

2021

**SPENDING REVIEW ON CONSULTANCY
SERVICES WITHIN LONG-TERM PROJECTS**

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CLUSTER: ADMINISTRATIVE SERVICES

NATIONAL TREASURY

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DISCLAIMAR

The statements and views given in this report are given in good faith and in the belief that such statements and views are not false or misleading.

In the preparation of this report we have relied upon and considered information including financial information and other records available to us at that time. We have no reason to believe that any information supplied to us was false or that any material information has been withheld from us. We do not imply and it should not be construed that we have verified any of the information provided to us, or that our enquiries could have verified any matter which a more extensive examination might disclose.

Our conclusions are based on the review and interpretation of our analysis. Neither the Office of the Chief Financial Officer or the Management Accounting Directorate undertakes responsibility in any way whatsoever to any person in respect of errors in this report arising from incorrect information provided by management and/or key role players within the long-term projects (Transversal Systems, Infrastructure Delivery Improvement Programme, Cities Support Programme, Municipal Finance Recovery Services and Municipal Finance Improvement Programme) under review or in respect of the failure of forecasts, derived from the options analysis, to be achieved.

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1. INTRODUCTION

For the year ending 31 March 2020, Government expenditure on consultants (excluding external information communication and technology service providers), contractors and outsourced services accounted for 23 per cent of national Departments' Goods and Services expenditure¹. In 2019/20, the National Treasury was the second-highest spender on consultants, contractors and outsourced services after the Department of Defence¹.

The use of consultants (including external information communication and technology service providers²), contractors and outsourced services is an integral part of the National Treasury service delivery model and will likely continue as such in the foreseeable future pending the finalisation of the organisational review strategy. The organisation strategy intends to align the organisational structure to the strategic objectives of the department including optimising processes to ensure a high-performance culture.

National Treasury consultancy services are mainly procured within long-term projects (i.e. implementation programmes) that support its 3 outcomes, namely, (i) Sustainable Public Finances (ii) Coherent Economic Policy advocated and (iii) Sound financial controls and management of public finances. Furthermore, the constitution and related legislations (Public Finance Management Act and Municipal Finance Management Act) mandate National Treasury to assist departments and constitutional institutions in building their capacity for efficient, effective, and transparent financial management.

Therefore, the use of consultants within National Treasury is to ensure effective and efficient implementation of support projects (or institutional support intervention programmes) to capacitate state institutions across all government spheres i.e. National, Provincial and Local Government in order to institutionalise best-practice tools.

2. PROBLEM STATEMENT

National Treasury is the second-highest procurer of consultants, contractors and outsourced services within national departments. Between 2016/17 to 2020/21, National Treasury spent an average of R808 million per annum on consultancy services which was 1.93 per cent higher than

¹ Consolidated Financial Statement for the year ending 31 March 2020).

² For the purpose of the spending review on consultancy services, external computer service providers are included.

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the spend on compensation of employees (COE). National Treasury's forecasted budget over 4 years, 2021/22 to 2024/25, shows consultancy services averaging R1.562 billion per annum, 1.75 times higher than the COE forecast of R872 million.

According to the Department of Public Service and Administration, if the duration of the appointment of a consultant is of a long-term nature (i.e. more than 60 days within one calendar year), special consideration should be given to the feasibility and affordability of utilising consultants. Departments are also encouraged not to utilise consultants to reduce personnel expenditure as it will result in a parallel administration in the public service consisting of consultants.

Similarly, the Supply Chain Management Guideline for Accounting Officers of 2004 states that consultants should only be engaged when the necessary skills and/or resources to perform a project/duty/study are not available. Moreover, National Treasury Instruction Note of 2017/18 states that the appointment of consultants should meet the following criteria:

- The appointment of consultants must be supported by a motivated business case setting out an analysis of the skills gap and a diagnosis of requirements and specified deliverables, as approved by the accounting officer;
- Ensure that consultants are appointed only where this is a cost-effective alternative to the utilisation of staff employed by the department;
- Bid documentation for the appointment of consultants must include a clause that the rates of remuneration will be subject to negotiation, not exceeding the applicable rates as contained in the "Guide on Hourly Fee Rates on Consultants" issued by the Department of Public Service and Administration and/or remuneration guideline issued by professional service organisations or regulatory bodies;
- When negotiating cost-effective consultancy rates for expert advisors, accounting officers may also consider the market-determined reference rate; and
- Consultants must, where practical, be appointed on an output-specific basis, subject to a clear specification of deliverables and associated remuneration. Where consultants are appointed on a time and cost basis, this must be accompanied by regular monitoring and reporting on activities, outputs, and deliverables.

While there is a general appreciation for the critical skills that consultants bring to enhance efficiencies on government long term projects across all government spheres, the Auditor-General

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of South Africa³. has reported that consultants are, in some instances, appointed to perform duties that form part of departments' daily operations (or core competencies). Furthermore, it was previously reported that comprehensive need assessments were not always undertaken, the skills transfer from consultants to departmental staff was at times ineffective and the lack of monitoring of consultancy projects contributed to the extension of several projects.

Therefore, this spending review aims to gain an understanding of the **underlying reasons** for the increased dependency on the use of consultants within long-term projects and extensions of the said projects. In addition, the review assesses whether the use of consultants within long-term projects is a **cost-effective** service delivery model. This is measured against the recommendation of National Treasury Instruction Note of 2017/18 and the Department of Public Service and Administration's guideline on the use of consultants.

The long-term projects that will be assessed for this spending review include:

- Transversal Systems (BAS, PERSAL, LOGIS and Vulindlela);
- Municipal Finance Improvement Programme (MFIP) ;
- Cities Support Programme (CSP);
- Infrastructure Delivery Improvement Programme (IDIP); and
- Municipal Finance Recovery Services (MFRS).

3. PROGRAMME DESCRIPTION

3.1 The Mandate of National Treasury

The National Treasury's mandate is derived from Chapter 13 of the South African Constitution and Chapter 2 of the Public Financial Management Act. National Treasury is responsible for coordinating intergovernmental financial and fiscal relations, enforcing transparency and effective management in respect of revenue and expenditure, assets and liabilities, public entities, and constitutional institutions; promoting national government's fiscal policy and the coordination of its macroeconomic policy, managing the budget preparation process and ensuring the stability and soundness of the financial system and financial services.

³ AG Tsakani Maluleke paints a grim picture on state of municipal finances (timeslive.co.za)

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The department reports to the following priorities as outlined in the 2020-2025 Medium-Term Strategic Framework:

- Priority 1: Capable, ethical, and developmental state;
- Priority 2: Economic transformation and job creation;
- Priority 3: Education, skills and health;
- Priority 5: Spatial integration, human settlements, and local government; and
- Priority 7: A better Africa and world.

3.2 Definition of a consultant

In terms of Public Service Regulation J.3, Part III: Planning, Work Organisation and Reporting of Chapter 1 of the Public Service Regulations, 2001, a consultant means "*a natural or juristic person or a partnership who or which provides in terms of a specific contract on an ad-hoc basis any of the following professional services to a department against remuneration received from any source:*

(a) The rendering of expert advice;

(b) the drafting of proposals for the execution of specific tasks; and

(c) the execution of specific tasks which is of a technical or intellectual nature, but excludes an employee of a department".

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3.3 Summary of Selected Long-Term Projects

The tables below are a summary of interviews and data collected from officials working within long-term projects selected for this spending review. This spending review does not seek undertake an analysis of the individual programmes but rather to assess the appointment of the consultants or the delivery model that is currently widely used for most of the Programmes and Projects within National Treasury. Thus, the purpose of the tables hereunder is to provide a snapshot of the programmes under review so as to provide the context of the expenditure analysis section of the Spending Review utilising the financial information from these long-term projects.

Table 1: Project description

The long-term projects have continued for an average period of 10 years apart from the Cities Support Programme which was established in 2016. The different projects procure different skills sets from consultants to assist in fulfilling their objectives. Three of the projects have been established to provide support to either municipalities/local government or cities in delivering infrastructure projects, improving financial management capacity, enhancing budget and financial management practices and improved audit outcomes.

Long-Term Projects	Transversal Systems (BAS, PERSAL, LOGIS and Vulindlela)	Municipal Finance Recovery Services	Municipal Finance Improvement Programme	Cities Support Programme	Infrastructure Delivery Improvement Programme
Intervention Logic	Transversal financial management systems are maintained.	To prepare financial recovery plans for municipalities in financial distress/crisis in line with the requirements of the MFMA and the Constitution are prepared. To intervene under Section 139(7) of the Constitution.	Improved local government financial management capacity; enhanced budget and financial management practices; and improved audit outcomes.	Improved capacity of cities and an enabled intergovernmental fiscal system and policy environment to support city-led transformation.	Improved quality and quantity of Infrastructure Delivery in the public sector.
Programme Purpose	To maintain existing financial management systems.	To give effect to Chapter 13 of the MFMA as well as Section 139(7) of the Constitution that empowers NT/PT to intervene.	To support the financial management reform agenda and address the insistent financial sustainability challenges within local government.	To support the spatial transformation of South African cities to create more inclusive, productive, and sustainable urban built environments.	To support improved effectiveness and efficiency of the delivery of public sector infrastructure by institutionalising best practice tools and building capacity.
Linkages to Legislative and Policy mandate of NT	The Constitution of the Republic (Chapter 13) mandates NT to ensure transparency, accountability, and sound financial controls in the management of public	Section 139 of the MFMA for purposes of NT, but also to give effect to Section 139 of the Constitution.	Section 154(1) of the South African Constitution; Section 34(1) of the MFMA, 2003; Chapter 13 of the NDP and Pillar 3; Priority 6 of the 2019-2024 MTSF – “building a	The CSP programme is in support of the 3 outcomes of NT, which are (i) Sustainable Public Finances (ii) Coherent Economic Policy	PFMA, Section 6 (2)(d) that states: NT may assist departments and constitutional institutions in building their capacity for efficient, effective, and transparent financial management.

