

**2021**

**Provincial Departments of Health  
Spending Review**

*Analysis of Spending in Administration  
(Programme 1)*

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**CLUSTER: HEALTH**

**NATIONAL TREASURY**

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## 1. Executive Summary

This spending review analyses the Administration Budget Programme (Programme 1) in the provincial health budgets from 2018/19 to 2020/21, with the objective to:

- Benchmark administration spending across provinces.
- Establish what drives the differences in the spending between provinces.
- Propose additional descriptors of administration expenditure that can be added to the objective and responsibility segments in the Chart of Accounts.

In brief, the method applied was as follows:

- Administration programme expenditures were extracted from the Basic Accounting System (BAS) database and analysed using the objective and responsibility segments.
- Interviews were held with provincial budget teams to categorise expenditures into 'Proposed Administration Objectives'.
- PERSAL data was used to analyse the number of Full Time Equivalent (FTEs) staff under administration programme 1.

The key findings are:

- There is significant variation in the types and composition of expenditures recorded against the Administration programme across provinces.
- There is significant variation in the composition of staff and the proportion of administration expenditures spent on compensation of employees.
- There are many instances of expenditures being allocated to this programme incorrectly, and some provinces treat it like a dumping ground for expenditures they are not sure how to classify.
- Anomalous expenditures worth drawing attention to are:
  - Gauteng - expenditures for consumable supplies
  - North West– property payments

**Analyses of PERSAL data suggested that Gauteng appointed over 5 000 personnel on salary levels 1 and 2, which should cost the province an additional R1.24 billion per**

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year. These changes could not be reconciled with expenditure data from BAS. It is assumed these are data errors in PERSAL. Clarification has been sought from the Gauteng Department of Health. In the mean time the analysis of that data has been excluded from this report.

## 1.1 Recommendations

### 1.1.1 Add the proposed objectives to the Objective Segment Level 7

National Treasury, the Provincial Treasuries and the CFO's office in the Provincial Departments of Health should embark on a process of agreeing to how to use the "Proposed Administration objectives" identified in this study and presented below:

Proposed Administration Objectives (Level 7)		
Human Resource	Legal	Head of Department
Finance	Infrastructure	Corporate Services
Clinical Support	Planning	Communication
Supply Chain Management	Information Technology	

This process should involve a few iterations of discussions held during workshops and discussions to reach agreement on:

- Which of the above are relevant to the administration programme and should be added to the Objective Segment as lowest level objectives in the Chart of Accounts, to be used for the Health Administration Budget Programme by Departments of Health.
- definitions and rules on the kind of activities that should be recorded against each objective.

The above process can be incorporated into existing workshops and meetings that happen during the budget process and use can begin immediately.

### 1.1.2 Investigate the Feasibility of Norms and Standards for Administration Personnel and Expenditures

There is significant variation in the composition of personnel expenditure as well as personnel expenditure as a share of total administration expenditures. The personnel appointments in Gauteng are of particular concern and should be investigated further.

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Further analyses of personnel and the activities they carry out are required to understand whether staffing norms and standards for personnel in administration personnel are feasible.

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## 2. Introduction

### 2.1 Problem Statement

South Africa's constrained fiscal environment requires government to monitor its spending across all sectors. This spending review set out to develop categories of expenditure that can be used to benchmark expenditures, which will enable monitoring and controlling expenditures in the Administration Budget Programme (Programme 1) in the Provincial Departments of Health.

Between 2018/19 and 2020/21, provinces spent R19.3 billion on this programme, which equivalent to 3% of expenditures during this period. Per province, this ranges from 1.4% to 4.2% of health expenditures. Therefore, a closer examination of administration budget allocations and expenditure by provinces is required to develop expenditure benchmarks of this important health service.

The work of administrators and administrative services in the health system is key to the efficient delivery of health care services. These administrators are, amongst other things, responsible for the procurement of equipment and consumables for institutions, setting the budget for goods and services and personnel planning.

