



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# **2018 MTEF Technical Guidelines for Provinces**

GUIDELINES FOR THE PREPARATION OF  
EXPENDITURE ESTIMATES FOR THE 2018  
MEDIUM TERM EXPENDITURE FRAMEWORK  
(MTEF)

June 2017

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# 1 PURPOSE

- 1.1 The aim of this technical guideline is to ensure that the documentation submitted, and the work undertaken in the 2018 MTEF Budget process, provides relevant information on the main strategic proposals as required by the budget decision-making structures, in order to make recommendations to political structures such as MINCOMBUD, Cabinet and Provincial Executive Councils.

# 2 INTRODUCTION

- 2.1 Through the budget process, a large number of public institutions plan, collaborate, negotiate and decide together on a comprehensive government spending plan for the next three years. Given fiscal limits, resources must be allocated in the most effective and efficient way to meet the policy objectives of South Africa as a democratic state, as set out in the Constitution, the National Development Plan, Governments Nine Point Plan and government's Medium Term Strategic Framework (2014 – 2019).
- 2.2 These 2018 Medium Term Expenditure Framework (MTEF) Technical Guidelines are issued in accordance with section 27(3) of the Public Finance Management Act (PFMA), Act No. 1 of 1999, to provide institutions<sup>1</sup> with the requirements for the preparation of expenditure plans for the three-year period.
- 2.3 Due to the elaborate budget process for provinces that needs to align to the national and municipal budget process, National Treasury deems it necessary to develop a guideline document that is specifically poised at integrating these processes to provincial budget activities.
- 2.4 National Treasury has introduced a budget database for public entities which will be used in preparation of 2018 MTEF budget. Provincial Treasuries should have conducted training on the use of this database with provincial entities. The database is aimed at standardising budgeting formats and classification of items across provincial public entities for improved transparency and oversight. National Treasury also introduced a quarterly reporting tool for public entities listed in schedule 3C and 3D to the PFMA and other provincial institutions<sup>1</sup>, which has been rolled out in 2016/17. It serves to introduce a consistent approach to the quarterly reporting information required from provincial public entities.
- 2.5 National Treasury also initiated a budget and programme structure review process for Provincial Gambling Boards to accomplish greater uniformity in aggregating and consolidating their financial and performance information.

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<sup>1</sup> Institutions include national and provincial departments, public entities, trading entities, government components and constitutional institutions.

### 3 2018 MTEF GUIDANCE

- 3.1 The following policy guidance should be taken into account when preparing the primary budget submission:
- Government is committed to remain within an expenditure ceiling as explained in the 2017 Budget Review. This implies that no additional resources are available for allocation over the MTEF, beyond the limit amounts set aside in the contingency reserve. In general, this implies that additional allocations to a programme will need to be funded by reductions in funding for another programme, either within the department's budget, or from another department's budget. Departments will generally be expected to manage personnel budgets, contain costs and improve efficiency by undertaking appropriate operational changes, programme reviews and rescheduling that result in savings.
  - The Department of Planning, Monitoring and Evaluation (DPME) has been tasked by Cabinet to prepare a paper on policy priorities to guide the allocation of resources. This paper will be issued separately by DPME in due course, and will help to inform deliberations on the budget.
- 3.2 For the 2018 budget process, the narrative is the main submission and must provide the rationale for selected priorities, with the budget numbers comprising the supporting information.
- 3.3 Most of the reforms contemplated in previous years are ongoing, and are being further improved or enhanced each year. The cost-cutting measures continue, and ongoing emphasis will be placed on reprioritising savings toward enhanced service delivery. Provinces compiled comprehensive cost-cutting strategies and were able to redirect some of the savings to enhance service delivery, however, provinces should be vigilant in achieving more efficiency gains in 2018/19, particularly through procurement reforms.
- 3.4 The fiscal consolidation programme continues over the 2018 MTEF, and the provincial focus should be on inclusive growth. Thus, the focus for funding initiatives should be on projects or programmes that contribute to these outcomes and, therefore, departments and public entities will need to take note of both national and sub-national (provincial and local) outcomes and incorporate these into their plans. The imperative roles of Education and Health for providing a skilled and healthy economic workforce and an intensive focus on infrastructure towards employment creation should be highlighted. The 14 national outcomes and the nine-point plan which was alluded to by the President in his 2015 State of the Nation Address (SONA) should also be emphasised.

### 4 SCOPE AND APPLICATION

- 4.1 **Scope:** These guidelines apply to provincial departments, public entities and other provincial institutions in preparing for provincial MTECs.

- 4.2 Collaboration:** Relevant departments, public entities and other institutions must work collaboratively with each other to prepare their 2018 MTEF expenditure estimates submission, taking all the requirements of the guidelines into consideration. In this regard sector specific intergovernmental fora are crucial to establish alignment between policy and service delivery of concurrent functions. Provinces must promote and coordinate integrated planning with local government.
- 4.3 Baseline Reprioritisation:** For the 2018 Budget no additional resources are available for allocation. Institutional priorities must be funded through reprioritisation within current institutional expenditure ceilings: maintaining personnel budgets within compensation budget limits, institutionalisation of cost containment, and improving efficiency by undertaking appropriate operational changes, programme reviews and rescheduling that result in savings.

## **5 BUDGET SUBMISSION DOCUMENTATION REQUIREMENTS**

### **Provincial Growth and Development Strategy**

- 5.1** The PGDS provides a strategic framework to grow the economy for the development and improvement of the quality of life to all people living in the province. It further provides the province with a framework to ensure full alignment with the NDP, as well as to provide a basis for the alignment with the municipal Integrated Development Plans.

### **Alignment between the NDP and the PGDS and IDPs**

- 5.2** The NDP focuses on a more capable state in partnership with stakeholders, and the goal is to treble the size of the economy by 2030 so that 11 million more work opportunities are created. The focus on developing and upgrading capabilities is to enable sustainable and inclusive development.
- 5.3** All interventions, indicators and targets contained in the PGDS should be aligned to interventions, indicators and targets set in the 14 outcomes.
- 5.4** Promoting good governance practices and policy alignment to support a growth and development trajectory requires facilitating spatial equity to ensure that all geographic regions of the province receive attention and are optimally developed.
- 5.5** A critical factor in aligning resources with policy intent is to build the discipline around a clear annual planning and budgeting cycle.

### **A complete budget submission consists of the following requirements:**

- 5.6 Explanatory narrative:** Each department should submit an explanatory narrative to its provincial treasury. It is important to keep in mind that this explanatory analysis of the institution's budget is the determinant of the credibility of its budget. This narrative is the main proposal and should clearly articulate the rationale of the proposal, with the provincial database providing supporting information. Provincial

Treasuries need to consolidate these narratives and submit to the National Treasury on the 11 August 2017.

The narrative should contain the following elements, together with their underlying reasoning:

- departments need to explain the alignment of their budgets and identified key policy priorities that guides resource allocation;
- the general current status of the institutional budget and the trends in the achievement of deliverables (including conditional grants) and in programmes, underlying cost assumptions and prevailing issues;
- departmental management of personnel expenditure including information on key changes to the department's personnel profile;
- cost-containment and other efficiency initiatives, including those mandated by the Office of the Chief Procurement Officer (OCPO) and new delivery practices;
- information on the programmes and projects to be scaled back, rescheduled to a later period or closed, in order to raise resources for higher-priority programmes;
- the costed implications of spending pressures on existing programmes / policy areas / projects and proposed initiatives to manage them;
- the current status of the public entities receiving transfers from the department, including underlying cost assumptions, prevailing issues and their trends.

**5.7 MTEF databases:** The data submission consists of the departmental and public entities databases that provide data to support the information contained in the institution's budget explanatory narrative submission.

**5.8 Estimates of Provincial Revenue and Expenditure (EPRE) chapters:** The information contained in these chapters is intended to provide stakeholders with sufficient detail of what departments and public entities intend achieving in the coming MTEF period.

**5.9 Personnel templates:** Provinces will not be expected to submit the personnel model in preparation for the 2018 MTEF submission. However, National Treasury will request additional information if it is necessary to do so. Furthermore, National Treasury acknowledges the feedback that has been received from provinces and is in the process of amending the model.

**5.10** Notwithstanding the fact that provinces have their own individual compensation of employees measures and processes in place, the key cost drivers of the wage agreement over the 2018 MTEF need to be taken into consideration when preparing the compensation of employees budgets.