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Long-Term Projects	Transversal Systems (BAS, PERSAL, LOGIS and Vulindlela)	Municipal Finance Recovery Services	Municipal Finance Improvement Programme	Cities Support Programme	Infrastructure Delivery Improvement Programme
	finances. The current legacy systems perform an essential role for the South African government through its Financial and Human Resources services. BAS and LOGIS are instrumental in the supply chain, asset and inventory management. Financial accounting, payments, and annual financial reporting.		capable, ethical and developmental State as it relates to Outcome 2, functional, efficient and integrated government.	advocated and (iii) Sound financial controls and management of public finances.	
Output/Activities	The maintenance of financial systems to allow government payroll and Human Resources functionality, to procure goods & services and process payments as well as access data for reviewing and reporting, financial accounting, payments, and annual financial reporting.	Preparation of mandatory financial recovery plans; assisting provincial treasuries (PT) with the preparation of discretionary and voluntary Financial Recovery Plans (FRPs). Monitoring the implementation of FRPs by municipalities. Reporting on progress regarding the implementation of FRPs.	Provide technical support to improve local government financial management capacity, enhance budget and financial management practices and improve audit outcomes.	Provide cities with capacity support; align financially, fiscal frameworks and instruments; and review and refine sectoral policies, regulations and capabilities to support cities' role in the transformation agenda.	Support the development of capacity in line with the Infrastructure Delivery Management System (IDMS) within all the spheres of government.
Desired Performance	Transversal Financial Management Systems available. 98 per cent availability during the period 7 am to 5 pm.	All FRPs are implemented by the municipalities and the desired turnaround in municipal financial performance is achieved.	80 technical advisors placed in NT, Provincial Treasuries and Municipalities.	5 township economic development strategies implemented. Development of metro institutional capabilities for managing SNDB reforms.	36 infrastructure plans assessment reports.
Type of Consultant(s)	IT Specialists – Programmer; Project Manager; Senior Analyst; Database Administrator; Network Analyst; Service Support etc.	The appointment of a Panel of Service Providers to be funded from the budget allocation as well as a rapid response team funded by MFIP.	Technical Specialists in MFRS; Municipal Standard Charts of Accounts (mSCoA); Budget & Financial Management; Budget & Revenue. Management; Accounting and Audit Support; Supply Chain Management; and Asset management.	Technical Specialists Programme Manager x1 Monitoring & Evaluation Officer x1; Strategic Support (Planning, Evaluations, Knowledge Management); x1 Finance and Operations Manager x1; Lead City Coordinator x1, City advisors x5 Technical Component Leads (Public Transport, Economic	Strategic Manager; Editing Project Manager; Knowledge Architects; Formatting and Graphic Designer; Editor and language practitioner; IDMS Helpdesk technician; Project Manager; Monitoring & Evaluation Officer; Finance Administrator; etc.

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Long-Term Projects	Transversal Systems (BAS, PERSAL, LOGIS and Vulindlela)	Municipal Finance Recovery Services	Municipal Finance Improvement Programme	Cities Support Programme	Infrastructure Delivery Improvement Programme
				Development, Climate Resilience, Human Settlements, Core Governance) x5	
Start Date	The start date of the maintenance project was not provided. However, the current consultants started in 2005. The 5-year contract was extended in 2010, 2013, 2016 and 2021.	Established in Section 139 of the MFMA, 2003.	Phase I: (01 April 2011 – 31 March 2014); Phase II: (01 April 2014 – 31 March 2017); Phase III: (01 April 2017 – 30 March 2020); Phase IIIx: (01 April 2020 – 30 March 2022)	Phase I: (01 Jan 2016 – 31 Dec 2018) Phase II: (01 Jan 2019 – 31 Dec 2024)	It was established after a study in 2002 with the intention to improve provincial departments planning and budgeting for infrastructure. The programme commenced in the 2004/5 financial year.
End Date	30 June 2026	Continuous, no end date.	30 March 2022	31 Dec 2024	June 2024
Beneficiaries of Project and/or consultants	National Government Departments, Public Servants & General South African citizens. For example, PERSAL for the monthly payment of salaries for 1.5 million officials and additionally supports the South African Social Security Agency (SASSA) in the processing of payment files for 12.6 million citizens.	Provincial Treasuries and Municipalities as well as affected communities.	NT, Provincial Treasuries and Municipalities.	Direct beneficiaries: 8 x Metros Indirect beneficiaries: National Departments (NT, Department of Human Settlement, DTIC and Department of Transport, Cooperative Governance and Traditional Affairs (CoGTA))	All spheres of Government.
Funding	The Transversal Systems' budget is allocated under the NT's Office of the Accountant-General Budget.	The MFRS's budget is allocated under NT's Intergovernmental Relations (IGR) Budget.	The programme is implemented under the budget authority of NT's Office of the Accountant-General (OAG).	The CSP's budget is allocated under NT's IGR Budget. This funding is complemented by leveraged funds from the Swiss State Secretariat for Economic Affairs (SECO), General Budget Support from the European Union (EU) as well as funding from the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).	The IDIP's budget is allocated under NT's IGR Budget.
Key Stakeholders and/or Partners	State Information Technology Agency (SITA), Integrated Financial Management System (IFMS).	National and Provincial Departments of Cooperative Governance; Provincial Treasuries; municipalities and South African Local	Government Technical Advisory Centre (GTAC), IGR, OAG, CoGTA, SALGA, PTs, Municipalities.	Council for Scientific and Industrial Research (CSIR), South African Cities Network (SACN), Development Bank of Southern Africa (DBSA),	DBSA, IGR, Universities, Department of Higher Education and Training (DHET), National and provincial departments, municipalities, public entities,

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		Government Association (SALGA).		CoGTA, Human Science Research Council (HSRC).	Construction Industry Development Board (CIDB), built environment regulatory bodies.

Table 2: Project governance and management structures and process

The following table summarises output indicators of the projects and tools used to monitor consultants' performance.

Long-Term Projects	Transversal Systems (BAS, PERSAL, LOGIS and Vulindlela)	Municipal Finance Recovery Services	Municipal Finance Improvement Programme	Cities Support Programme	Infrastructure Delivery Improvement Programme
Output Indicator(s)	Availability of Transversal Financial Management Systems to departments within working hours.	All requests for FRPs responded to. FRPs prepared and approved by MECs for Finance.	A number of technical advisors were placed in NT, Provincial Treasuries and Municipalities.	A number of township Economic development strategies were implemented. Promoting implementation of investment strategies in Provinces and Municipalities and sound intergovernmental spatial budgeting that contributes to economic growth.	A number of infrastructure plans assessment reports.
Are there Project Governance Structures?	Yes	Yes	The Project Management Plan details the governance arrangements which includes the establishment of an Executive Steering Committee (ESC) and the Project Steering Committee (PSC). The ESC provides oversight and governance and promotes	The CSP Implementation Partners Forum, consisting of various CSP implementation partners, coordinate and align the work of implementing partners within the CSP framework. This Forum meets at least twice a year.	

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Long-Term Projects	Transversal Systems (BAS, PERSAL, LOGIS and Vulindlela)	Municipal Finance Recovery Services	Municipal Finance Improvement Programme	Cities Support Programme	Infrastructure Delivery Improvement Programme
			<p>effective cooperation between project stakeholders. The Executive Steering Committee comprised of at least two senior officials from the relevant NT divisions, viz. IGR, OAG and OCPO and one senior official from the GTAC. The ESC shall meet quarterly to:</p> <ul style="list-style-type: none"> • Review and approve major project amendments and decisions, and • Provide overall project oversight and monitor progress against objectives of the project. <p>The PSC comprise of at least two senior officials from the relevant NT divisions, one senior official from each of the nine (9) provincial treasuries and one senior official from the GTAC. PSC shall meet quarterly to:</p> <ul style="list-style-type: none"> • Review operational guidelines for the project which shall include, but are not limited to, the project management plan, project budget, project implementation and risk management plan for the project; and • Monitor project progress and advise the EC on major project amendments and decisions. 	<p>CSP Cities Coordinating Forum, consisting of the City Coordinators for each metro and the CSP City Advisors for each metro meets at least quarterly. This forum oversees the implementation of CSP City Support Implementation Plans (CSIPs) across cities.</p> <p>Reporting to IGR Exco Quarterly evaluation of the consultants by NT SCM.</p>	
Is Project Performance Monitoring done regularly?	Yes	Yes	Yes – There are regular project performance monitoring done.	The CSP produces monthly, quarterly and annual reports to the IGR Branch governance structures.	

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Long-Term Projects	Transversal Systems (BAS, PERSAL, LOGIS and Vulindlela)	Municipal Finance Recovery Services	Municipal Finance Improvement Programme	Cities Support Programme	Infrastructure Delivery Improvement Programme
			<p>The following project performance monitoring mechanisms include:</p> <ul style="list-style-type: none"> • The support plan is a document in which planned assistance for given recipient organisations are derived. The support plan corresponds to the identified needs in the baseline assessment. Support plans are developed and approved for TAs in all streams and across all 3 spheres of government. • Baseline assessment is a diagnostic questionnaire conducted by TAs upon placement. The baseline assessments thus provide information on the current state of affairs with regard to the game changers, within a given recipient organisation. • Capture Effort System – The Capture Effort System is an electronic time capture system, initiated by the PMU to monitor the performance of TAs. Through this system, TAs: electronically capture their time at the end of each working day; indicate which staff have received individual capacity-building support (workshops and other), and submit substantiating evidence of their activities through the 'Portfolios of Evidence' tab on the system. Each TA's support plan activities are pre-populated onto the system for 	<p>Project charters and deliverable trackers against these have been developed.</p>	

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Long-Term Projects	Transversal Systems (BAS, PERSAL, LOGIS and Vulindlela)	Municipal Finance Recovery Services	Municipal Finance Improvement Programme	Cities Support Programme	Infrastructure Delivery Improvement Programme
			<p>them to capture their time against.</p> <ul style="list-style-type: none"> • TA bi-annual performance reports summarise the TA's performance against the support plan activities. • Bi-Annual Performance Review Meetings are scheduled bi-annually with the recipient organisation and PMU to discuss the performance of the TAs and the progress of implementing the support plan activities. • Quarterly programme progress reports to the Programme Steering Committee who consist of the 9 Provincial Treasury MFMA coordinators, NT Policy Owners and the MFIP PMU. • MFIP IIIx M&E framework was developed to assist programme stakeholders in the practice of monitoring and evaluating financial management improvement outcomes. • Close-out report and close-out meeting when a TA terminates a contract. The report summarises the activities completed in relation to the activities listed in the support plan. The close-out meeting is attended by the TA, recipient organisation and PMU. 		
Policies specific to the programme/project		In 2019, a Programme of Action was adopted by the Budget Council and Budget Forum to give effect to the	The following procedures were drafted and implemented to assist in the achievement of programme objectives:		

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Long-Term Projects	Transversal Systems (BAS, PERSAL, LOGIS and Vulindlela)	Municipal Finance Recovery Services	Municipal Finance Improvement Programme	Cities Support Programme	Infrastructure Delivery Improvement Programme
		increase in municipal performance failures. The MFRS function is part of the Programme of Action.	<ul style="list-style-type: none"> • Project Charter and Project Management Plan; • Administrative procedures; and • Knowledge and Content Management strategies. 		
Instruments for monitoring and performance evaluation		The FRP dashboard currently, however, a process is in place to investigate smarter ways of FRP reporting. Some of the current FRPs exceed 200 pages placing a significant burden on the existing resources.	<p>The following monitoring and performance evaluation instruments are utilised by the programme:</p> <ul style="list-style-type: none"> • The M&E Framework to assist in the practice of monitoring and evaluating financial management improvement outcomes. The framework consists of a logical framework which is divided into three sections namely: Indicators for routine monitoring; Indicators for consideration for reviews, evaluations, or future monitoring; and Evaluation-specific programme indicators; • Capture effort application; • Surveys (Customer satisfaction survey and stakeholder survey); and • Reporting (automated reporting, PSC reports, etc.). 	Monitoring: monthly detailed reports are produced and all project charters progress are reported on.	A work plan, detailing the activities that will be performed by the consultant including the timing of those respective activities, is developed. The work plans are reviewed quarterly to monitor performance.