Provinces are required to record expenditures against various segments of the standard chart of accounts. There are clear prescripts as to how provinces must record expenditures for most of these segments, however departments can use the lowest level of the Objective segment to create descriptions of expenditures specific to their activities and policy objectives. In most sectors, the budget programmes and budget sub-programmes provide much insight into this, however the administration budget programme, with its budget sub-programmes of "Management" and "Office of the MEC" provide limited insight into what activities or outputs expenditures on this programme are buying. In addition, provinces make limited and inconsistent use of the objective lowest level descriptions. See the table below for an illustration of this:

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Objective_Lowest_Level	2018/2019	2019/2020	2020/2021	Grand Total	Cumulative % of Total
MANAGEMENT HEALTH	1 350 748	1 464 395	3 534 330	6 349 473	33%
CENTRAL MANAGEMENT	1 544 673	1 516 204	2 451 447	5 512 324	61%
MANAGEMENT*P	565 487	656 335	1 042 519	2 264 341	73%
MANAGEMENT POST	685 570	612 001	644 126	1 941 698	83%
MANAGEMENT	281 710	415 224	319 435	1 016 370	89%
CENTRALISED MANAGEMENT	302 046	296 340	273 722	872 108	93%
CORPORATE MANAGEMENT	301 165	285 076	266 790	853 032	97%
COVID 19 DISASTER RESPONSE			115 997	115 997	98%
OFFICE OF THE MEC	19 647	26 348	24 646	70 641	98%
OFFICE OF THE HEALTH MEC (POST)	19 752	21 865	19 676	61 293	99%
OFFICE OF THE MEC*P	19 204	18 135	20 208	57 547	99%
PROVINCIAL MINISTER	10 038	17 051	16 067	43 156	99%
MANAGEMENT HEALTH - COVID 19			28 515	28 515	99%
OOFFICE OF THE MEC*P	7 452	10 576	10 330	28 358	100%
OFFICE OF THE MEC POST	9 261	7 800	7 300	24 360	100%
OFFICE OF PROV. MINISTER	7 924	8 103	8 084	24 111	100%
ICT EFFICIENCIES	3 612	7 006	7 171	17 788	100%
NTSG: DRG 1.2	1 000	3 279	4 032	8 312	100%
COVID-19 - MANAGEMENT POST			2 057	2 057	100%
COVID PR1			1 985	1 985	100%
TRAINING OTHER	-	1 846		1 846	100%
QUALITY ASSUR (KHANYISA)			105	105	100%
HLTH TURNAROUND STRATEGY (POST)	3			3	100%
TRANSFORMATION & SPECIAL PROGRAM	-			-	100%
DECENTRALISED MANAGEMENT			-	-	100%
UNALLOC: BANK CHARGES			-	-	100%
UNALLOC: JUSTICE			-	-	100%
MNG HR CAPITATION GRNT		-		-	100%
MNG CUBAN COVID-19			-	-	100%
<b>Grand Total</b>	<b>5 129 292</b>	<b>5 367 585</b>	<b>8 798 542</b>	<b>19 295 419</b>	

The table shows every description against which expenditures are recorded in the objective lowest level in the health administration programme. The descriptions highlighted in grey are different in name to the sub-programme they are recorded against and therefore add some additional insight to the budget programme structures. However, as can be seen from the cumulative % of total column, the vast majority of expenditures in this programme are recorded against lowest level objective descriptions that are the same as the name of the sub-programme. A simple mechanism that can create rich descriptions of expenditures is being wasted.

This spending review:

- Dives deep into expenditures reported against the administration programme:
- Establishes what accounts for the differences spending across provinces.

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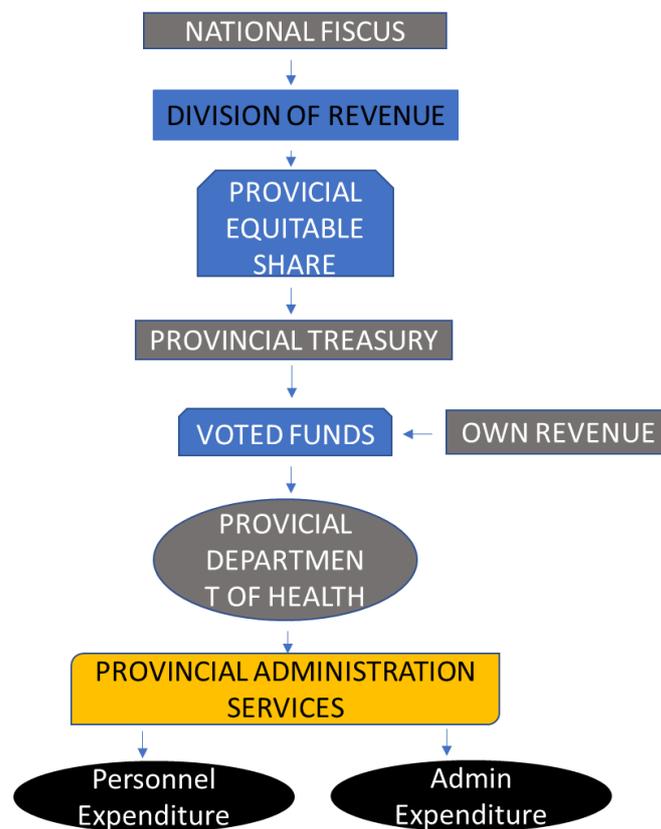
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- Proposes descriptions of expenditure that can be used in the lowest level of the objective segment in the Chart of Accounts (referred to in this report as “administration objectives”).