**5.11** Cost of living adjustments, housing and medical allowance increases are as follows:

- 5.11.1 A 7.3% cost-of-living adjustment in 2017/18, followed by;
- 6.7% (CPI + 1%) in 2018/19 (not covered by the 2015 wage agreement but based on trends of wage settlements in the past few financial years)
  - 6.6% (CPI + 1%) in 2019/20 (not covered by the 2015 wage agreement but based on trends of wage settlements in the past few financial years)
  - 6.5% (CPI + 1%) in 2020/21 (not covered by the 2015 wage agreement but based on trends of wage settlements in the past few financial years)
- 5.11.2 The actual increase of medical allowance is 8.8% for 2017 calendar year. Medical allowances projections are based on Medical Price Index (MPI), which is normally CPI + 2.5%. The following are the projections used in the HRBP for budgeting purpose.
- 8.2% (CPI + 2.5%) in 2018/19
  - 8.1% (CPI + 2.5%) in 2019/20
  - 8.0% (CPI + 2.5%) in 2020/21
- 5.11.3 An increase of Housing Allowance by CPI each year.
- R1276 in 2017/18
  - R1349 in 2018/19
  - R1425 in 2019/20
  - R1503 in 2020/21
- 5.11.4 Escalation factors for Middle Management Services (MMS) and Senior Management Services (SMS) please refer to Tables 2 and 3.

**TABLE 1: COLA ESCALATION FACTORS (LEVEL 1 to 10)**

PAYMENT ITEM	2017/18	2018/19	2019/20	2020/21
S&W: BASIC SALARY	7.3%	6.7%	6.6%	6.5%
S&W:HOUSING ALLOWANCE	6.3%	5.7%	5.6%	5.5%
S&W:OVERTIME (user adjustable)	7.3%	6.7%	6.6%	6.5%
EMPL CONTR:MEDICAL	8.8%	8.2%	8.1%	8.0%
EMPL CONTR:PENSION	7.3%	6.7%	6.6%	6.5%
S&W:PERFORMANCE BONUS (user adjustable)	7.3%	6.7%	6.6%	6.5%
ALL OTHER	7.3%	6.7%	6.6%	6.5%

**TABLE 2: COLA ESCALATION FACTORS (MMS)**

PAYMENT ITEM	2017/18	2018/19	2019/20	2020/21
S&W: BASIC SALARY	7.3%	6.7%	6.6%	6.5%
S&W:HOUSING ALLOWANCE	7.3%	6.7%	6.6%	6.5%
S&W:OVERTIME (user adjustable)	7.3%	6.7%	6.6%	6.5%
EMPL CONTR:MEDICAL	7.3%	6.7%	6.6%	6.5%
EMPL CONTR:PENSION	7.3%	6.7%	6.6%	6.5%
S&W:PERFORMANCE BONUS (user adjustable)	7.3%	6.7%	6.6%	6.5%
ALL OTHER	7.3%	6.7%	6.6%	6.5%

**TABLE 3: COLA ESCALATION FACTORS (SMS)**

PAYMENT ITEM	2017/18	2018/19	2019/20	2020/21
S&W: BASIC SALARY	6.3%	5.7%	5.6%	5.5%
S&W:HOUSING ALLOWANCE	6.3%	5.7%	5.6%	5.5%
S&W:OVERTIME (user adjustable)	6.3%	5.7%	5.6%	5.5%
EMPL CONTR:MEDICAL	6.3%	5.7%	5.6%	5.5%
EMPL CONTR:PENSION	6.3%	5.7%	5.6%	5.5%
S&W:PERFORMANCE BONUS (user adjustable)	6.3%	5.7%	5.6%	5.5%
ALL OTHER	6.3%	5.7%	5.6%	5.5%

**5.12** The following are progression rates applicable to each of the sectors:

- Provincial Education: 1% every year;
- All other sectors: 1.5% every year.

**5.13** Progression rates applicable to each of the sectors are divided by the applicable number of years to yield effective progression factors<sup>2</sup> for each year.

**5.14** Provinces are also reminded that the current financial year is the third and final year for the multi-year salary agreement that was signed in May 2015. The wage negotiations for the new wage agreement for 2018/19 will commence in October 2017 and it is anticipated that the new wage agreement will be implemented with effect from 1 April 2018.

**5.15** **Conditional grant business plans:** Conditional grants for the year ahead requires that the business plans be submitted. Business plans seek to promote sufficient planning at the provincial level before the eventual execution that requires funds. Planning should focus on how their envisioned activities for the year, using conditional grant allocations, allows them to appropriately apportion funds to achieve the government priority that each grant seeks to address.

**5.16** Although business plans are submitted yearly, they technically form part of a much longer planning horizon, particularly where infrastructure is concerned. As such the business plan for the year shows the activities that will be carried out for a year, and how the activities link with outputs, and in the long run address the priorities under which the grant was created. It is important to ensure that the dates, activities that will take place, the outputs expected from the activities, and when they are expected, are spelt out. This is especially important for activities that are sequential and are required before other activities can be carried out.

**5.17** Based on an activities and output execution plan, the projected cash flow, matching the dates of the activities will need to be provided. Activities, outputs, and cash flow projections are necessary but not the only inputs into business plans. Business plans should also demonstrate how activities will allow the achievement of some

<sup>2</sup> Institutions are urged to manage their staff establishments to ensure that all costs of progression (both notch and grade progression for OSD and non-OSD employees) are met within the effective progression factors provided in Table 4.



outputs, which eventually should be linked to the outcomes of the grants. Risks to the projected activities, and mitigation strategies against them, should also be spelt out. Business plans templates provided by the national departments responsible for monitoring the grants should be a guiding principle when drafting plans.

- 5.18 Infrastructure:** Infrastructure projects and programmes must be undertaken following the Infrastructure Deliver Management System currently being hosted by the Construction Industry Development Board, supported by the Standards for Infrastructure Procurement and Delivery Management. Large infrastructure projects will be considered using a separate infrastructure budget analysis process and there is a new guideline for infrastructure that must be used.

**When completing the submissions:**

- Provincial Treasuries must submit the budget documents to the National Treasury by **11 August 2017**.
- **NO** additional resources are available for allocation in the 2018 MTEF, this budget cycle will focus on expenditure control within the baselines.
- For estimation purposes, the 2020/21 baseline has been calculated by growing the 2019/20 baseline by 5.5 per cent. Non-recurrent allocations have been excluded from the 2020/21 baseline.
- In budgeting for non-personnel expenditure items within the baselines, the following projections can be utilised to inform the provisions that institutions choose to make for general price increases over the 2018 MTEF period:

**Costing Assumptions**

- (a) Consumer Price Index
  - 2018/19 financial year: 5.7 per cent
  - 2019/20 financial year: 5.6 per cent
  - 2020/21 financial year: 5.5 per cent
- (b) Exchange rate – Rand/US\$
  - 2018/19 financial year: R14.41/US\$
  - 2019/20 financial year: R14.70/US\$
  - 2020/21 financial year: R14.99/US\$
- (c) Economic growth rate
  - 2018/19 financial year: 1.8 per cent
  - 2019/20 financial year: 2.1 per cent
  - 2020/21 financial year: 2.3 per cent
- (d) Total population
  - 2018/19 financial year: population (57 387 892)
  - 2019/20 financial year: population (58 159 487)
  - 2020/21 financial year: population (58 913 630)
- Institutions must apply their discretion when using the assumptions. If the outcomes are different to the forecasted estimates, institutions will need to absorb any resultant differences within their budget baselines. It is also expected that budgets for non-essential goods and services items, such as travel and accommodation grow below inflation.

## **6 THE BUDGET PROCESS**

- 6.1** The MTEF details three-year rolling expenditure and revenue plans for provincial departments and public entities.
- 6.2** The MTEF budget process is designed to match the overall resource envelope, estimated through 'top-down' macro-economic and fiscal policy processes, with the bottom-up estimation of the current and medium-term cost of existing departmental plans and expenditure programmes.
- 6.3** The budget process ensures that resources are allocated to meet South Africa's political priorities and to improve the quality and effectiveness of spending within sustainable fiscal limits.