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Table 3: Project selection consideration

The human resource function is not involved in the procuring and skills evaluation of the consultants. Projects each have a unique approach to how they evaluate and monitor the performance of consultants.

Long-Term Projects	Transversal Systems (BAS, PERSAL, LOGIS and Vulindlela)	Municipal Finance Recovery Services	Municipal Finance Improvement Programme	Cities Support Programme	Infrastructure Delivery Improvement Programme
Does the business case have an analysis of the skills gap and a diagnosis of requirements? (Skills Mapping exercise)	There is no comprehensive analysis. However, some reference to the skills gap is mentioned in the 2021 submission to request a five-year extension.	There is no comprehensive analysis undertaken to date. However, a memo has been prepared and submitted to the DG to look into further capacitation of the unit and the specific skills required.	An Integrated Resourcing Framework was tabled at the TCF and Budget Council. In addition, an MFIP IIIx Design & Implementation report was presented to the PSC on the staff ratio at PTs and municipalities to inform the placement of MFIP Technical assistants.	Yes, a needs assessment was included in the business case for Phase 2, done by independent, external service providers.	Memo to motivate the project, which outlines the objectives of the project has been developed and approved by the DG.
Is the appointment of consultants a cost-effective alternative to the utilisation of staff employed by the department?	No costing is done to determine if consultants are a cost-effective alternative. The costing done was on the financial implication of the appointment of the service provider.	The MFRS function is a highly skilled function, and the department does not have the capacity internally to undertake this function on its own. The preparation of an FRP requires financial, legal, HR and engineering skills.	An MFIP IIIx project implementation plan was presented to the PSC on 27 September 2019. This report included implementation modalities from a resourcing and financial implications perspective e.g., TA process vs HR process.	The work is complementary and supportive to the core departmental functions. The specialist consultant model was endorsed as a good fit in an external evaluation. During the appointment process, the rates were negotiated down with all service providers, resulting in a few not accepting the final NT proposal/tariff. No inflation adjustment was built into the 5-year appointments. No costing is done to determine if consultants are a cost-effective alternative. The costing done was on the financial implication of the appointment of the service provider.	
Were the consultant's job description evaluated by HR to determine the	No	No	No. Given the discussions at the PSC held on 27 September 2019 regarding the resource modality specifically from an HR perspective, various risks were raised such as HR	No	No

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appropriate Public Service Level?			capacity at GTAC, DPSA approval, performance management of employees, secondment etc. In light of the risks, the HR option was not feasible for MFIP IIIx. Further, note that the TOR which incorporates the scope of work (JD) was evaluated by the BSC and approved. The rate was benchmarked with the DPSA consultants' rates which align them to Public Service Levels.		

Table 4: Value for money considerations

Consultants are either compensated at a rate below or aligned to the Department of Public Service and Administration guidelines.

Long-Term Projects	Transversal Systems (BAS, PERSAL, LOGIS and Vulindlela)	Municipal Finance Recovery Services	Municipal Finance Improvement Programme	Cities Support Programme	Infrastructure Delivery Improvement Programme
Are the rates aligned to the DPSA directive or market-related?	No, the rates are lower than the DPSA and 25 per cent lower than the market rate.	Market-related.	The rates were benchmarked against the public service rates taking into consideration the reasonable adjustment for the overhead cost of long-terms consultants.	Yes, it is below the DPSA proposed rates.	Costing is done in line with the DPSA rates for consultants.
Is skills transfer included in the contract?	Yes	Yes		Yes	Skills transfer is done during the knowledge cycles with various stakeholders in the municipalities, provinces and national departments. Also, internally within NT, officials have been paired with consultants to do skills transfer.
Is a permanent structure in place for skills transfer?	Very limited. The structure will need to be adjusted.	No. There is currently 1 Director (acting) and 1 Deputy Director who are responsible for all 9 Provinces and 257 Municipalities. Section 139 of	The TAs capacitate the officials within NT, PTs and municipalities. It should however be noted that where there are no dedicated units or high vacancy rates at NT, PTs	Yes. There is already incremental pairing of the NDP team with Cities Advisors. Every CSP project also has an NT Project champion.	Very Limited. The structure will need to be adjusted.

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Long-Term Projects	Transversal Systems (BAS, PERSAL, LOGIS and Vulindlela)	Municipal Finance Recovery Services	Municipal Finance Improvement Programme	Cities Support Programme	Infrastructure Delivery Improvement Programme
		<p>the MFMA mandates NT to have a fully functioning structure. The DG of NT will be held liable for any request not attended to. The MFMA requires that the Minister appoints the head of the unit.</p>	<p>and municipalities, capacity building initiatives are challenging, and alternatives are explored to ensure that capacity building initiatives continue.</p> <p>The MFIP capacity building and skills transfer initiatives support various institutional and technical areas in financial management in terms of the Municipal Finance Management Act and the local government reform agenda of NT. While these interventions are mostly informal and non-accredited, they assist in enhancing the practical, on-the-job skills of officials involved in municipal financial management. The MFIP conducts an annual Customer Satisfaction survey with all stakeholders. One of the questions looks at the senior managers' average ratings of agreement with a statement about improved staff performance as a result of TA individual capacity building. According to the survey results, 95 per cent of stakeholders agreed that the capacity building activities is contributing to an improvement in the performance of staff.</p>		

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4 POLICY AND INSTITUTIONAL INFORMATION

4.1 The rationale for the use of consultants

Through the interview process, summarised in Table 1 above, the reviewers were unable to adequately ascertain whether there is a process to prioritise the hiring of consultants over permanent staff or the consideration of any other alternative process (for example, hiring contract employees or additions to the fixed establishment). The use of consultants seems to be mainly driven by the need for complementary skills and the lack of capacity in the department to meet the ever-increasing support provided to provincial treasuries and municipalities. However, since all projects are long term, it may be assumed that the work undertaken in these programmes will be undertaken in National Treasury for years to come. It may, therefore, be argued that the work undertaken by consultants in the sampled programmes, excluding transversal systems which is expected to wind down when the Integrated financial management systems is fully rolled out, may continue as permanent activities of National Treasury. Below are some of the reasons that were provided to rationalise the need for consultants.

- **To gain access to scarce skills**

An Example is that of, the Transversal Systems which are now three eras behind the latest technology and the skillset required to maintain the systems is diminished with the appropriately skilled resources now at retirement age. Unfortunately, no sustainable alternative can be presented at this stage but to retain the very scarce skills and experience required to effectively maintain the systems. Furthermore, it is projected that the current systems maintained by National Treasury will only see a complete conclusion after the full implementation of the Integrated financial management systems, which is planned to be piloted in 2021/22 and fully rolled out from 2023/24. Therefore, the consultants are needed to ensure that financial systems are available to government institutions until such time that the Integrated Financial Management System has been fully implemented at all the targeted institutions. The roll out of the and the winding down of the transversal systems has and how the transversal systems, at this point has not necessary been detailed

- **To close critical skills and capacity gaps within National Treasury and related beneficiaries**

The extension of the Municipal Finance Improvement Programme III is based on the scale of the persistent financial management challenges evident within local government, such as deteriorating financial health, unfunded budgets, regression in audit outcomes, poor accounting, revenue, asset, and supply chain management practices. It is asserted in the Municipal Finance Improvement Programme Project Charter that the magnitude of the local government challenges will require sustained and targeted technical support to, especially

distressed and dysfunctional municipalities over an extended period. It improves the capacity of National Treasury (e.g., the Municipal Finance Management Act function) and municipal officials by focusing on technical and institutional capacity building of officials, councillors, and interns.

Aspects of the skills gaps within National Treasury were identified in the Organisational Review process and have been factored in. Although the reviewers were not privy to the content of the report, an assurance was provided that issues such as the lack of project management capacity and the defragmented finance function were being reviewed and recommendations are stipulated in the said report.

- **The constitutional/legislative imperative that must be met**

Chapter 13 of the Municipal Finance Management Act, which is aligned to Chapter 13 of the Constitution mandates that the “Municipal Financial Recovery Service forms part of, and functions within, the National Treasury”. The legislation requires that the Municipal Finance Recovery Services within National Treasury offers direct support to provinces and municipalities upon request for assistance in the development of financial recovery plans and for technical assistance on financial management. The legislation also states that in cases where there is no capacity, “the Director-General of the National Treasury should/must obtain the services of financial experts to perform specific work for the service”.

4.2 The Appointment of Consultants: Laws, Policies and Regulations

The dependency on consultants was previously interrogated in a study undertaken in 2001 by the Department of Public Service and Administration following a Cabinet request. Subsequent to the recommendations made to Cabinet, the Department of Public Service and Administration task team in consultation with National Treasury was constituted to develop a “Guide on Hourly Fee Rates for Consultants”. The purpose of the guide is to provide for standardised hourly fee rates of consultants appointed in the Public Service, to be used as a benchmark to evaluate the offered tariffs or to determine the reasonableness thereof.