## 2.2 Institutional Information

The diagram below shows the flow of funds from National Treasury to the administration programme, to pay administration staff at different levels of health facilities and institutions.

*Figure 1: Flow diagram for flow of funds from national treasury to administration services*



Allocations for provincial health budgets are determined through the national and provincial budget process. There are three spheres of government: national, provincial and local. The Constitution entitles each sphere of government to an equitable share of nationally raised revenue to enable them to provide basic services and perform the functions assigned to each sphere. Provinces receive the provincial equitable share (PES), provincial conditional grants and raise a small amount of own revenues. Even though the PES formula includes a health

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component, this is not an indicative health budget and provinces are entitled to allocate their equitable share and own revenues according to provincial priorities. Conditional grants must be allocated as laid in their grant frameworks. While conditional grants account for about 20% of provincial health expenditures, they are not relevant to this spending review as the administration budget is funded from funds provinces have discretion over which is the PES and own revenues.

## 2.3 Review of Health Administration Budget Programme Expenditures

This section provides a high level overview of administration expenditures and puts them in the context of other health expenditures.

### 2.3.1 High-level overview

The table below shows the proportion of the health budget per budget programme for 2020/2021 financial year.

*Table 1: Percentage expenditure per programme per province (2020/2021)*

Programme	GT	NW	WC	NC	KZN	EC	FS	MP	LIM	TOT
<b>P1 Administration</b>	<b>6.4%</b>	<b>6.0%</b>	<b>4.4%</b>	<b>4.1%</b>	<b>2.6%</b>	<b>2.3%</b>	<b>2.3%</b>	<b>2.1%</b>	<b>1.3%</b>	<b>3.8%</b>
P2 District Health Services	31%	51%	42%	46%	51%	54%	48%	65%	64%	47%
P5 Central Hospital Services	33%	14%	27%	20%	11%	17%	22%	8%	9%	20%
P4 Provincial Hospital Services	17%	15%	15%	9%	23%	14%	14%	9%	12%	16%
P8 Health Facilities Management	7%	3%	4%	7%	6%	5%	4%	9%	5%	6%
P3 Emergency Medical Service	3%	3%	4%	7%	3%	4%	7%	3%	4%	4%
P6 Health Science & Training	1%	2%	1%	3%	3%	3%	2%	3%	2%	2%
P7 Health Care Support Services	1%	6%	2%	4%	1%	1%	1%	1%	3%	1%

Administration Programme 1 is one of the smaller budget programmes in all provinces along with Emergency Medical Services (P3), Health Science & Training (P6) and Health Care Support Services (P7).

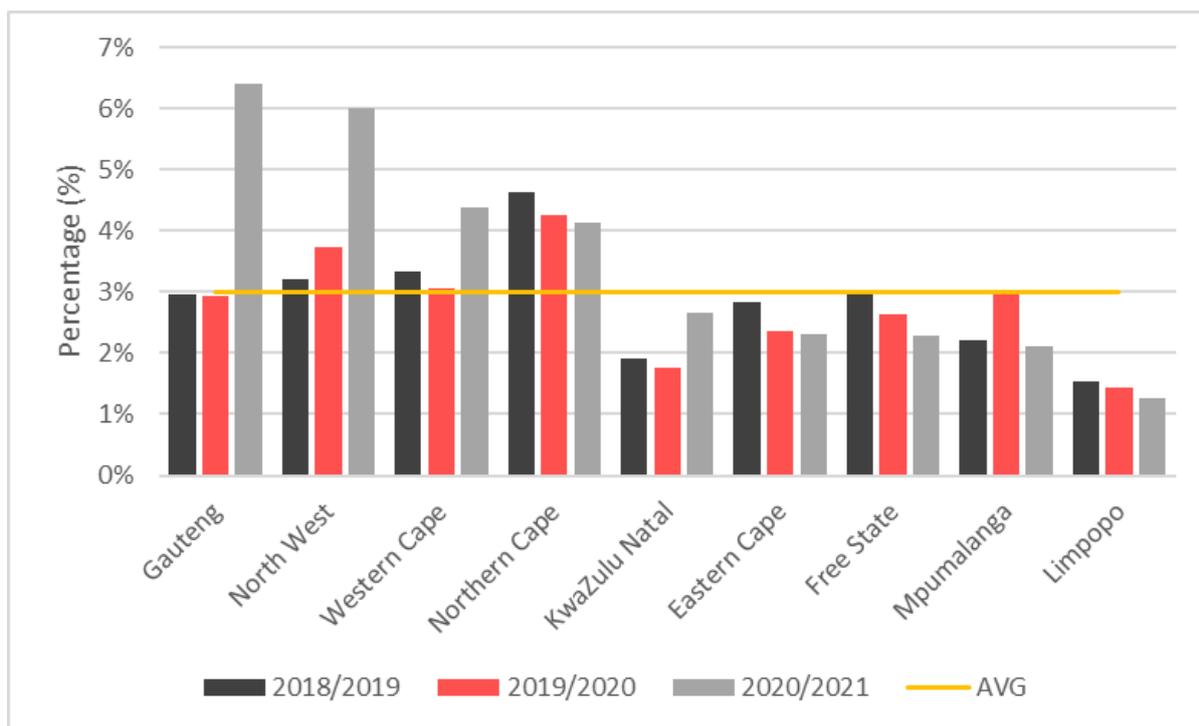
The following figure shows the proportion of total health budgets allocated to administration for the period 2018/19 to 2020/21.

