 regulating 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 *Ring-fencing Guide* released by the DPSA provides information on the pro-rata ring-fencing of support services staff. A human resources needs analysis should be conducted thereafter only if it is thought that staffing requirements have increased. 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;

- 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 prioritised against existing vacancies. As such existing funded vacancies should be relinquished to fund the creation of necessary new posts. Only vacant **funded** posts should be utilised for this;
- 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 at all). 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 funding and resourcing of the service being shared by 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.

With reference to expenditure for the offices of the new ministers / deputy ministers, the National Treasury has officially communicated with departments to which new ministries have been aligned to for transitional purposes, provisionally allocating an amount of R3 million for each new deputy minister and R6 million for each additional minister. These amounts relate exclusively to the cost of establishing the new ministries and / or for providing capacity for the new ministers. Funding shortfalls will be addressed by way of the in-year adjustments budget process in terms of section 30(2) of the Public Finance Management Act (PFMA), Act 1 of 1999. These affected departments need to specifically request additional amounts through the Treasury Committee process.

4. Costs related to relocation

4.1 Accounting for the transfer of functions and 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 entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. Liabilities can be defined as present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential. The key principles listed below should be followed. The *Transfer of Functions: Financial Accounting and Reporting Guide* which will be released by the National Treasury should be consulted for detailed guidance on the application of each of these principles.

- All transfers of functions made by September 2009 and reflected in the adjustments budget to be tabled in October 2009 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;
- Agency agreements drawn up between the transferor and the recipient department must set out the roles and responsibilities of each entity including the accountability arrangements;
- Prior period figures must be restated;

- An additional disclosure note will be added to the financial statements of both the transferor and the recipient department. The amounts disclosed by the two departments must reconcile.

4.2 The procurement of goods and services

The Constitution as well as the PFMA prescribes 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 Treasury Regulation 16A. 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 market value of the goods and services and ensure that elevated prices are not paid.

The prescripts to ensure preferences for 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 for 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, amongst others, are available at www.treasury.gov.za and must be utilised by departments in respect of procuring goods and services:

- Supply Chain Management: A Guide for Accounting Officers / Authorities
- Treasury Regulation 16A of the Treasury Regulations
- General conditions of contract and standardised bid documentation;
- Further instructions issued in terms of section 76(4)(c) and guidelines to assist with the implementation of SCM;

- The Asset Management Framework
- The Preferential Procurement Policy Framework Act, 2000; and
- The Preferential Procurement regulations, 2001.

Departments should keep all renovation and refurbishment costs to a minimum, for example costs for furniture, curtains, carpets and cellphones. Other items that should be scrutinised are unnecessary costs, like those related to travel, branding, off-premises workshops and catering for meetings.

5. 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, user's ICT assets need to be transferred along with the user to the new department;
- 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.

6. Costs related to legal issues

By the end of July, the DPSA, in conjunction with the Legal Services Units of all affected departments, will develop and issue a set of guidelines which departments will be expected to adhere to when handling legal issues which may arise during the organisational design process.

The purpose of these guidelines will, in particular, be aimed at minimising costs relating to agreements and the changing of agreements, the handling of litigation matters, and the provision of legal services. These guidelines will seek to effectively address all legal issues which may arise, and to provide appropriate guidance as to how to handle those issues in a cost effective manner.

7. 2009 and 2010 budget process

The Appropriation Bill was initially tabled in Parliament by the Minister of Finance at the time of the budget in February 2009. It subsequently lapsed at the dissolution of the Third Parliament prior to the elections. The Appropriation Bill was revived by the National Assembly on 26 May 2009. The Minister of Finance will table technical corrections and an accompanying memorandum explaining the implications of the new structures of departments. New budget votes will be created so that there are budget votes which accurately reflect all of the new, departments that need to undergo organisational development changes and renamed departments. These are however only technical corrections to the Appropriation Bill, as no funding will be allocated to the new votes at this stage.

Only once new departments are fully established and become operational and functions have been effectively transferred will it be possible to calculate accurate allocations in terms of the new vote structure. For any departments that have gone through the full procedure of organisational development change by September 2009, the new department will be allocated a budget and this will be reflected in the Adjustments Appropriation Bill to be tabled in Parliament in October 2009. In these cases, the budget will be adjusted retrospectively to 1 April 2009 and be applicable for the full 2009/10 financial year.