The Department of Public Service and Administration Hourly Fee rates of consultants are adjusted on an annual basis in accordance with the cost-of-living adjustment and published on the Department of Public Service and Administration website. The Department of Public Services Administration guide was developed in parallel to National Treasury’s Supply Chain Management Guideline which aims to explain the procedures for selecting, contracting, and monitoring

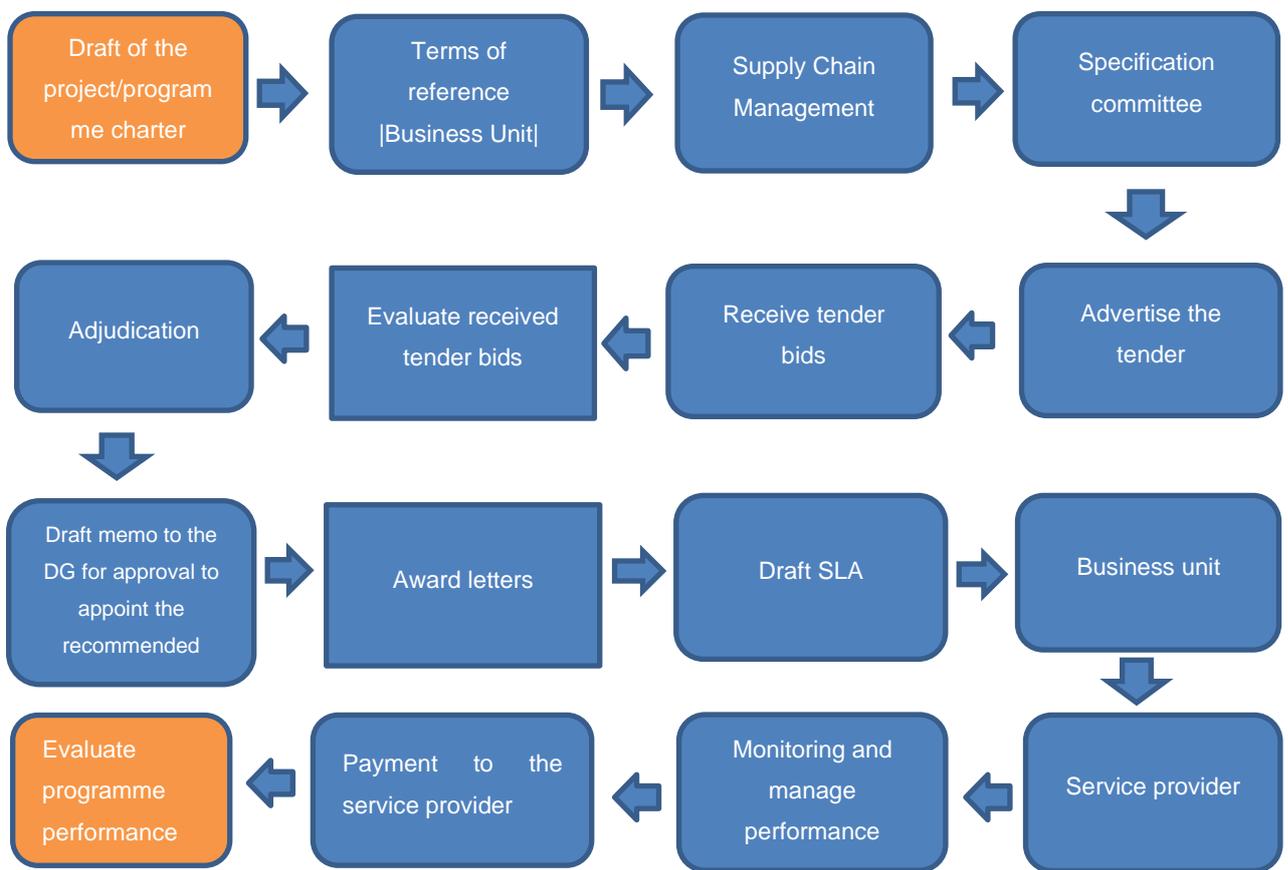
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consultants required for projects. In addition, the Preferential Procurement Policy Framework Act 5 of 2009, together with the prescripts of the Preferential Procurement Regulations, 2017, must be followed when contracting consultants.

In addition, Section 38(1)(b) of the Public Finance Management Act requires that the accounting officer for a department, trading entity or constitutional institution must ensure effective, efficient, and transparent systems of financial and risk management and internal control. Sections 38(1)(c)(iii) and 51(1)(b)(iii) requires accounting officers to take effective and appropriate steps to manage available working capital efficiently and economically. Therefore, accounting officers must apply appropriate measures to contain consultancy costs.

4.3 The Appointment of Consultants: The National Treasury Process Flow and Key Stakeholders



- The Director-General of the National Treasury is accountable for the approval of the business case for support projects (or institutional support intervention programmes), the service delivery model and funding as well as the cost-effective implementation of the support projects.

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- The project manager (or Policy Owner/Business Unit) is responsible for identifying institutional support interventions, drafts the business case (or project or programme charter) which stipulates what the project or programme is trying to achieve, including identifying and costing the skills and resources required. In addition, the charter motivates the use of consultants and articulates critical success factors or assumptions that need to hold to ensure that the project is a success. It must be noted, however, that based on the interviews conducted it was established that the comprehensive needs assessments, justifying the use of consultants as a cost-effective alternative, were not conducted for the long-term projects under review.
- The project manager is also responsible for sourcing funding and applying cost-containment measures to ensure value for money.
- Subsequent to the approval of the project or programme charter by the programme manager, the business unit drafts the terms of reference in accordance with the delegation of responsibilities. The term of reference is required to include the background, explanation on the need to appoint the service provider, the specification, qualifications and evaluation criteria. The term of reference is then submitted to Supply Chain Management where the specification committee evaluates the terms of reference, and the tender is then advertised.
- Thereafter, bids that meet the requirements are evaluated and adjudicated. A memo is drafted to the Director-General requesting approval for the appointment of the recommended service provider. An award letter is then issued, and the service level agreement is drafted and signed. The business unit will then communicate with the service provider for the implementation and management of the contract.
- The project manager is also required to develop policies and instruments to monitor the service delivery model's performance and outputs against project specifications and targets.
- The work undertaken by a consultant is regulated by the contract. The programme or project manager is, however, responsible for monitoring and evaluating the contractor performance and outputs against project specifications and targets. Remedial action is taken if performance is below standard, or it is not met in terms of the service level agreement.

4.4 Institutional Mapping Findings

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The appointment of consultants' process is aligned with National Treasury's Supply Chain Management Guideline, Treasury Regulations 16 (A); the Preferential Procurement Policy Framework Act 5 of 2009, as well as the Preferential Procurement Regulations, 2017. The department therefore follows the prescripts or policies governing the appointment of consultants.

Notwithstanding, this it must be noted that there is currently no internal policy that has been adopted to guide business units in determining the criteria for the use of consultants within long-term projects to ensure that it is a cost-effective alternative. Furthermore, it should also be heightened that the appointment of consultants' process disproportionately places autonomy on business units, in that the unit determines the skills requirements for the support project; the need for consultants; evaluates and grades consultants' roles with little or no guidance from Human Resources, Financial Management and Strategic Support.

5 PROGRAMME CHAIN OF DELIVERY AND PERFORMANCE ANALYSIS

The purpose of the Logical Framework (i.e., Log Frame) in Table 2 below, is to provide an overview of the programme for the appointment and use of consultants within National Treasury - its goal, activities, and anticipated results. The main outcome expected from the appointment of consultants are economical, effective, and efficient intervention in state institutions as well as service delivery improvements.

Table 5: Logical Framework

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SPENDING REVIEW ON CONSULTANCY SERVICES WITHIN LONG-TERM PROJECTS

IMPACT	A Capable, Ethical and Developmental State			
OUTCOMES (i.e., benefit derived by beneficiaries from their receipt of the programme's outputs)	Economical, effective, and efficient intervention in state institutions/programmes/business units		Service Delivery Improvements: Increased Public Value and Trust	
Performance Indicators	Develop value for money project (or intervention) in state institutions/programmes/business units with capacity and/or capability challenges	Capacitate state institutions/programmes/business units	Effective implementation of project (or intervention)	
Outputs (please put 1 output per cell)	Project/Programme (or intervention) business case approved	Procurement and contracting of consultants	Project/Programme (or intervention) implemented	Project evaluation
Performance Indicators	Cost of project (or intervention) compared to cost of no intervention	Average charge out rate of technical expertise within NT compared to same level in the Public Service	Extent to which Project / Programme Outputs were achieved	Extent to which the project / programme outcomes and desired impact were achieved
Responsibility (who is responsible for the output)	The programme manager / programme sponsor	The programme manager	The programme manager	The programme manager / programme sponsor
Related activities per output				
Activity 1	Identify and articulate the project (or intervention) that department seeks to implement in state institutions/programmes/business units	Draft terms of reference	Develop a project charter	Develop Evaluation TOR and Scope
Activity 2	Draft the purpose of the project (or intervention)	Appoint a specification committee	Identify roles, responsibilities and project milestones & timeframe	Appoint Evaluation Team
Activity 3	Draft deliverables of the project (or intervention)	Receive approval Specification Committee for terms of reference	Develop a project governance structure to monitor the implementation of the project(or intervention)	Perform Evaluation
Activity 4	Identify and articulate the skills and other financial resources required	Advertise the tender	Develop policies and instruments to monitor project (or intervention) performance and outputs against project specifications and targets	
Activity 5	Map the current roles within the state institution/programme/business unit to the skills required for the intention to be effective	Evaluate the tender	Develop a project governance structure to monitor the implementation of the project(or intervention)	
Activity 6	Identify the gap in skills and other resources (Including capacity and capability) available in the state institution/programme/business Unit	Adjudicate the tender	Manage the activities/outputs of the project(or intervention) against timeframes	
Activity 7	Cost the resources required for the intervention	Draft a memo recommending preferred service provider(s) to DG	Monitor the effectiveness of the project (or intervention) against project specifications and targets	
Activity 8	Obtain necessary buy-in from relevant stakeholders to prioritise the intervention	Receive approval from DG for preferred service provider(s)	Ensure knowledge management within the state institution/programme/business unit	
Activity 9	Source funding for the intervention through the budget process	Negotiate the rates with preferred bidder	Evaluate consultant performance and outputs against project specifications and targets	
Activity 10	Obtain approval from the Accounting Officer for the implementation of the intervention	Draft Service Level agreement	Report on project progress	
Activity 11		Appoint the service provider(s)		
Activity 12		SCM reviews the delivery (performance) of the service provider quarterly		
Key programme inputs				
Input 1	Financial resources (CFO)	Human Capital (SCM, HR Expertise, Respective NT Policy owners)	Human Capital (NT Policy owners, Beneficiaries, PMO, SPM&E)	

6 CONSULTANCY SERVICES EXPENDITURE ANALYSIS

This section of the expenditure analysis focuses on an in-depth assessment of the extent of National Treasury's dependency on consultancy services in executing its mandate. The assessment is undertaken using historical expenditure figures extracted from the Basic Accounting System (BAS) including the main appropriation for 2021/22 as well as the 2022 Medium-Term Expenditure Framework (2022 MTEF) estimates. The purpose of the analysis is to assess whether

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there is an upward trend in consultancy services in comparison to the compensation of employees' expenditure.