*Figure 2: Administration as a percentage of health expenditure for each of the three financial years (2018/19, 2019/20 and 2020/21)*

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The provinces are ordered from highest percent in 2020/21 from left to right. Overall spending on admin for all provinces combined is 3.22% in the 2020/21 financial year, with a range between 1.26% for Limpopo and 6.4% Gauteng. This figure illustrates that in Gauteng, North West and Western Cape, the share of total budget allocated to administration increases substantially between 2018/19 and 2020/21.

The compound annual growth rate (CAGR) and year on year changes in administration expenditure for each province is shown below for the 2018/19 to the 2020/21 financial years.

**Table 2: Administration (P1) Expenditure 2018/19 to 202/201 with growth rates**

Province	2018/2019	2019/2020	2020/2021	CAGR	YoY G1	YoY G2
Gauteng	R 1 360 786 050	R 1 481 445 976	R 3 695 013 774	65%	9%	149%
North West	R 368 090 025	R 464 984 672	R 843 938 767	51%	26%	81%
KwaZulu Natal	R 810 858 352	R 796 197 355	R 1 307 059 453	27%	-2%	64%
Western Cape	R 766 105 469	R 760 259 899	R 1 183 350 465	24%	-1%	56%
Mpumalanga	R 289 608 846	R 430 378 038	R 334 385 308	7%	49%	-22%
Northern Cape	R 224 052 969	R 220 061 226	R 229 118 079	1%	-2%	4%
Eastern Cape	R 694 830 472	R 619 801 285	R 653 482 937	-3%	-11%	5%
Limpopo Province	R 304 023 810	R 300 164 141	R 277 684 628	-4%	-1%	-7%
Free State	R 310 936 452	R 294 292 304	R 274 508 508	-6%	-5%	-7%
<b>Grand Total</b>	<b>R 5 129 292 446</b>	<b>R 5 367 584 896</b>	<b>R 8 798 541 918</b>	<b>31%</b>	<b>5%</b>	<b>64%</b>

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**Table 3** shows the variances between years as well as the variance in growth between provinces between 2018/19 and 2020/21. The annual growth in four provinces (Gauteng, North West, KwaZulu Natal and Western Cape) exceeds 24% per year compared to an average growth of 7% or less in the remaining provinces of 7% or less. Thus, the annual change in the remaining province is within reasonable levels, including those whose administration budgets decreased during the period.

A closer look at the composition of expenditures in the Administration reveals significant differences between the provinces. There is no simple way to compare expenditures across the provinces because of many different types of variations.

### 2.3.2 Item Level Expenditure Analysis

*Key message of an item level expenditure analysis is:*

- The variation across provinces is so extreme that it is difficult to summarise in tables and graphs
- Analysing by objective segment doesn't help because provinces make such poor use of this segment in this budget programme.
- Two issues worth expanding on are:
  - **Consumable supplies in Gauteng** grow from 0.04% of total in 2019/20 to 44% of total in 2020/21, from R601 255 to 1.6billion rand. Consumable supplies in Gauteng in 2020/21 account for 98% of consumable supplies purchased against the administration programme and 35% of all consumable supplies purchased in health. *(See annexure for more detail)*
  - **Property payments in North West** – this is an outlier and account for 46% of their administration programme, and these property payments account for 85% of property payments reported against this programme by all provinces. *(See annexure for more detail).*