### **Provincial budget process**

- 6.4** The budget process allows government to:
- Prepare the 2018/19 expenditure estimates in the context of enhancing service delivery and ensuring value for money.
  - Strengthen and evaluate the alignment between medium and long-term plans.
  - Revise its policy priorities, macro-economic framework and resource envelope.
  - Evaluate departmental plans in line with the national outcomes, provincial priorities and the objectives of the PGDS.
  - Involve various role-players that provide political and technical advice when faced with trade-offs between competing spending priorities.
  - Focus on changing the structure of the economy from a resource extraction economy to a more production-led economy that can create employment opportunities.
  - Focus on fiscal prudence by way of cost-cutting, ensuring enhanced service delivery, as well as value for money.
  - Compile a reprioritised budget (with the focus on cost-cutting) that is aligned with the national outcomes, the nine-point plan, as well as provincial priorities. Note that this approach builds on previous years' budget reforms.
  - Obtain the required authority (voting process) from the Provincial Legislature to spend.

### **Recommended approach to Provincial MTECS**

- 6.5** In order to enhance the integration of policy alignment, planning, budgeting and implementation, provinces are encouraged to adopt the similar approach to the national MINCOMBUD technical committee. Therefore, provincial MTECs should be used as one of the platforms that encourage joint planning between departments, municipalities and public entities. This will further promote the alignment of

provincial budgets with strategic planning documents such as the PGDS, NDP, IDPs and Spatial Development Frameworks in support of inclusive growth and transformation.

**6.6** Provincial MTEC committees should make recommendations to provincial MINCOMBUD, Premiers' Budget Committees, Provincial Executive Councils and other political structures tasked with taking final decisions on the budget proposals. Discussions at provincial MTECs should be led and chaired by Provincial Treasuries which also assesses the allocative efficiencies of provincial budget taking into account the current fiscal climate affecting the provincial fiscal framework. The departmental delegations should be led by the HODs supported by the CFOs and other senior officials. However, it is highly recommended that the MTEC committees in provinces also be inclusive of the following internal stakeholders:

- The Head of Provincial Planning Unit which is sitting in the Offices of the Premier in most cases. This is to ensure that budget proposals presented by provincial departments are aligned to the strategic direction of both the province and the national government. Departments will have to demonstrate the responsiveness of their budget to the policy and delivery context envisaged by government.
- The Head of Provincial Spatial Planning Unit. This should aim to ensure that departments' plans and budgets transversally align to and support one another in a space and jointly target predetermined spatial locations for maximum impact. Some of the spatial challenges that the country is faced with, include the highly fragmented spatial development, dispersed developments, and socioeconomic fragmentation and polarisation, with the poorest communities often located far from economic and social opportunities. Therefore, the integration and alignment of planning and budgeting should seek to promote local economic development while improving the quality of life.
- Senior officials from the Department of Cooperative Governance/Local Government responsible for the assessment of municipal IDPs. This should aim to promote a better coordinated approach to integrated planning between provincial and local government. Both provincial departments and municipalities should be encouraged to respond on the extent to which government priorities have been integrated into their various planning processes as well as policy and budget documents.

## **Benchmark Process**

**6.7** National Treasury has introduced a first benchmark exercise from the 2002 MTEF. The main objectives of the Benchmark exercises are to assess to what extent provincial MTEF draft budgets give effect to the agreed sector priorities. These deliberations also highlight possible risks in the budgets and propose measures to manage these risks. Two sessions are held: in December and January to ensure that the agreements made in the first round has been adequately addressed. Sector Benchmark meetings for Education and Health in collaboration with the respective national departments started in 2012 to discuss policy dynamics particular to these sectors.

**6.8** The main objectives of the ***Benchmark exercise meetings to be held in December 2017*** are to:

- Assess provincial MTEF draft budget including the extent to which the province's budget gives effect to the agreed social sector priorities,
- Highlight possible risks in the budgets and propose measures to manage these risks;
- Give a critical view of the draft provincial budget as per the November submissions;
- Highlight key issues and challenges from National Treasury's perspective; and reach an agreement on key aspects affecting the provincial budget
- In addition to budget assessment, focus is on improving efficiencies:
  - Participation in the transversal contracts and the efficiencies gained
  - Impact of the implementation of personnel headcount and personnel expenditure control measures
  - PFMA compliance – Irregular, fruitless and wasteful expenditure, and unauthorised expenditure
  - Management of accruals and how cash management strategies could be used to address accruals
  - Debt owed by provincial departments and the strategy to address it

**6.9** The ***Benchmark exercise meetings to be held in January 2018*** focuses on:

- Public entities;
- Investments in provincial economies;
- Infrastructure
- Procurement reforms

**6.10** Critical dates for the provincial budget process are provided in the table below. Provincial departments and public entities follow the specific requirements of their own treasuries and provincial budget processes. These guidelines should thus be read together with the Provincial Budget Process Schedule and Guide for Provincial Budget Formats<sup>3</sup>. Provincial treasuries must receive revised baseline estimates from provincial departments and public entities at least two weeks before submission to National Treasury.

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<sup>3</sup> These and other guidelines are available on the National Treasury website at [www.treasury.gov.za/publications/guidelines](http://www.treasury.gov.za/publications/guidelines)

ITEM	DATE
Technical Committee on Finance Lekgotla	02 - 04 August 2017
Provincial treasuries submit first draft 2018 Budgets to National Treasury: Estimates of Provincial Revenue and Expenditure and database	11 August 2017
Provincial Budget Visits	July / August 2017
Technical Committee on Finance meeting	15 September 2017
Budget Council and Budget Forum meeting	22 September 2017
Preliminary conditional grant frameworks submitted to National Treasury by national departments	02 October 2017
Tabling of Medium Term Budget Policy Statement	25 October 2017
Preliminary allocation letters issued to provinces – equitable share allocations	27 October 2017
Provincial treasuries submit 2nd draft 2018 Budgets to National Treasury: Estimates of Provincial Revenue and Expenditure and database	17 November 2017
Provincial benchmark exercise for 2018 Budget (1st round)	04 – 08 December 2017
KwaZulu-Natal	04 December 2017 AM
Western Cape	04 December 2017 PM
Limpopo	05 December 2017 AM
Northern Cape	05 December 2017 PM
Mpumalanga	06 December 2017 AM
Free State	06 December 2017 PM
North West	07 December 2017 AM
Gauteng	07 December 2017 PM
Eastern Cape	08 December 2017 AM
Final conditional grant frameworks and allocations submitted to National Treasury by national departments	01 December 2017
Second allocation letter to provinces	08 December 2017
Provincial benchmark exercise for 2018 Budget (2nd round)	10 - 16 January 2018
Technical Committee on Finance meeting	End January 2018
Final allocation letters issued to provinces	End Jan / Early Feb 2018
Budget Council meeting	End Jan / Early Feb 2018
Provincial 2017 Budgets tabled at provincial legislatures	End Feb / Early March 2018

## National Resource Allocation Process

Month	Task	Role-players	Forum/s	Outputs required
April – May	Planning the 2018 budget process	MINCOMBUD Technical Committee	Technical budget lekgotla	2018 MTEF technical guidelines 2018 MTEF budget strategy paper
May – Early June	Adoption of 2018 Budget strategy	MINCOMBUD Cabinet	FOSAD MINCOMBUD meeting/s Cabinet meeting/s	Publication of 2018 MTEF technical Guidelines Publication of 2018 MTEF budget strategy paper
June – July	Compilation of budget submissions by departments and entities  Formulation of recommendations to technical committees	Departments Entities National Treasury DPSA DPME DCoG	Bilateral and technical group <sup>4</sup> interactions	Written and data budget submissions to function groups
End July – September	Formulation of recommendations to technical and political committees	Departments Entities Function groups TCF MINCOMBUD Technical Committee	Function group interactions <sup>5</sup> 10x10 meeting/s <sup>6</sup> MINCOMBUD Technical Committee hearings TCF meeting/s FOSAD	Recommendations to political committees on information to be tabled in MTBPS, need to include: <ul style="list-style-type: none"> <li>• fiscal framework</li> <li>• key national government spending priorities</li> <li>• division of revenue</li> <li>• substantial adjustments to conditional grants</li> </ul> (legislative requirements detailed in Annexure D)
End September – October	Formulation of recommendations to Cabinet	MINCOMBUD	MINCOMBUD meeting/s Cabinet meeting/s	Approval of recommendations to be tabled in MTBPS
End October	Tabling of 2017 MTBPS	Minister of Finance Parliament		MTBPS publication including: <ul style="list-style-type: none"> <li>• fiscal framework</li> <li>• key national government spending priorities</li> <li>• division of revenue</li> <li>• substantial adjustments to conditional grants</li> </ul>

<sup>4</sup> Technical group meetings are held, in which relevant departments, public entities and provincial structures participate. Technical groups are aligned with particular outcomes specified in the MTSF. The technical group considers submissions by institutions and discusses the reallocation of resources within the group as a whole.