Moreover, in our analysis of the consultancy services expenditure and estimates, the review has used a broader definition of consultants which includes the following expenditure items as defined and explained in the Standard Charts of Accounts, 30 June 2021:

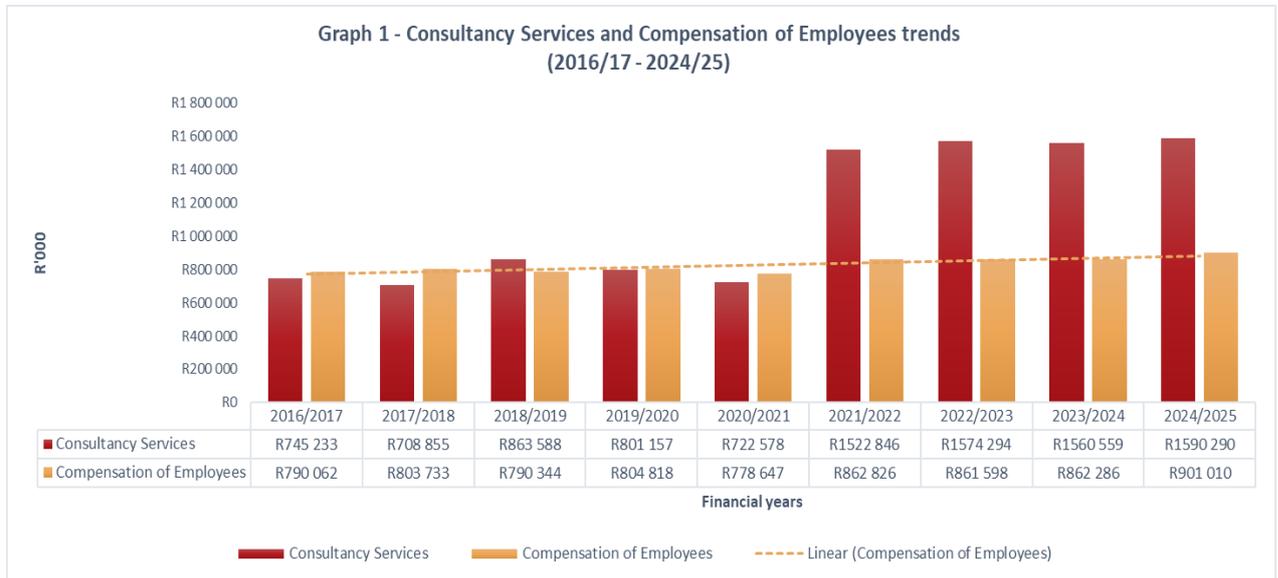
- **Agency and Support or Outsourced Services** - refers to human resources appointed through an agency or human resources appointed in their individual capacity or by way of a contract or similar binding arrangement. A department should have the capacity and expertise to carry out its core services. The services do not form part of the compensation of employees. The reasons might include temporary incapacity or the outsourcing of services to save costs, for example, cleaning, security, and recruitment. In evaluating the classification of agency/outsourced services it should be established whether the services being procured could have been provided by the department itself.
- **Consultants: Business and Advisory Services** - Consulting services refer to specialist services and skills provided, that are required for the achievement of a specific objective, with the aim of providing expert and professional advice on a time and material basis. It is unnecessary to maintain these skills in-house since they are required on an ad-hoc or temporary basis. Therefore, a consultant is a professional person appointed by the department to provide technical and specialist advice or to assist with the design and implementation of specific projects/programmes. The legal status of this person can be an individual, a partnership, consortium or any other legal article of association. The fact that a consultant is defined as a professional person implies that the consultant is professionally qualified. The provision of advice or service is in line with a contractual arrangement. Remuneration is usually based on an hourly fee or a fixed fee for a product/deliverable. For remuneration tariffs of consultants please refer to the annual Department of Public Service and Administration publication on Hourly Fee Rates for Consultants.
- **External Computer Services: System Adviser** - Payments made to other service providers for the provision of technical, functional, and business advice and support regarding information technology;
- **External Computer Services: System: Application Training** - Costs incurred for services rendered by external Information Technology/systems service providers regarding training on specific computerised systems and the application thereof;

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- **External Computer Services: System: Maintenance of System** - Maintenance of the network operating systems by service providers other than State Information Technology Agency; and
- **External Computer Services: System: Operational Support** - Payments for services rendered in providing network operating systems support by external service providers other than State Information Technology Agency.

6.1 Consultancy Services and Compensation of Employees trends



Note: All amounts are in R'000 and the 2024/25 financial year is an estimate based on an inflationary increase of 4.49% as per the 2023 MTEF Guideline

Evidently, the department spent a total of R3.841 billion on consultancy services compared to R3.967 billion on the compensation of employees (CoE) from 2016/17 to 2020/21. In 2018/19, the consultancy services expenditure increased by 22 per cent from the 2017/18 financial year and decreased in 2020/21 by 10 per cent mainly due to the slow implementation of projects and subsequent to Covid-19 pandemic outbreak.

The increase in consultancy services expenditure in 2018/19 is primarily attributable to the Cities Support Programme which entered into a new contract amounting to R32 million with the World Bank for Reimbursable Advisory Services (RAS 2), resulting in an increase of R34.5 million from R64.3 million to R98.8 million; and the Office of the Chief Procurement Officer projects which gained momentum in the 2018/19 financial year with an increased expenditure of R42.7 million from a base of R3.8 million in 2017/18. Moreover, there was an increase in the scope of work in

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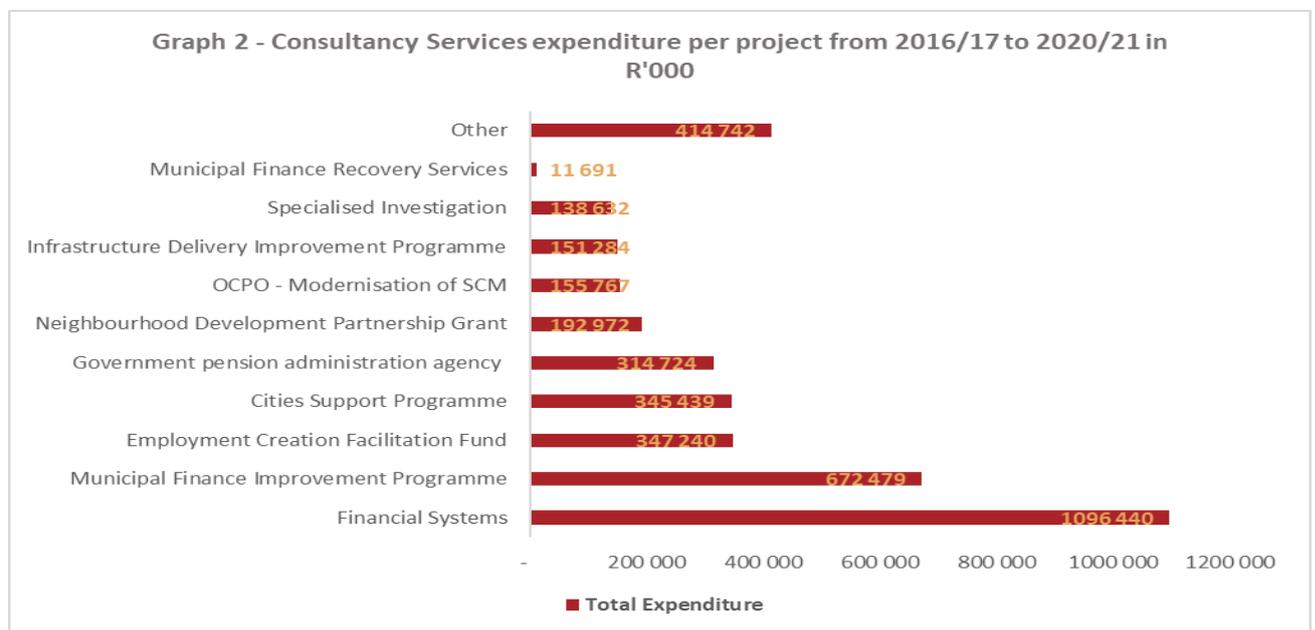
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the Municipal Finance Improvement Programme, resulting in an increase of R15 million from R125 million in 2017/18 to R140 million in 2018/19.

The expenditure on consultancy services is anticipated to grow from R790.2 million in 2020/21 to R1.590 billion in 2024/25 (or an average annual growth rate of 22 per cent) mainly due to the Municipal Revenue Management Improvement Programme which was delayed since its inception and is anticipated to only commence in 2022/23. Comparably, the compensation of employees' expenditure is projected to grow from R778.6 million in 2021/22 to R901 million in 2024/25 (or average annual growth rate of 4 per cent) in line with the budget limitations which were introduced in the Appropriation Act, 2016.

Therefore, the expenditure trends suggest National Treasury will increase its dependency on the usage of consultants for the foreseeable future, resulting in consultancy services expenditure outstripping that of compensation of employee's over-time.

6.2 Breakdown of consultancy services per Project



Note: All amounts are in R'000; Other: Emolument Attachment Orders project (R 97 million); Capacitation of the ICT unit (R45 million); Economic Research- SA-TIED (R30.8 million) and various other capacitation projects (R241 million).

Consultancy services are used widely within National Treasury. The programmes that contributed significantly to the expenditure on consultancy services over the past five years include the Transversal systems, Municipal Finance Improvement Programme, Employment Creation Facilitation Fund, Cities Support Programme and Government Pension Administration Agency.

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Table 6: Consultancy Services per Expenditure Item within Long-Term Projects⁴

Item Description	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	Total
Consultants: Business and Advisory Services	223 776	242 307	280 269	224 157	210 385	1 180 894
External Computer Services: System: Maintenance of System	107 274	109 008	118 359	116 574	116 325	567 539
External Computer Services: System: Operational Support	71 646	72 764	76 116	84 852	82 379	387 756
External Computer Services: System: Application Training	11 013	12 631	11 619	11 158	10 215	56 637
Total	413 709	436 710	486 363	436 741	419 304	2 192 826

Note: All amounts are in R'000

Of the total expenditure on consultancy services of R3.841 billion between 2016/17 and 2020/21, the department spent R2.193 billion (57 per cent) on consultants within long-term projects identified in Section 2 of the report; for business and advisory services (R1.181 billion), maintenance of systems (R567.5 million), systems support for departments (R387.8 million), and training on systems (R56.6 million). Thus, the main contributor to the consultancy services expenditure is the spending on business and advisory services largely relating to support provided to provinces and municipalities.

6.3 Analysis of the cost-effectiveness of long-term projects within the National Treasury

In this section the review endeavour to determine whether the use of consultants within the selected long-term projects is a cost-effective alternative. Thereafter, extrapolate certain findings that will be useful for strategic and policy decisions regarding the use of consultants within long-term projects. It should be noted that some of the information was extracted from the Summary of Selected Long-Term Projects in Table 1 (pages 6-14).