### 2.3.3 Analysis of expenditures in provinces with massive growth

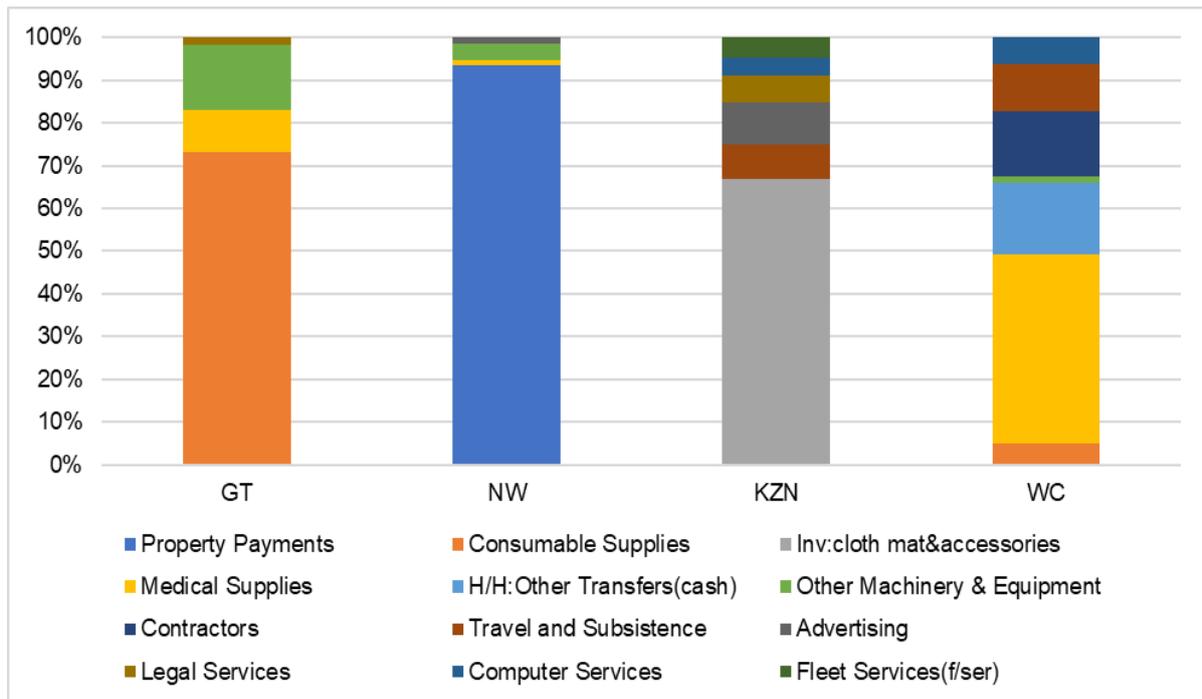
Table 2 shows that the growth in administration programmes in Gauteng, North West are unusually large and grow faster than the remaining 5 provinces in KwaZulu-Natal and Western Cape. The figure below shows that items that account for the increase in expenditure between 2019/20 and 2020/21.

*Figure 3 Items Contributing to Growth In Expenditures*

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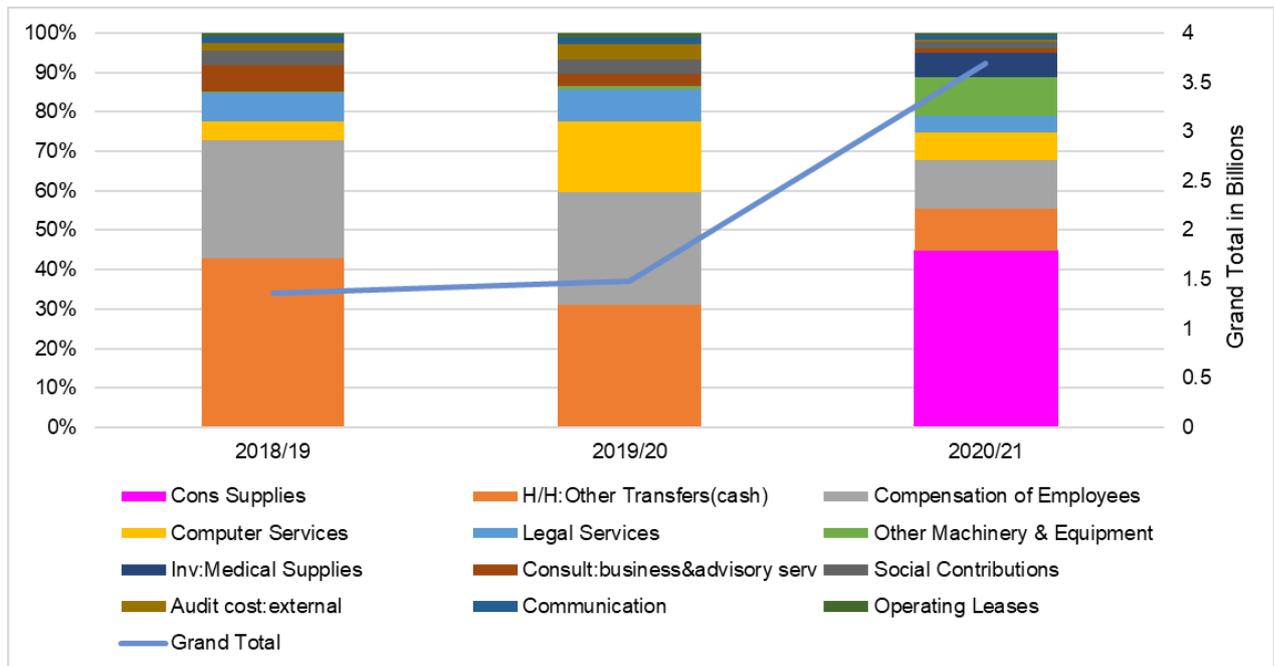
In short, the figure demonstrates how varied the expenditures are against this programme. The items contributing to increased expenditures differ in each province.