<sup>5</sup> Function group hearings are DGs hearings on budget policy or other meetings involving senior officials from relevant institutions and experts from the relevant field. In this setting, several technical groups may be brought together to consider submissions by institutions and discuss the allocation of resources across the function as a whole. Function groups may also be called to present at MINCOMBUD technical meeting hearings.

<sup>6</sup> In function areas with a large degree of concurrent powers (such as health, basic education and human settlements and municipal infrastructure), a *10x10 meeting*, composed of heads of department of the nine provincial and one national lead department in the function together with their finance counterparts, may be convened as a substitute or complement for the work of the function group.

<b>Month</b>	<b>Task</b>	<b>Role-players</b>	<b>Forum/s</b>	<b>Outputs required</b>
End October – November	Draft allocation letters  Finalisation of details of National government allocations to be included in 2018 Budget	Function groups MINCOMBUD Technical Committee MINCOMBUD Cabinet	MINCOMBUD Technical Committee hearings FOSAD MINCOMBUD meeting/s Cabinet meetings	Final national government allocation letters
December – February	Finalisation of recommendations to be tabled in 2018 Budget  Drafting of budget documentation	MINCOMBUD Technical Committee MINCOMBUD Cabinet National departments and public entities	MINCOMBUD Technical Committee hearings FOSAD MINCOMBUD meeting/s Cabinet meetings	Budget review publication Appropriation bill Division of revenue bill Estimates of national expenditure publications People's guide to the budget Tax proposals
February	Tabling of budget	Minister of Finance Parliament		Budget tabled  (legislative requirements detailed in Annexure D)
March – July	Adoption of budget expenditure legislation	National Assembly National Council of Provinces	Hearings Debates Adoption of bills	Budget adopted (legislative requirements detailed in Annexure D)

## Budget Process Technical and Political Structures

### Technical structures at national level

**6.11** At a national level, the senior technical structures of the MTEF budget process are the Minister's Committee on the Budget Technical Committee (MINCOMBUD technical committee, previously known as Medium Term Expenditure (MTEC)) and the Technical Committee on Finance (TCF):

- The MINCOMBUD technical committee/MTEC is a committee of senior officials from NT, DPME, COGTA and DPSA that makes recommendations to MINCOMBUD regarding budget allocations in the medium term expenditure framework, taking into account government priorities, funding available, alternative funding sources and the division of revenue amongst the three spheres of government.
- TCF is a committee of the heads of all provincial treasuries and is chaired by the DDG of the Intergovernmental Relations division of the National Treasury. The TCF considers intergovernmental finances and the division of revenue and makes recommendations to the Budget Council, Budget Forum and MINCOMBUD technical committee.

**6.12** The process of generating final recommendations to MINCOMBUD technical committee includes the following elements:

- National Treasury appoints a coordinator for each technical group, who will be responsible for engaging with budget institutions and preparing reports to the MINCOMBUD technical committee for each technical group.
- Budget *bi-laterals* are convened between National Treasury and senior finance and programme officials in each institution.
- *Technical group* meetings are held, in which relevant departments, public entities and provincial structures participate. Technical groups are aligned with particular outcomes specified in the MTSF. The technical group considers submissions by institutions and discusses the reallocation of resources within the group as a whole. Financial analysis discussions are also held with selected entities.
- In function areas with a large degree of concurrent powers (such as basic education, health and human settlements and municipal infrastructure), a function 10x10, composed of heads of department of the nine provincial and one national lead department in the function together with their finance counterparts, will be convened as a substitute or complement for the work of the technical group. Where resource allocation decisions are recommended that alter the division of revenue across the three spheres of government, a function 10x10 will be required.
- *Performance dialogues*, convened by the Department of Planning, Monitoring and Evaluation (DPME) together with the technical group coordinators will be held for each technical group.
- MINCOMBUD technical committee may also convene *function group hearings*, *DG's budget forums* on budget policy or other meetings involving senior officials from relevant institutions and experts from the relevant field. In this setting, several technical groups may be brought together to consider submissions by



institutions and discuss the allocation of resources across the function as a whole. In 2017 this may include the piloting of a “spatial Technical MINCOMBUD” in which national and provincial departments, State owned Entities and a municipality all convene to discuss projects and programmes taking place within the geographic space of a metro (or group of metros).

- 6.13 Technical group coordinators will prepare a final report on the outcome of the process. These reports will be presented to MINCOMBUD technical committee, which will make final recommendations to MINCOMBUD and then to Cabinet.

## **Political Structures at National Level**

### ***The Ministers’ Committee on the Budget***

- 6.14 MINCOMBUD has been constituted as a Committee of Cabinet, chaired by the Minister of Finance. Its members were appointed by the President on recommendation from the Minister of Finance. MINCOMBUD may invite other members of Cabinet or senior officials to attend and/or present on issues of relevance to its mandate. In addition to political office bearers, MINCOMBUD meetings are attended by the Directors-General of National Treasury, the Presidency, and the Departments of Planning, Monitoring and Evaluation and Cooperative Governance. Senior officials of National Treasury attend as determined by the Director General: National Treasury. The Director-General: National Treasury ensures that the National Treasury provides administrative services for the proper functioning of MINCOMBUD.

- 6.15 The functions of MINCOMBUD are to:

- Consider and advise Cabinet on budget allocations to be included in the national budget, MTEF and the division of revenue framework.
- Consider matters related to the determination of expenditure allocations, including the economic assumptions underpinning the budget, fiscal policy objectives and tax proposals.
- Recommend, in terms of section 30(2)(b) of the PFMA, items of unforeseeable and unavoidable expenditure to be included by the Minister of Finance in the national adjustments budget. When performing this function, the President and the Deputy President chair MINCOMBUD, and constitute the “(MINCOMBUD)/Treasury Committee”.

### ***Budget Council and Budget Forum***

- 6.16 The Intergovernmental Fiscal Relations Act (97 of 1997) establishes a Budget Council consisting of the Minister of Finance and the MEC for Finance of each province. The Chairperson of the Financial and Fiscal Commission may also attend the Budget Council. The Minister of Finance is the chairperson of the Budget Council.
- 6.17 The Act defines the Budget Council as a body in which the national government and the provincial governments consult on any fiscal, budgetary or financial matter affecting the provincial sphere of government.

- 6.18** The Intergovernmental Fiscal Relations Act (97 of 1997) establishes a Local Government Budget Forum comprising of the Minister of Finance (who is the chairperson), the MEC for Finance of each province and five representatives of the South African Local Government Association (SALGA) at national level as well as one representative of SALGA from each province. The Act defines the Budget Forum as a body in which the national government, the provincial governments and organised local government consult on any fiscal, budgetary or financial matter affecting the local sphere of government.

#### ***Joint MINMECs***

- 6.19** From time to time, the Minister of Finance in consultation with the Cabinet member responsible for another portfolio may convene a Joint MINMEC to consider sector budget issues and make recommendations to MINCOMBUD. A Joint MINMEC is comprised of the Minister of Finance, Members of the Executive Council of Finance from nine provinces and their counterparts at national and provincial level from the relevant department.

## **7 FUNCTION GROUPS**

### ***Budgeting-by-function and MTEC hearings***

Budgeting-by-function organises the budget process and expenditure reporting around the policy outcomes that government seeks to achieve. National and provincial government departments and the entities that report to them are consolidated into groups according to the functional tasks they are mandated to perform. Function groups are closely aligned with the 14 government outcomes in the 2014-2019 medium-term strategic framework.

Classifying resources by their policy purpose shifts the focus of budgeting from line items (i.e. inputs) to outcomes. It also takes budgeting beyond a focus on individual administrative units, recognising that policy outcomes require cooperation between complementary stakeholders. Discussions of performance and expenditure take place at the function group level, with the aim of improving resource use and coordination to achieve the outcomes each function has been assigned.