6.3.1 Transversal Systems

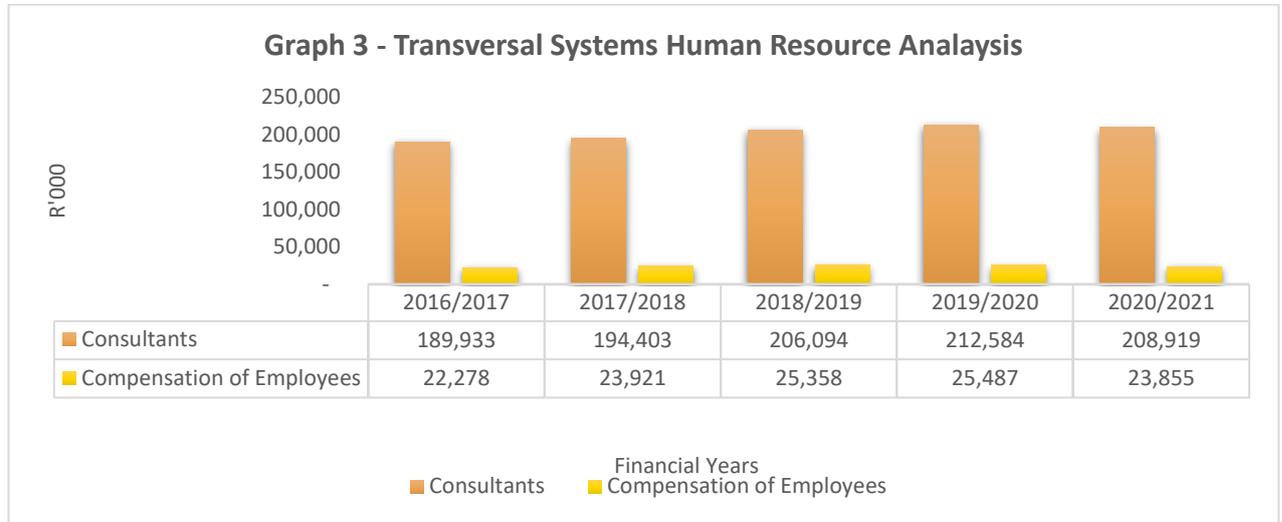
The purpose of the programme is to maintain existing financial management systems enabling government payroll and HR functionality (PERSAL), procurement of goods and services (LOGIS),

⁴ The annual total per expenditure items only includes the projects under review (i.e. it is a subset of the total NT project in Graph 2, paragraph 6.2)

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processing of payments (BAS) as well as access to data for reviewing and reporting (Vulindlela). The programme provides an essential service to national government departments, public servants, and general South African citizens. For example, PERSAL processes salary for 1.5 million public service officials and additionally supports the South African Social Security Agency in the processing of payment files for 12.6 million citizens.



The Transversal Systems budget is allocated within the Financial Systems sub programme. The programme is fully dependent on consultants to ensure that the transversal systems are maintained and available to departments within working hours. Consequently, the department spent an average of R202.4 million on consultants compared to an average of R24.2 million on the compensation of employees. Furthermore, there is no evidence that demonstrates an attempt to absorb the consultants within the National Treasury structure so as to retain the scarce skills even prior to the conceptualisation of the Integrated financial management systems. The current service providers started in 2005 and the contract was extended four times for a period of 5 years in 2010, 2013, 2016 and 2021.

Table 7: Transversal Systems Consultants Expenditure

Transversal System	Average Consultancy Services Expenditure	Average Number of Consultants	Average Expenditure per Consultant	Average Hourly Fee Rate per Consultant	Average Number of Users	Average User Cost
BAS	62 645 261	54	1 160 097	625,6	39 488	1 586
LOGIS	48 737 149	45	1 083 048	614,5	34 053	1 431
PERSAL	70 805 518	62	1 142 024	616,8	39 204	1 806
VULINDLELA	20 198 469	17	1 188 145	670,5	1 892	10 676
Total	202 386 396	178	1 137 002			

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Note: Hourly Fee Rate is exclusive of VAT

Table 8: Transversal Systems Consultants⁵

Stream	Number of consultants	Average rate per hour
Project manager	4	1 560
Technical specialist	1	1 355
Technical project manager	1	1 260
SNR Analyst programmer	8	1 211
Project leader	9	1 203
SNR Application support	1	1 191
Database administrator	6	1 178
System analyst	18	1 161
Application support analyst	1	1 123
JNR Analyst programmer	9	1 088
SNR Operation analyst	2	1 082
JNR Application support	9	961
SNR Programmer	26	957
Network analyst	2	941
Operator	1	909
SNR operational support consultant	5	874
Service support	18	727
JNR Operation analyst	3	702
JNR programmer	16	699
JNR operational support consultant	18	673
Project Administrator	2	357
Operational support assistant	2	308

The programme currently has an average of 178 consultants mainly consisting of Information Technology Specialists such as Programmers, System Analysts, Database Administrators, Network Analysts, Service Support etc. The department spends an average of R1.1 million per consultant and the highest average hourly fee rate is paid to consultants maintaining the Vulindlela systems. The cost associated with maintaining these legacy systems is very significant at face value. Regrettably, a benchmarking exercise could not be completed to determine the significance

⁵ The Transversal Systems team could not provide the reviewers with information to support that the scarce skills are at retirement age, including the age profile of the team, experience, skills and qualifications

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of the costs relative to the market due to the unavailability of credible and comparable data, due to the skill associated with these legacy systems. The Department of Public Service and Administration hourly fee rates are convoluted with assumptions that are not necessarily applicable to Transversal Systems such as the partial overhead factor and the State Information Technology Agency rates are outdated since they have not been updated since 2008.

The main reason for National Treasury's dependence on consultants is that the skills required to effectively maintain the transversal systems are very scarce within the Information Technology industry due to the old technology of the transversal systems. Therefore, there is no cost-effective alternative that can be presented at this stage but to retain the very scarce skills and experience required to effectively maintain the systems until the full roll-out of the Integrated Financial Management System.

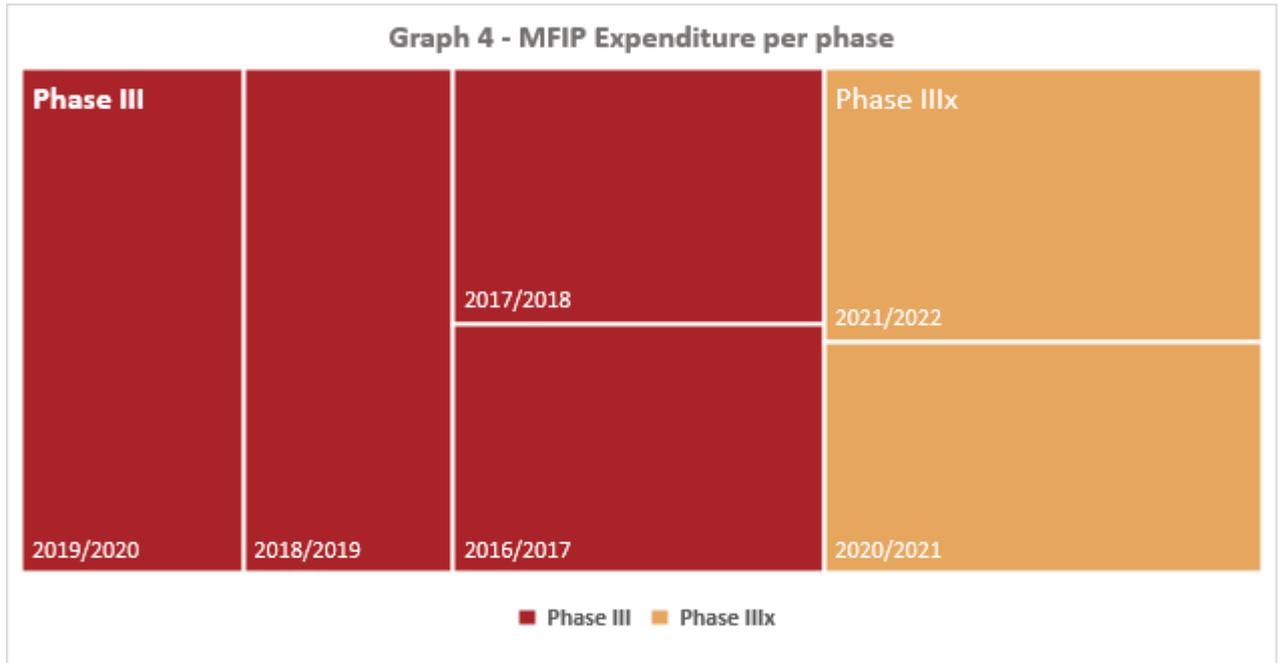
The Integrated Financial Management Systems is currently in the planning phase of unpacking the structure to determine the resources and skills that will be required during the implementation phase. There will be an incremental migration of users from Transversal Systems to the Integrated financial management systems as and when the project is rolled out, starting with the pilot and lead sites. The Transversal Systems will still be available to service national and provincial departments that have not yet migrated to Integrated financial management systems.

The scope of the Transversal Systems will only decrease incrementally, as and when national and provisional departments are migrated to the Integrated Financial Management System. Likewise, there will only be a marginal reduction in the number of consultants required to maintain the Transversal Systems as well as the associated costs until such time when the Integrated Financial Management System is fully rolled out and all the associated consultants are no longer required by the department. Furthermore, the consultants deployed within transversal systems will not be utilised within the Integrated Financial Management System as it requires a different skill set.

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6.3.2 Municipal Finance Improvement Programme



The programme supports the finance management reform agenda and addresses the insistent financial sustainability challenges within local government by providing technical support to improve local government financial management capacity, enhance budget and financial management practices and improve audit outcomes. The department spent R537.9 million on the third phase of the Municipal Financial Improvement Programme (2016/17 – 2019/20), averaging R134 million per financial year. In the current phase, the department spent R134.6 million in 2020/21 and is estimating to spend R158.6 million in 2021/22. Of the 28 technical specialists placed within National Treasury, 23 are mainly assisting the Local Government Budget Analysis Chief Directorate with National Treasury Intergovernmental Relations division.