Gauteng’s administration expenditure increases the most. The figure below demonstrates how the composition of expenditure varies between years in that province.

Figure 4 Composition of expenditures in the administration programme in Gauteng

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The key issue here is the variation in the expenditures recorded against this programme and how difficult it is to associate these expenditures with policy implementation, because minimal use of markers of expenditures in this programme are used by provinces.

### 3. Proposed Administration Programme Objectives

This section:

- discusses the methodology and approach followed.
- presents the resulting proposed objectives and analyses expenditures reported against the administration programme using these objectives.

#### 3.1.1 Methodology and Approach

The steps followed are discussed below, supported with a mapping of the responsibility and item segment to the proposed administration objectives.

##### Step 1:

All expenditure data recorded by provinces against the administration budget programme in BAS for the years 2018/19 to 2020/21 was extracted.

##### Step 2:

The data was filtered and searched using the various segments in the chart of account. After a quick review of the data it became evident that the most efficient way to analyse the

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expenditure data was to filter it using the lowest level of the Responsibility Segment as this created reasonably fine grained descriptions of the data (except for economic classifications).

### **Step 3:**

In discussion with a former Chief Finance Officer (CFO) of a provincial department of health, a set of draft categories of administration expenditure were identified. These were based on the descriptions of expenditures used by the provinces in the responsibility segment and drew on the expertise and knowledge of the said CFO.

The following list of categories were proposed for analysing and categorising expenditures reported against the administration programme:

- Human Resource
- Finance
- Clinical Support
- Supply Chain Management
- Communication
- Head of Department
- Legal
- Infrastructure
- Planning
- Information Technology
- Corporate Services

### **Step 4:**

Interviews were held with officials from each province to allocate expenditures to one of the above categories. The summaries generated in Step 2 were presented and officials were asked to allocate the expenditures to one of the categories listed above.

Officials were also invited to propose additional categories or to suggest revisions to categories.

### **Step 5**

As the above categories aligned with existing descriptions in the responsibility segment, the data could be analysed and compared using other segments of the chart of accounts.

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In addition, PERSAL data was used to analyse the number of Full Time Equivalent (FTEs) staff under administration programme 1 using a data file with PERSAL data 2018 to 2020 provided by national treasury was analysed. Data showing the number of FTEs recorded against the administration programme and salaries were extracted and analysed to establish variations in numbers of staff across provinces and variations in average salaries.

The table below shows the mapping of the “Proposed Administration Objectives” against the Responsibility and Item segments in the chart of accounts.

**Table 3: Proposed Administration Objectives mapping**

<b>Proposed Administration Objectives</b>	<b>Examples of items in the Lowest Responsibility Segment</b>
Human Resource	Human Resources and Planning; Dir: Employee Wellness Progr *P
Finance	Cons Supplies; Accounting Services
Clinical Support	Dir: Health Promotion*P Dir: HIV/Aids/STI&TB*P Nursing Services
Supply Chain Management	Asset Management; Cd: Supply Chain Mangt
Communication	Dir & Pers: Communication; Sd: Internal Communication & Pub
Head of Department	MEC Support Staff; Chief Fin Officer & Personnel
Legal	Dir Legal Services*P; Off O/T Cd: Legal Service
Infrastructure	Dir: Security Management*P; Infrastr Programme Deliver
Planning	Cd: Strategic Mangt &Pa *P; Sd: Strategic Planning
Information Technology	Dir: Ict Infrastructure; Information & Comm Technology
Corporate Services	DIR: Legal & Corporate Sec Serv; Chief DIR: Corporate Serv.
Wrong Allocation	Charlotte Maxeke Hospital; Cullinan Care & Rehab Centre

The expenditures analysed in the previous section are analysed through the lens of the above proposed objectives in the following section.