Seven function groups are proposed for the 2018 Budget process. Where appropriate, sub groups that also include IGR sectoral technical forums are defined. Annexure A contains a full list of budget institutions assigned to each function group and sub-group. Figure 7 summarizes the groups.

For the 2018 budget process, the technical engagements that take place within function groups will culminate in an MTEC hearing. The intention of the MTEC hearing is to engage in a DG-level interaction that draws together all stakeholders in a particular group, and finalises recommendations to MINCOMBUD. The MTEC hearing will receive an issues and recommendations report from the function group coordinator (an NT official). It will be attended by the DGs of the departments that constitute MTEC, as well as the accounting officers of the institutions that are part of the function group. The MTEC hearings should be included as part of the programme of FOSAD.

Function group	Function sub-group	Key departments and other budget institutions
<b>1. Learning and culture</b>	Basic education	Basic education , Provincial governments
	Post-school education and training	Higher education and training, SETAs, NSF, NSFAS
	Arts, culture, sport and recreation	Sports and recreation, Arts and culture, Provincial and local governments
<b>2. Health</b>	Health	Health, Provincial governments, NHLS, Military health services
<b>3. Social development</b>	Social protection	Social development, SASSA, Provincial governments
	Social security funds	RAF, UIF, Comp Funds
<b>4. Community development</b>	Community development	Cooperative governance, Human settlements, Water and sanitation, Transport, Energy, Provincial and local governments
<b>5. Economic development</b>	Industrialisation and exports	Trade and industry, Economic development, Mineral resources, Tourism, Small business development, Public works.
	Agriculture and rural development	Agriculture forestry and fishing, Rural development and land reform.
	Job creation and labour affairs	Labour, Public works, EPWP programmes, cooperative governance
	Economic regulation and infrastructure	Energy, Transport, Environmental affairs, Telecommunications, Water and sanitation, Provincial and local governments
	Innovation, science and technology	Science and technology
<b>6. Peace and security</b>	Defence and state security	Defence, Military veterans, Financial intelligence centre, State Security, Armscor
	Police services	Police, IPID, CSP
	Law courts and prisons	Justice and constitutional development, Correctional series, Office of the Chief Justice, Legal Aid
	Home affairs	Home affairs
<b>7. General public services</b>	Executive and legislative organs	Presidency, Communications, Women, Parliament, Provincial legislatures, Planning, monitoring and evaluation.
	Public administration and fiscal affairs	Public service and administration, National treasury, Public enterprises, StatsSA, Cooperative governance and traditional affairs, Public works
	External affairs	International relations and cooperation, National treasury.

## 8 SAVINGS INITIATIVES

The OCPO has initiated savings strategies in the 2016/17 financial year which has led to procurement cost reductions that will see the State benefit to the tune of R7 Billion over the medium term expenditure framework.

The quick reference guide provides guidelines on how Institutions can reduce their procurement costs. These are grouped into 6 comprehensive themes of – volume concentration, demand management actions, best price evaluation, global sourcing product specs improvement, joint process improvement and relationships restructuring.

The quick reference guide provides areas that should be probed further to check as to whether we have explored all cost reduction opportunities as well as examples that would further illustrate the technique that could potentially be deployed.

Savings in terms of procurement consists of soft and hard benefits. Soft benefits are indirect or non-tangible which are not measurable and have no impact on the bottom line and cannot be quantifiable. This is when one knows that it is the right thing to do but there is no proof or quantifiers (e.g. safety improvements, environmental changes). Hard benefits are direct or tangible which are measurable and have impact on bottom line. These include cost reduction and cost avoidance strategies.

The OCPO is looking more towards cost reduction and avoidance strategies. Cost reduction includes:

- i. Bankable savings – allocated budget vs previous price paid vs tender price.
- ii. Renegotiation of prices – reduction in existing price that leads to bankable savings through renegotiation with existing suppliers or appointment of new suppliers.
- iii. Operational cost reduction through process efficiencies – the reduction in cost compared to a historical cost derived directly from interventions or proposals made by procurement and/or cross functional commodity teams. Assuming the volumes remains constant a cost reduction will be reflected in a reduction in the current operating costs.
- iv. Volume discount – consolidation of quantities creating economies of scale can provide discounts deductible in advance of payments.
- v. Rebate – discount that comes as a result of purchase of specified quantity or value of goods within a specified period refunded after the payment of full invoice amounts.
- vi. Make vs buy – a strategic choice between producing an item / providing a service internally (in-house) or buying it externally (from an outside supplier). The same business requirements and quality standards are still met.
- vii. Early payment rebate – A reduction (rebate or discount) in in price is agreed for early payment or supplier invoices. The cost of capital needs to be accounted for if payment period is moved by more than 1 month. Savings benefits can also be demonstrated if payment terms are extended.

Cost Avoidance benefits include:

- i. Price increase limitation - defined as being representative of the difference between prices for goods and services and the probable increase in price occurring if actions

had not been taken to obtain reduced costs for the same goods and services. Tender price vs negotiated price.

- ii. Spend avoidance – reduced consumption through better demand management.

## **1. Savings Tracking Principles**

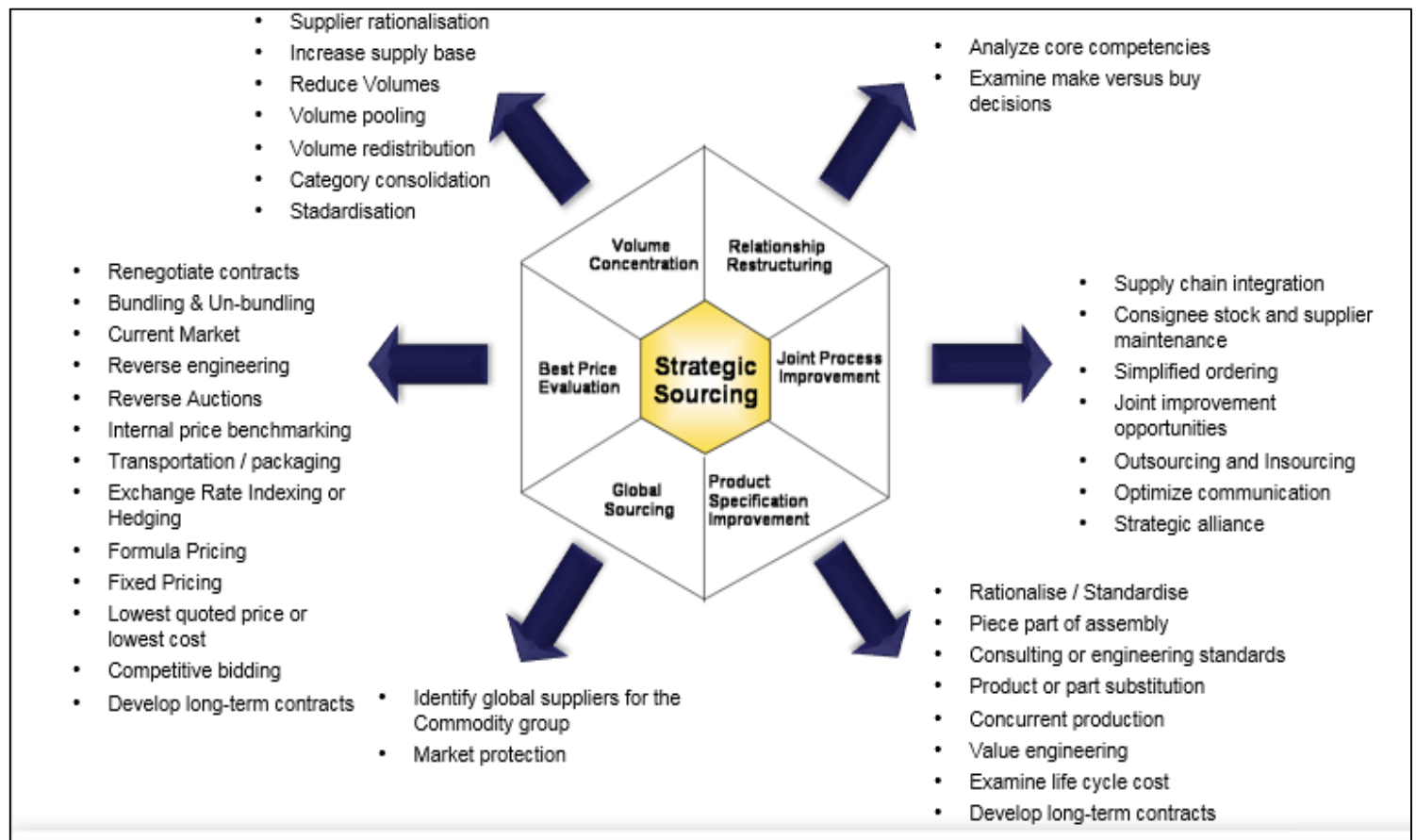
The following principles should be used as guidelines in calculating savings:

- i. Savings must be tangible, credible and measurable or can be reasonably estimated. It must have a positive impact on the bottom line of the organization.
- ii. The baseline and method of calculation should be agreed with and signed off by delegated authority prior to commencement of the project.
- iii. Savings must be calculated inclusive of Vat in local currency (converted to ZAR).
- iv. Savings should be calculated from a holistic process view (i.e. Total Cost of Ownership). All aspects must be considered and included in the calculation, including negative aspects. It should be calculated net of incremental cost over the total contract period.
- v. The baseline from which the value is calculated must be reasonable. Using a budgeted cost as baseline (e.g. budget for capital expenditure) is not a reasonable baseline unless it can be shown that appropriate rigour was used to determine the budget figure.
- vi. Value is not double counted – value reported at the commencement of a contract is not also reported during the term of the contract. Incremental value as a result of additional users to an existing contract may be reported as savings during the term of the contract. However, no additional benefits are recognized if the actual purchase volumes exceed or decrease based on the forecast upon which the initial benefits are based.

## **2. The Sourcing Gemstone**

The OCPO has chosen the sourcing gemstone methodology as a useful tool to determine spend reduction interventions. The gemstone groups the methods into 6 areas as follows - volume concentration, demand management actions, best price evaluation, global sourcing product specs improvement, joint process improvement and relationships restructuring.

**Figure 1: Sourcing Gemstone**



## 2018 MTEC Technical Guidelines

### 3. Techniques for best price evaluation:

No.	Tactic	Description	Questions	Examples
3.1	Renegotiate contracts	Renegotiate price with existing suppliers. Value/supply chain analysis and Purchase Price Cost Analysis are useful tools for challenging individual cost elements	<ul style="list-style-type: none"> <li>• Can the current contracts be renegotiated with regards to price and contract terms?</li> </ul>	<ul style="list-style-type: none"> <li>• Can we approach the building landlord for reductions on leasing?</li> <li>• Can we negotiate a 2,5% payment term within 30 days settlement?</li> </ul>
3.2	Bundling and unbundling	Grouping commodities or de-constructing categories so that maximum price advantage is achieved	<ul style="list-style-type: none"> <li>• What benefits can be achieved by regrouping and contracting current non-contracted items?</li> </ul>	<ul style="list-style-type: none"> <li>• Can we join cleaning and pest control services together?</li> <li>• Can we have a total facilities management service that includes maintenance and repairs, cleaning and security services?</li> </ul>
3.3	Current Market	Lock into traditional old suppliers could potentially lock the buyer into unfavourable escalating costs.	<ul style="list-style-type: none"> <li>• Can we explore potential new suppliers?</li> </ul>	<ul style="list-style-type: none"> <li>• Intensify market research to identify suppliers for products often where suppliers find it cumbersome to tender for Government requirements</li> </ul>
3.4	Reverse engineering	This is a technique, also known as target pricing, which involves giving a supplier a fixed price to manufacture, or supply a service	<ul style="list-style-type: none"> <li>• Can we give the supplier a fixed price to manufacture/ supply a product or service?</li> </ul>	<ul style="list-style-type: none"> <li>• For RDP houses can we not give suppliers set prices to build houses at?</li> </ul>
3.5	Reverse Auctions	This technique sets a fair price and allows bidders to bid against each other on an online platform	<ul style="list-style-type: none"> <li>• Can we set a price for a commodity and get bidders to bid online against each other for a limited window of time?</li> </ul>	<ul style="list-style-type: none"> <li>• For example where the industry and specifications are highly regulated eg. Pharmaceuticals, suppliers can be pre-qualified upfront and allowed to bid on online reverse auctioneering tools?</li> </ul>
3.6	Internal price benchmarking	In some cases commodity comparisons can be made against in-sourcing.	<ul style="list-style-type: none"> <li>• What is the cost of internal supply/ manufacturing vs external supply?</li> </ul>	<ul style="list-style-type: none"> <li>• Would it be more cost effective for us to appoint our own cleaners and procure own materials?</li> </ul>
3.7	Transportation / Packaging	Re-arrange the relationship for the supplier to change the packaging materials used or the mode of transport	<ul style="list-style-type: none"> <li>• What benefits can be achieved by reviewing the current manner of transportation?</li> <li>• Can benefits be obtained by requesting the supplier to use standard packaging material</li> </ul>	<ul style="list-style-type: none"> <li>• Can the Institution collect the product rather than these being delivered?</li> <li>• Can we get the supplier to change packaging for Government to one that is standard but provides the same quality?</li> </ul>

## 2018 MTEC Technical Guidelines

No.	Tactic	Description	Questions	Examples
			rather than fancy consumer centric materials?	
3.8	Exchange Rate Indexing or Hedging	Method of ensuring that prices are protected in the event of volatile currency fluctuations.	<ul style="list-style-type: none"> <li>• Can we (should we) protect ourselves against exchange rate fluctuations?</li> <li>• If so by whom? Us or the Supplier?</li> <li>• Can we enter into forward cover agreements with suppliers to hold the rate at date of procurement?</li> </ul>	<ul style="list-style-type: none"> <li>• Can we set aside a basket of common currencies for foreign purchases such as medical equipment, for use when the currency markets are not favourable?</li> <li>• Can we request medical equipment suppliers to ensure that they carry exchange rate cover to ensure price stability?</li> </ul>
3.9	Formula Pricing	Pricing linked to key input prices or influences such as volume usage	<ul style="list-style-type: none"> <li>• Can we link prices to indices such as fuel, CPI, PPI?</li> </ul>	<ul style="list-style-type: none"> <li>• Instead of getting suppliers to load pricing, can we link pricing to key indexes where it is known that these indices will be favourable eg. Long term fuel pricing?</li> </ul>
3.10	Fixed Pricing	Pricing that is fixed over a period of time	<ul style="list-style-type: none"> <li>• Can we fix prices where it is known that these commodities are always subjected to volatile market conditions?</li> </ul>	<ul style="list-style-type: none"> <li>• For medical procurements where it is known that we import in excess of 80% can we move to fixed price modelling to ensure that our budgeting process remains intact?</li> </ul>
3.11	Lowest quoted price or lowest cost	Supplier base is increased to promote active competition	<ul style="list-style-type: none"> <li>• Can we obtain multiple quotations on an ongoing basis that is not limited to only 3 traditional suppliers?</li> </ul>	<ul style="list-style-type: none"> <li>• Can we create ongoing tension amongst suppliers to remain competitive and promote ongoing decrease in standard products and services?</li> </ul>
3.12	Competitive bidding	Suppliers are invited to formally tender for the business	<ul style="list-style-type: none"> <li>• Can we increase the use of competitive bidding?</li> </ul>	<ul style="list-style-type: none"> <li>• For high value commodities can we advertise more widely and attract a larger base of suppliers?</li> </ul>
3.13	Develop long-term contracts	May provide security of supply for buyer and preferential treatment in short supply situations. Supplier is secured the business for competitive pricing	<ul style="list-style-type: none"> <li>• Can we enter into a longer term contract with the suppliers to reduce the cost of the item?</li> </ul>	<ul style="list-style-type: none"> <li>• For pharmaceutical products where technology changes can we foster relations where there is ongoing cost reduction and product formulation interventions?</li> </ul>