Table 9: Consultancy services per stream

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Beneficiary	Stream Name	Number of Consultants	Total Expenditure (June '20 - June '21)
Provincial Treasuries	Accounting & Audit Support	6	4 890 912
	Asset	9	11 057 074
	Budget & Revenue Management	7	8 994 325
	SCM	8	13 608 790
Provincial Treasuries Total		30	38 551 101
Municipalities	Municipal Support	26	36 322 743
Municipalities Total		26	36 322 743
IGR	Budget & Financial Management	1	1 782 295
	Budget & Revenue Management	1	628 297
	LGBA Project Admin	1	103 897
	LGBER	1	1 749 998
	MFRS	9	15 502 079
	mScoa	10	12 020 272
	IGR Total		23
OAG	Accounting & Audit Support	4	3 118 218
OAG Total		4	3 118 218
OCPO	SCM	1	1 600 352
OCPO Total		1	1 600 352
Total		84	111 379 253

The Municipal Finance Improvement Programme’s budget is allocated under National Treasury’s Intergovernmental Relations Budget. The Municipal Finance Improvement Programme Phase IIIx has procured 84 technical specialists in Municipal Finance Recovery Services, Municipal Standard Charts of Accounts; Budget & Financial Management; Budget & Revenue Management; Accounting and Audit Support; Supply Chain Management; and Asset Management. These technical specialists are placed in National Treasury, Provincial Treasuries as well as municipalities.

The average hourly fee rate paid is equivalent to Salary Level 12, according to the “Guide on Hourly Fee Rates on Consultants” issued by the Department of Public Service and Administration, annually. Furthermore, related roles in the Municipal Finance Improvement Programme Unit were evaluated at the same salary level 12. Thus, the review can conclude that the salary level is consistent, however, the consultants’ hourly fee rate is inflated with a partial overhead factor that is not applicable to all technical specialists, especially those that are placed within National Treasury.

At the commencement of Phase III, the project management unit staff was appointed on a contract for a period of 24 months. The following positions were established:

- a team assistant at salary level seven;
- an Assistant Director at salary level nine; and
- seven Deputy Directors at salary level twelve (all on the first notch).

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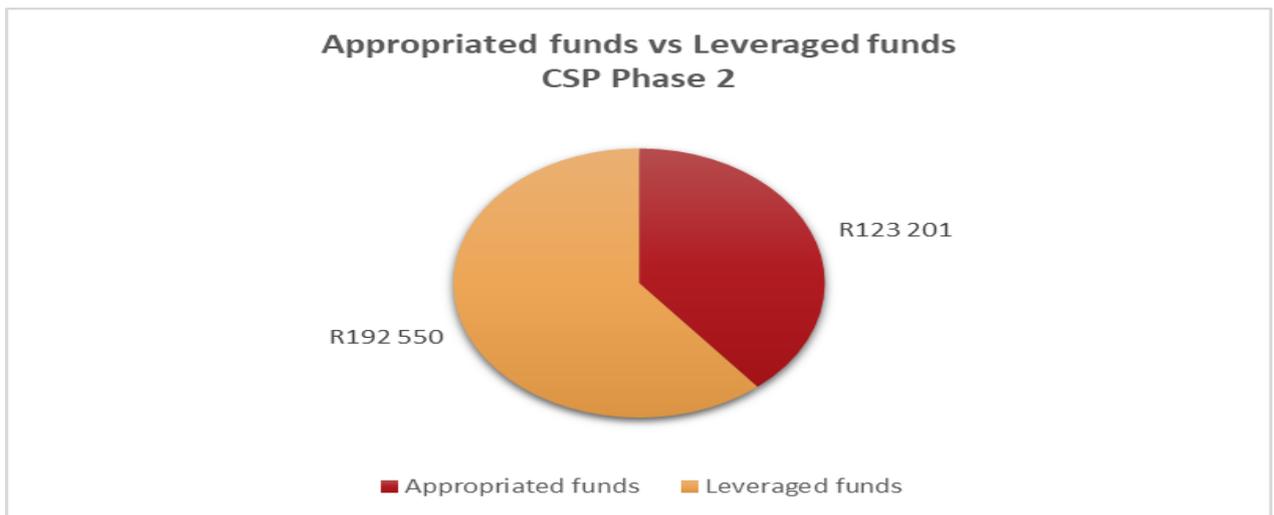
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In addition, the department can realise more savings by converting the 28 consultants that are currently deployed directly to National Treasury to fixed-term contracts starting from salary level 12 on the last notch. As a result, the department would save an estimated R7.8 million per annum.

6.3.3 Cities Support Programme

The purpose of the programme is to catalyse improvements at the city and intergovernmental level, in support of improved spatial transformation and inclusive economic growth outcomes for the South African metropolitan municipalities. This is achieved by providing cities with capacity support; aligning financial, fiscal frameworks and instruments; and reviewing and refining sectoral policies, regulations, and capabilities to support the cities’ role in the transformation agenda.

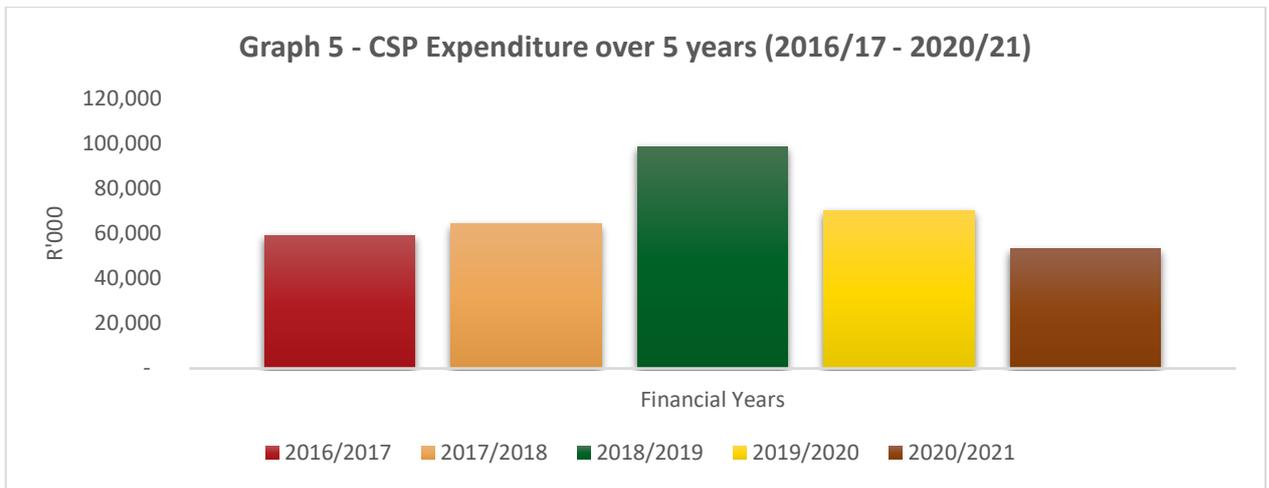
The Cities Support Programme’s budget is allocated within the Catalytic Infrastructure and Development Support Programme subprogramme. This funding is complimented by leveraging donor funds from the Swiss State Secretariat for Economic Affairs (SECO), the General Budget Support from the European Union (EU) as well as funding from the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). For every R1 spent of the appropriated funds, the department receives R1.56 in leveraged funds.



Note: All amounts are in R'000

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The programme is divided into two phases; Cities Support Programme 1 commenced from January 2016 until December 2018 while Cities Support Programme 2 started in January 2018 and will end in December 2024. Cities Support Programme 2 continues to improve policy clarity, scaling up fiscal reform efforts and continuing city support and intergovernmental coordination activities. The department spent R123.4 million on the implementation of Cities Support Programme 1. The main contributor to the expenditure in Cities Support Programme 1 was Professional Service Providers who are sectorial specialists within the Programme. In relation to Cities Support Programme 2, the department has spent R222 million as of 31 March 2021. The bulk of the expenditure is mainly on Cities Support Programme 2 and the Professional Service Providers. Inversely, the expenditure relating to the Programme Management Unit, City Advisors and Technical Component leaders is the least in both the phases.

Table 10: Cities Support Programme Technical Skills per Project Component

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Component	Number of Consultants	Roles of Consultants	Key Technical Skills
Programme Management	4	1x Ops and Finance Specialist 1x Strategic Support and Knowledge Management 1x Programme Manager 1x Monitoring and Evaluations Specialist	Planning; Programme & Financial Management; Monitoring and Evaluation
Core City Governance	2	1x Component Lead 1x Urban Planner & City Advisor	Programme Management - planning & policy development; Urban planning expert
Climate and Sustainability	1	1x Component Lead	Climate Resilience/sustainability expert
Economic Development	1	1x Component Lead	Economic Development Expert
Fiscal and financial			
Human Settlements	1	1x Component Lead	Human Settlements expert
Public Transport	1	1x Component Lead	Engineering - Transport
City Advisory Services	3	2x Lead City Advisor 1x City Advisor	Engineering - Civil, Transport & Industrial
Professional Service Providers*	24	Various	Various such as IT and and systems (PowerBi); Urban planning specialist; Organisational Development & Coaching; Infrastructure engineering; Economic Development in Local Government environment; Municipal finance experts

*Includes long-term (17) and short-term (7) consultants

Cities Support Programme 2 currently employs 37 consultants who are experts in various sectors, just to name a few such as Human Settlement Experts, Transport and Infrastructure engineers, Urban planning experts Municipal Finance experts, Climate resilience experts. The consultants are paid at different rates depending on their skill set and in some instances they exceed the Department of Public Service and Administration recommended rates. Case in point is the highest rate reflected on Graph 5 above, where the blended hourly fee rate of one of the Professional Service providers, providing long term financial model and strategies in all metros, is R5 931. According to the Department of Public Service and Administration Guide, the aforementioned rate should not exceed R1 171.

Nonetheless, it must be noted that the fee structure in Government such as the “Guide on Hourly Fee Rates on Consultants” issued by the Department of Public Service and Administration is not comparable with contemporary procurement practices.