### **3.2 Analyses of Expenditures using the Proposed Administration Objectives**

Shown below is the amount spent in each administration ‘Proposed Administration Objective’ from 2018/19 to 2020/21.

**Table 4: Proposed Administration Objective expenditure for 2018/19, 2019/20 and 2020/21 and CAGR**

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Proposed Objective	2018/2019	2019/2020	2020/2021	Annual Average Change
Finance	R 1 028 916 682	R 986 267 149	R 1 228 021 959	9%
Corporate	R 882 374 768	R 806 803 836	R 753 625 195	-8%
IT	R 680 826 838	R 833 689 100	R 901 899 265	15%
HR	R 613 159 614	R 622 097 554	R 602 875 251	-1%
Clinical Support	R 542 104 106	R 525 727 615	R 1 021 132 414	37%
SCM	R 411 646 555	R 515 489 521	R 2 671 051 184	155%
Legal	R 247 857 489	R 341 010 978	R 305 134 495	11%
HOD	R 246 645 503	R 257 643 878	R 316 701 533	13%
Infrastructure	R 143 319 847	R 148 313 111	R 502 607 683	87%
Planning	R 144 780 934	R 146 529 343	R 151 562 311	2%
Wrong Allocation	R 111 793 792	R 81 134 403	R 168 367 229	23%
Communication	R 75 866 318	R 102 878 409	R 175 563 398	52%
<b>Grand Total</b>	<b>R 5 129 292 446</b>	<b>R 5 367 584 896</b>	<b>R 8 798 541 918</b>	<b>31%</b>

This is the first time the Administration programme expenditures in health has been analysed in this way so we do not know what the normal or correct spending against these proposed classifications should be. A lot of unusual transactions were made in 2020/21 because of Covid-19 therefore, in the table above the expenditures are ordered based on average expenditures in 2018/19 and 2019/20.

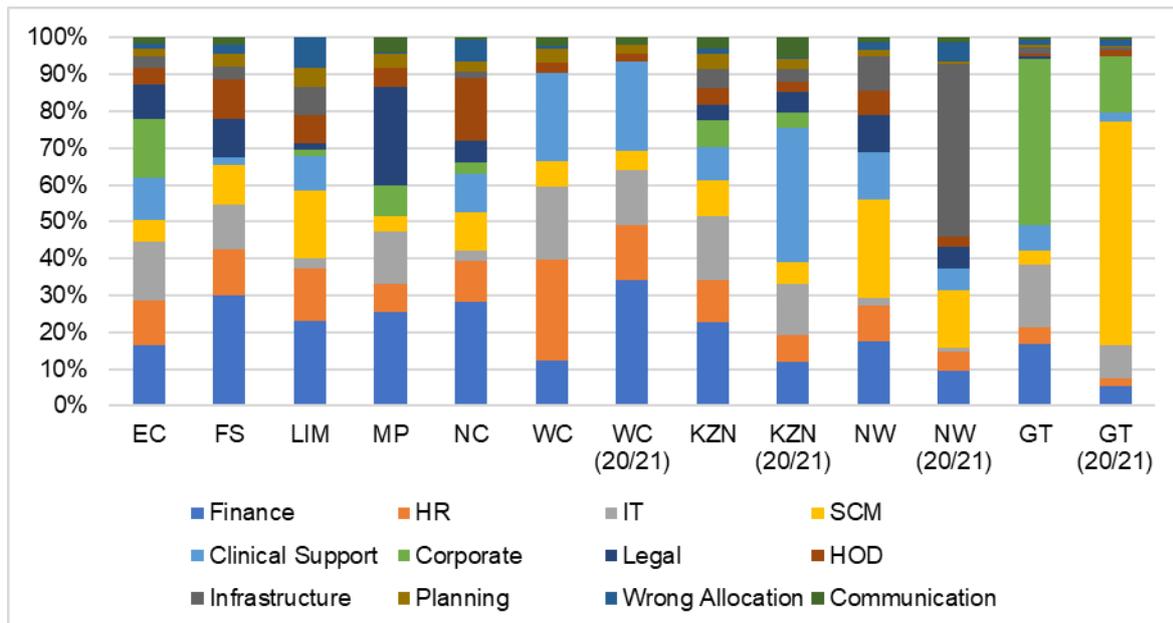
Expenditures grew the most against supply chain management, clinical support, infrastructure and communication. Communication events in health affect all health programmes and so there are good reasons to record these expenditures against the administration budget programme. However, the increased expenditures in the other three categories are related to specific areas of service delivery in health, which should be recorded against the relevant budget programmes and budget sub-programmes. It appears that the administration programme was used as a 'dumping ground' for recording expenditures against the other three proposed objective mentioned above and notably for Covid related expenditures.