4. Techniques for Volume Concentration:

No.	Tactic	Description	Question	Examples
4.1	Supplier rationalisation	Reducing the number of suppliers is a common technique to maximise the volume on offer and allows resources to be focused on the few preferred suppliers	<ul style="list-style-type: none"> <li>• Can we reduce the number of suppliers</li> </ul>	<ul style="list-style-type: none"> <li>• Can we consolidate who provides catering services to a Departments to reduce costs and ensure a successful business venture</li> </ul>
4.2	Increase supply base	Increasing the number of suppliers to improve market competitiveness	<ul style="list-style-type: none"> <li>• Can we Increase the number of suppliers</li> </ul>	<ul style="list-style-type: none"> <li>• For billion rand contracts can we engage with more suppliers to make industry more competitive especially in the downstream and upstream supply chain activities?</li> </ul>
4.3	Reduce Volumes	Reducing demand for a product can reduce costs.	<ul style="list-style-type: none"> <li>• Can volumes be reduced for the product or service?</li> </ul>	<ul style="list-style-type: none"> <li>• Can we reduce the amount of paper that we utilise? Have we encouraged reduction in printing and copying or even moved to double sided printing or even re-using paper?</li> </ul>
4.4	Volume pooling	Pulling together the volume of business on offer through supplier rationalisation or consolidation of group wide expenditure can leverage lower prices	<ul style="list-style-type: none"> <li>• Can we work together with other regions or districts or Departments to bring volumes?</li> </ul>	<ul style="list-style-type: none"> <li>• Can small Departments pool their stationery procurement to save due to more attractive volumes</li> </ul>
4.5	Volume redistribution	Re-allocating business from one supplier (or constantly switching) to another can maintain competitive conflict amongst the supply base.	<ul style="list-style-type: none"> <li>• Have we considered multiple awards of the contract?</li> </ul>	<ul style="list-style-type: none"> <li>• Awarding of regional suppliers for example courier services</li> </ul>
4.6	Category consolidation	Identifying supplier synergies in the category base can allow greater volumes of business to be offered for tender. This approach will tend to support larger vertically, horizontally and laterally integrated organisations.	<ul style="list-style-type: none"> <li>• Have we considered that certain suppliers can offer multiple products?</li> </ul>	<ul style="list-style-type: none"> <li>• Awarding business to a supplier that has synergies in different products such as - vehicle financing, maintenance, insurance, repairs and services</li> </ul>

**2018 MTEC Technical Guidelines**

No.	Tactic	Description	Question	Examples
4.7	Standardisation	Is a tailored/customised product/service necessary? Standardisation opens up competition	<ul style="list-style-type: none"> <li>• Can we create a common standard for the product or service?</li> </ul>	<ul style="list-style-type: none"> <li>• Can we create standards for laptops and computers for the different types of users?</li> </ul>

**5. Techniques for Global Sourcing:**

No.	Tactic	Description	Question	Examples
5.1	Identifying global suppliers for the Commodity Group	Increasing the potential population of suppliers will often ensure suppliers with the lowest cost structure, advanced technologies and high quality standards.	Have we considered procurement of products from abroad?	Where South Africa does not have a local manufacturing advantage have we considered approaching low cost manufactures internationally?
5.2	Market protection	Dealing internationally exposes the buying organisation directly to currency markets and their inherent volatility. It is therefore preferable to purchase in the buyer's currency. This offers a level of insurance.	Have we considered factors that affect pricing due to international market factors?	<p>Have we considered techniques such as:</p> <ul style="list-style-type: none"> <li>• Insisting on buying in local currency hence fixing the price?</li> <li>• Exchange rate price indexing. This entails linking purchase prices to a currency range i.e. £1 : DM 2.3 +/- 5%. Within this range the price cannot change, once outside, the price will be re-negotiated.</li> <li>• Exchange rate hedging. To eradicate concerns it is possible to buy foreign currency ahead at pre-determined rates</li> </ul>

**6. Techniques for Product Specification Improvement**

No.	Tactic	Description	Questions	Example
6.1	Rationalise / Standardise	<ul style="list-style-type: none"> <li>• Evaluation of the complexity and diversity of products and services.</li> <li>• To what extent can they be merged, simplified or standardised?</li> </ul>	<ul style="list-style-type: none"> <li>• To what extent can the current specifications be simplified, standardised or merged?</li> </ul>	<ul style="list-style-type: none"> <li>• Can we have a common design for RDP housing and schools or clinics?</li> <li>• Can we simplify the product formulae for agricultural and veterinary products?</li> </ul>
6.2	Piece part of assembly	<ul style="list-style-type: none"> <li>• Savings can be achieved by assessing the costs of differing levels of assembly.</li> </ul>	<ul style="list-style-type: none"> <li>• To what extent can the current product and service</li> </ul>	<ul style="list-style-type: none"> <li>• Can we buy the product internationally and conduct service, maintenance and repairs</li> </ul>

## 2018 MTEC Technical Guidelines

No.	Tactic	Description	Questions	Example
		<ul style="list-style-type: none"> <li>Services can be similarly de-constructed.</li> </ul>	<ul style="list-style-type: none"> <li>requirement be re-configured to reduce costs?</li> </ul>	<ul style="list-style-type: none"> <li>in-house or through local vendors?</li> </ul>
6.3	Consulting Engineering standards or	Internal and external standards should be challenged and not considered set in "stone"	<ul style="list-style-type: none"> <li>Sometimes standards create unnecessary costs, have we considered changing the standards?</li> </ul>	<ul style="list-style-type: none"> <li>Have we considered the relevancy of the SABS standards for our products and opt for an international standard which allows suppliers to supply beyond the borders and offer us more favourable pricing?</li> </ul>
6.4	Product or part substitution	Technologies are moving at a fast pace, new and different products or parts can be cheaper and more efficient.	<ul style="list-style-type: none"> <li>Can we use a different product?</li> <li>Can we change a part of the product?</li> </ul>	<ul style="list-style-type: none"> <li>Do we still need landlines?</li> <li>For ARV's the most expensive portion is the Active Pharmaceutical Ingredient (API) – can this be replaced with a different API</li> <li>Can we use synthetic rubber for shoes?</li> </ul>
6.5	Concurrent production	Suppliers that will work closely with design engineers, as 'guest engineers' can offer significant competitive advantage in both time to market and cost.	<ul style="list-style-type: none"> <li>Can we invite the supplier to assist us with our supply chain?</li> </ul>	<ul style="list-style-type: none"> <li>Can we get the pharmaceutical giants to assist with problems in the delivery of medication or publishers to assist with textbook deliveries?</li> </ul>
6.6	Value engineering	Value engineering involves analysis of function and cost, suppliers can be the key to cost reduction whilst maintaining the market offering.	<ul style="list-style-type: none"> <li>Can we invite the supplier to assist us with our production cost?</li> </ul>	<ul style="list-style-type: none"> <li>Supplier could assist us to understand our total product cost for medicines from manufacture to end user and suggest improvements</li> </ul>
6.7	Examine life cycle cost	By examining all the costs associated with purchasing and using the product / service, opportunities for redesign may become apparent. E.g. excessive maintenance and repair costs may signal a need for improved quality standards.	<ul style="list-style-type: none"> <li>Have considered all costs – lifespan, maintenance, repairs, service, consumables, disposal</li> </ul>	<ul style="list-style-type: none"> <li>Have we considered the total cost and lifespan of the machine eg. X ray machine that would last 2 years versus a machine that would last 10 years</li> <li>Does the road last as long as we require it?</li> </ul>
6.8	Develop long-term contracts	<ul style="list-style-type: none"> <li>Length of contract will depend on the supply market in question.</li> <li>Consider length of product life cycle and availability of supply.</li> <li>Long- term contracts offer the supplier some security and may increase their willingness to enter into redesign /development initiatives.</li> </ul>	<ul style="list-style-type: none"> <li>Have we determined the optimal contract duration</li> </ul>	<ul style="list-style-type: none"> <li>Does it make sense to lease a building for 3 years – should we not buy rather than lease?</li> <li>For ICT wont short term contracts suffice?</li> </ul>