In the interim, funding for current unforeseeable and unavoidable operational activities of new departments should be allocated against the budget vote of the department to which the new department has been aligned for transitional purposes. Any funding shortfall experienced as a consequence of this will be addressed in the in-year adjustments budget process in terms of section 30(2) of the PFMA. Departments will need to submit requests by 25 August 2009 for expenditure in this regard, to be considered by the Treasury Committee. Funds approved by the Treasury Committee will then be appropriated in the Adjustments Appropriation Bill which will be tabled in Parliament in October

2009. With reference to expenditure for the offices of the new ministers / deputy ministers, the National Treasury has officially communicated with departments to which new ministries have been aligned to for transitional purposes, provisionally allocating an amount of R3 million for each new deputy minister and R6 million for each additional minister. These amounts relate exclusively to the cost of establishing the new ministries and / or for providing capacity for the new ministers. Departments will still however, have to submit requests to be considered by the Treasury Committee in this regard.

Organisational development changes which are completely finalised by November 2009 will be reflected on the 2010 Budget, and will be made effective from 1 April 2010 for the 2010/11 financial year and set down for the Medium Term Expenditure Framework. Processes for the 2010 Budget continue as before. The *Treasury Guidelines: Preparation of Expenditure Estimates for the 2010 Medium Term Expenditure Framework publication,* which can be found on the National Treasury website at: www.treasury.gov.za/publications/guidelines, provides guidance on the information requirements and process that should be followed in this regard. Departments are required to submit their budget submissions by 24 July 2009. New departments may submit additional funding proposals by this date, provided that the new department's programme structure and policy priorities 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 requirements as per the guidelines. If necessary, finalised estimates from new departments will be accepted at a later date. It should be noted that the Cabinet decides on allocations to national departments in November.

8. Contact details

Departments should consult with the relevant National Treasury representatives when making organisational design decisions that have a budgetary and financial impact. These representatives will assist departments with their organisational design process. The following is a list of the respective Public Finance representatives that should form part of the budget and financial workstream in each affected department:

Public Finance representative:	Department:	E-mail address:	Telephone number:
Simon Maphaha / Devan Naidoo	Agriculture, Forestry and Fisheries	Simon.Maphaha@treasury.gov.za / Devan.Naidoo@treasury.gov.za	012 315 5203 / 012 315 5044
Spencer Janari / Julia de Bruyn	Basic Education	Spencer.Janari@treasury.gov.za / Julia.deBruyn@treasury.gov.za	012 315 5436 / 012 315 5682
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Philip van Schalkwyk / Velile Mbethe	Defence and Military Veterans	Philip.vanSchalkwyk@treasury.gov.za/ Velile.Mbethe@treasury.gov.za	012 315 5200 / 012 315 5204
Ilse Karg / Devan Naidoo	Economic Development	Ilse.Karg@treasury.gov.za / Devan.Naidoo@treasury.gov.za	012 315 5634 / 012 315 5044
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Judy Naidoo / Julia de Bruyn	Labour	Judy.Naidoo@treasury.gov.za / Julia.deBruyn@treasury.gov.za	012 315 5269 / 012 315 5682
Simon Maphaha / Devan Naidoo	Mineral Resources	Simon.Maphaha@treasury.gov.za / Devan.Naidoo@treasury.gov.za	012 315 5203 / 012 315 5044
George Tembo / Gillian Wilson	The Presidency	George.Tembo@treasury.gov.za / Gillian.Wilson@treasury.gov.za	012 315 5514 / 012 315 5195
Simon Maphaha / Devan Naidoo	Rural Development and Land Reform	Simon.Maphaha@treasury.gov.za / Devan.Naidoo@treasury.gov.za	012 315 5203 / 012 315 5044
Ricardo Andrews / Devan Naidoo	Tourism	Ricardo.Andrews@treasury.gov.za / Devan.Naidoo@treasury.gov.za	012 315 5766 / 012 315 5044
Umesh Natha / Mahesh Fakir	Water Affairs	Umesh.Natha@treasury.gov.za / Mahesh.Fakir@treasury.gov.za	012 315 5283 / 012 315 5119
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 5196

Other contact persons within the National Treasury:

Representative:	Division:	E-mail address:	Telephone number:
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Lindy Bodewig	Accountant Generals' Office	Lindy.Bodewig@treasury.gov.za	012 315 5702
Kay Brown	Budget Office	Kay.Brown@treasury.gov.za	012 315 5450
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