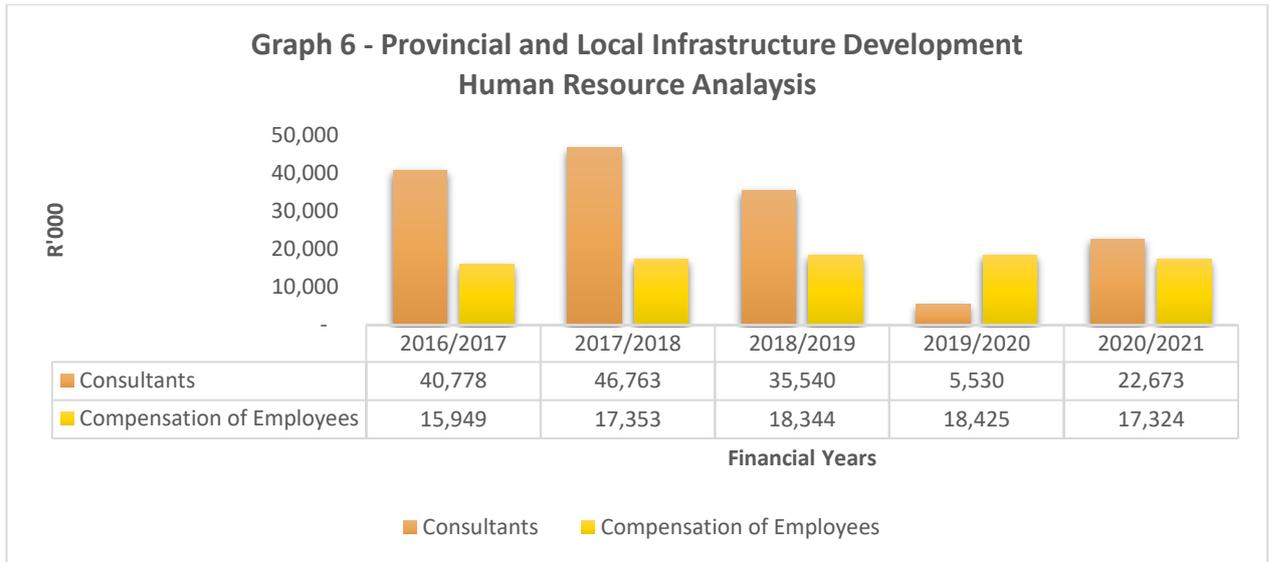
6.3.4 Infrastructure Delivery Improvement Programme

The programme was established to support improved effectiveness and efficiency of the delivery of public sector infrastructure by institutionalising best practice tools and building capacity. This is achieved by supporting the development of capacity in line with the Infrastructure Delivery Management System within all the spheres of government. The Infrastructure Delivery

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Improvement Programme budget is allocated within the Intergovernmental Relations Sub-Programme.



The programme currently has an average of 17 consultants who occupy roles such as Strategic Manager; Editing Project Manager; Knowledge Architects; Formatting and Graphic Designer; Editor and language practitioner; Infrastructure Delivery Management System Helpdesk technician; Project Manager; Monitoring & Evaluation Officer; Finance Administrator. The department spent an average of R30 million annually for the aforementioned consultants and R17.4 million on the compensation of employees within the Provincial and Local Infrastructure Development Chief Directorate. The breakdown of the hourly rate fee per consultant is listed below:

Table 11: Infrastructure Delivery Improvement Programme technical skills per project component

	Services	Rate P/H (Including VAT)
1	IDMSBOK Strategic Manager	R 1 150,00
2	IDMS and IDM Toolkit Enhancement	R 938,00
3	Editing Project Manager: Technical	R 1 150,00
4	Dynamic Knowledge Transfer - National & Provincial	R 1 138,50
5	Dynamic Knowledge Transfer - Local Government	R 805,00
6	Dynamic Knowledge Transfer - Local Government	R 1 144,25
7	IDMS Curricula and training programmes	R 850,00
8	IDMS Curricula and training programmes	R 850,00
9	Knowledge Architect - Design IT Platform	R 1 150,00
10	Knowledge Architect - Develop IT Platform	R 1 150,00
11	Formatting and Graphic Designer	R 914,25

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12	Editor and language practitioner	R	914,25
13	IDMS Helpdesk	R	1 144,25
14	IDMS Helpdesk	R	1 100,00
15	PSO: Manager	R	776,25
16	PSO: Monitoring and Evaluation	R	776,25
17	PSO: Finance	R	400,00
	Average Rate	R	961,82

In relation to a cost-effective alternative, the unit proposed that the functions below can be performed by officials that can be appointed on the National Treasury structure instead of using consultants. This will result in a potential cost saving of R 15 million per annum. For National Treasury to manage the streams above, there is a need for 5 Deputy Directors (DD's) at Level 12, first notch:

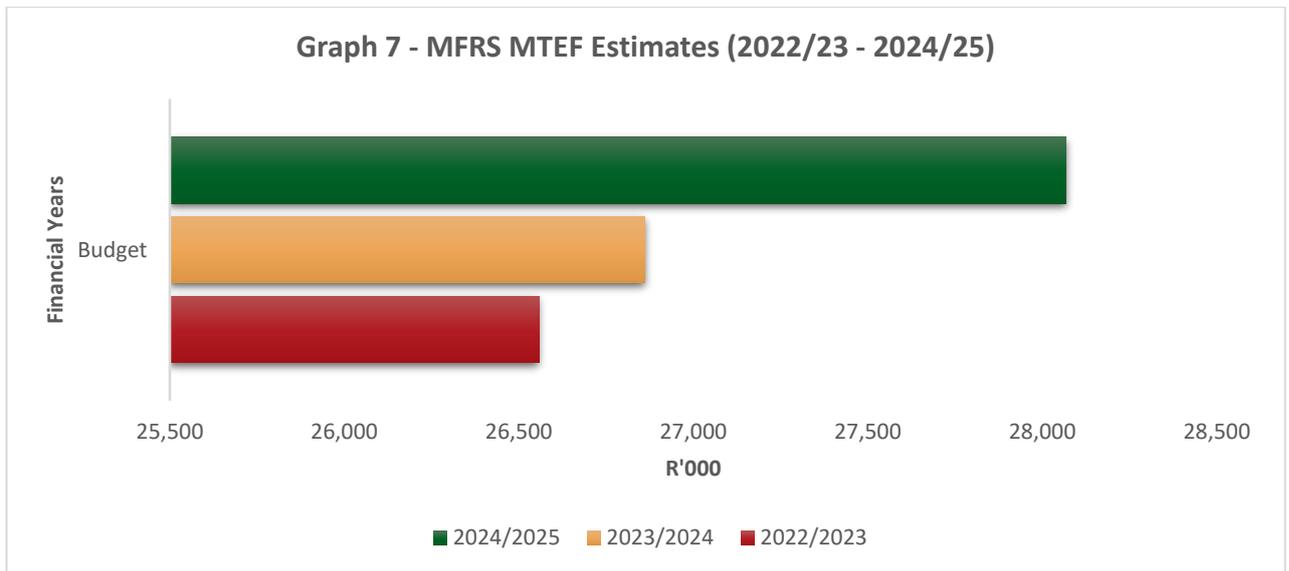
- Helpdesk – Institutional Governance Specialist;
- Infrastructure Delivery Management System curricula – Institutional Development Specialist;
- knowledge transfer – Knowledge Management Specialist;
- Infrastructure Delivery Management System Body of Knowledge Platforms – Information Technology Specialist; and
- Infrastructure Delivery Management System Enhancement – Enhancement Specialist.

6.3.5 Municipal Finance Recovery Services

This programme was established per the requirements of Chapter 13 of the Municipal Finance Management Act as well as Section 139 of the Constitution which states that the “Municipal Financial Recovery Service forms part of, and functions within, the National Treasury”. The following activities are executed under the programme: preparation of mandatory financial recovery plans; assisting Provincial Treasuries with the preparation of discretionary and voluntary financial recovery plans; monitoring the implementation of such plans by municipalities and reporting on progress regarding the implementation.

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The Municipal Finance Recovery Services budget is R26.5 million, R26.9 million, and R28.1 million for 2022/23, 2023/24 and 2024/25, respectively. However, there has been no expenditure from the 2018/19 financial year to date due to the challenge in the acquisition of a Panel of Service Providers. Furthermore, the current Municipal Finance Recovery Services structure is completely dependent on the rapid response team funded by Municipal Finance Improvement Programme. Within the National Treasury structure, there is only one Deputy Director who is responsible for all 257 municipalities.

7 MAIN FINDINGS AND RECOMMENDATIONS

- There is currently no internal policy that has been adopted to guide Business Units in determining the criteria for using consultants within long-term projects to ensure that it is a cost-effective alternative. Furthermore, it should also be highlighted that the appointment of consultants' process disproportionately places autonomy on Business Units. **National Treasury should urgently consider drafting an internal policy and/or framework on the use of consultants which will guide business units in determining the criteria for using consultants and provide a guideline on the appropriate methodology to be used when determining cost-effective alternatives.** Furthermore, the internal policy should make recommendations on the appropriate tools that units should use to motivate the appointment of consultants. Such should be aligned to cost containment measures, the supply chain management guide for accounting officers as well as the Public Finance Management Act and related regulations.

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- The Department of Public Service and Administration Guide on the Hourly Fee Rates for Consultants capped the maximum available productive hours for consultants at 1760 hours for annum. The calculation of the hours excludes weekends, public holidays as well as annual and sick leave. Currently, the available hours to consultants within the long-term projects are 1920 hours. **Therefore, recommend that the hours are capped at 1760 hours.** This will result in a potential saving of R36 million per annum.
- The appointment of consultants, where possible should only be for areas that are not the National Treasury's 'core function' (or departments' daily operations). However, to this end, there are some iterations on the use of consultants for the daily operations of the department. As in the case of Municipal Finance Improvement Programme where consultants are deployed as additional resources to capacitate the Intergovernmental Relations division as well as the Transversal Systems where a majority of the structure consists of consultants. These instances should be addressed and prioritised through National Treasury's organizational review process to avoid an occurrence of an unintended parallel structure within the department consisting of consultants. **It is therefore recommended that consultants performing National Treasury's 'core function' (or departments' daily operations) within long-term projects, where possible, should be considered for fixed contract or permanent appointment.** For example, by converting MFIP consultants to fixed contractors and IDIP consultants to permanent employees the department can save R7.8 million and R15 million per annum, respectively. Noting that consultants are recruited for complementary skills, the department should therefore evaluate whether the skills procured should be translated into the organisational structure. Furthermore, National Treasury should also consider if the department is recruiting consultants to address challenges and drive reforms outside our mandate and/or objectives.
- The guideline on Cost Containment Measures, August 2014, and regulations (Guide on the Hourly Fee Rates for Consultants, annually) are seldom applied within long-term projects, albeit there are still areas of weaknesses in the current Hourly Fee Rates for Consultants structure that need to be addressed to maximize value for money. The guide has been in existence for 18 years, since 2003, without any review of the economic assumption used and the variables in the calculation such as the overhead factor, profit margin and the available productive hours. **It is recommended that National Treasury must establish a government-wide revised cost containment instruction for consultancy services by overhauling the current consultant fee structure including providing a comprehensive list for the Information Technology-related costs as are outdated.**

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- The Transversal Systems team could not provide the reviewers with information to support the argument that the scarce skills are at retirement age, including the age profile of the team, experience, skills and qualifications. Furthermore, there is no evidence that demonstrates an attempt to absorb the consultants within the National Treasury structure so as to retain the scarce skills even prior to the conceptualisation of the Integrated financial management systems. **It is therefore proposed that there should be a further review and analysis on Transversal Systems and IFMS.**

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