7. Techniques for Joint Process Improvement

No.	Tactic	Description	Questions	Example
7.1	Supply chain integration	Utilising information systems such as Electronic Data Interchange (EDI) and the internet / intranet to dramatically improve the flow of information and facilitate efficient order management, delivery and payment.	<ul style="list-style-type: none"> <li>• How can we capitalise on supplier technology</li> <li>• Can we create enabling technology to monitor deliveries</li> </ul>	<ul style="list-style-type: none"> <li>• Have we considered suppliers systems to be configured to monitor Hospital medicine stock levels and to proactively interact with Health where orders are automatically generated to suppliers?</li> <li>• Government creating enabling technologies to monitor delivery of products to end user sites</li> </ul>
7.2	Consignee stock and supplier maintenance	Holding supplier stock on site, paid for on usage, managed by the suppliers/ personnel on site can reduce overhead, and remove an administrative burden.	<ul style="list-style-type: none"> <li>• What items can Government proactively hold as consignment stock to improve service delivery?</li> </ul>	<ul style="list-style-type: none"> <li>• Institution holds common burst water pipe kits on hand on consignment and paid per usage</li> </ul>
7.3	Simplified ordering	Purchases often carry a high overhead burden that is not commensurate with their worth (i.e. low value items). Call-off contracts and purchasing cards help to minimise overhead.	<ul style="list-style-type: none"> <li>• Are we spending lots of time on low value high volume transactions?</li> </ul>	<ul style="list-style-type: none"> <li>• Identify low value and high volume transactions introduce purchasing cards.</li> </ul>
7.4	Joint improvement opportunities	Supplier/buyer team can be engaged to define cost-reduction opportunities. These are then shared 50:50	<ul style="list-style-type: none"> <li>• How can we team up with suppliers to reduce costs</li> </ul>	<ul style="list-style-type: none"> <li>• Where products require quality assurance testing at both supplier and buyer sites, have we considered if this can be done jointly and costs reduced.</li> <li>• Can we contract cost reduction over the period of the contract as a key performance indicator to ensure a reducing cost base?</li> </ul>
7.5	Outsourcing and Insourcing	This can be to an outsource agency or by engaging existing suppliers to purchase a wider range of supplies (i.e. some that they do not deal in).	<ul style="list-style-type: none"> <li>• What services can be outsourced and which insourced to reduce costs?</li> </ul>	<ul style="list-style-type: none"> <li>• Should we doing cleaning services in house or should it be outsourced?</li> <li>• Does every Department need a call centre or switchboard or IT services?</li> <li>• Can we do retainer fee contracts?</li> </ul>

## 2018 MTEC Technical Guidelines

No.	Tactic	Description	Questions	Example
7.6	Optimise communication	Having a common message between appropriate people within the organisations will reduce confusion and miss-trust.	<ul style="list-style-type: none"> <li>How can we optimise communication using technology between buyers, end users and suppliers</li> </ul>	<ul style="list-style-type: none"> <li>How can we optimise medical contracts usage to the last mile delivery point's example Musina.</li> </ul>
7.7	Strategic alliance	Long term relationships focus on lowering cost and improving quality or creating supply chain innovation.	<ul style="list-style-type: none"> <li>How can we work with the market continuously without being contractually bound to reduce costs, improve quality and add innovation to service delivery?</li> </ul>	<ul style="list-style-type: none"> <li>Have we considered private sector partnerships and collaboration with eg. Discovery Health to improve our pharmaceutical supply chains to improve service delivery to citizens and optimise cost?</li> </ul>

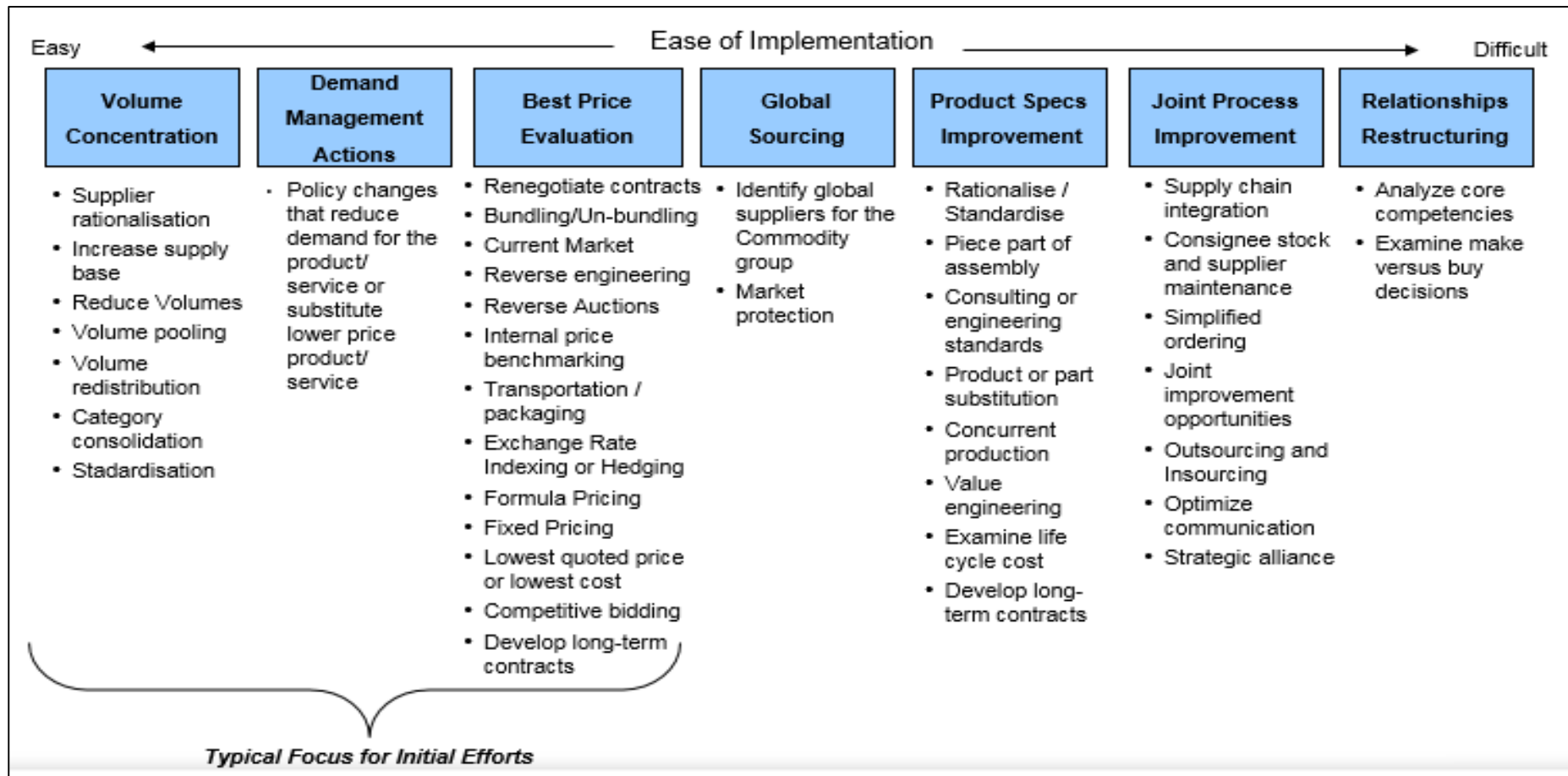
### 8. Techniques for Relationship Restructuring

No.	Tactic	Description	Questions	Example
8.1	Analyse core competencies	Identify the core competence of the organisation and potential suppliers?	<ul style="list-style-type: none"> <li>Which part of the product or service do we do in-house versus via the service provider?</li> </ul>	<ul style="list-style-type: none"> <li>For grant payments which part of the service do we conduct in-house and which externally to ensure long term protection of intellectual property?</li> </ul>
8.2	Examine make versus buy decisions	Consider the current manner of sourcing, it may be more appropriate to buy a managed service rather than manage this in house and vice versa. This may severely change the relationship with a number of suppliers.	<ul style="list-style-type: none"> <li>Can the product be made internally at a much reduced cost?</li> <li>Is there products where Government split the materials from the manufacturing?</li> </ul>	<ul style="list-style-type: none"> <li>For property leasing should we not construct a building for the Institution rather than leasing on a long term basis?</li> <li>For latex products we can split the procurement of latex from the manufacturing of gloves and condoms?</li> <li>For uniforms we can split the fabric procurement from the manufacture of the uniform?</li> </ul>

### 9. Ease of Strategy Implementation

Below is a schematic of the techniques that show quick wins or easy to adopt approaches to the more difficult approaches. Users should be able to identify per product which interventions are required and using the diagram below determine a project plan for the timing of the actions.

Figure 2: Ease of Implementation of Sourcing Strategy



## 10. Conclusions

The above quick reference guide illustrates the different approaches that can be undertaken by Institutions for reductions in their procurement spend.