The figure below shows the proportional spend by province on each of the proposed objectives. The figure compares expenditures across the three years.

**Figure 5 Administrative Expenditures Categorized using the Proposed Administration Objectives by Province (2018/19 to 2020/21)**

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The provinces are ordered from the left in terms of how constant the proportional shares of expenditure are. In Eastern Cape, Free State, Limpopo, Mpumalanga and Northern Cape the proportional expenditures in each province are similar across all three years. In the remaining provinces the column with the name province’s abbreviation shows their expenditures for 2018/19 and 2019/20, the column with (20/21) shows the expenditures just for 2020/21.

There is a lot going on in the above picture, but key to note is even using these categories of expenditures that should be specific to the administration programme:

- There is significant variation across the provinces.
- There are massive variations in reporting against this budget programme across years in 4 out of 9 provinces.

### 3.3 Personnel Analysis

As mentioned in the introduction, a deep dive into PERSAL data revealed some very unusual and worrying trends in appointments of staff at low job levels, particularly in Gauteng. However, as the results of that analysis cannot be reconciled with expenditures on compensation in BAS it is suspected that the data has not be recorded correctly in PERSAL. This section presents analyses that combine data from PERSAL on number of posts in senior management services (SMS) positions with expenditure data from BAS.

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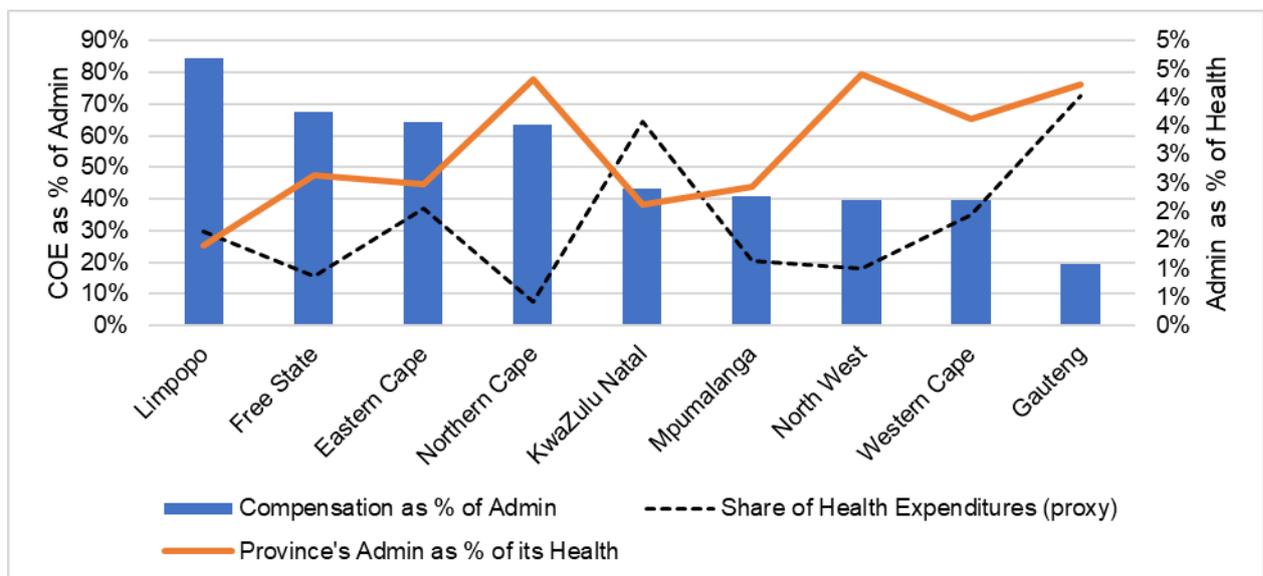
High level summary of compensation of expenditures in health are:

- In 2020/21, provinces spent R138 million compensation of employees in health.
- Personnel expenditure in administration accounts for 2% of health personnel expenditure and this ranges from 1% in KwaZulu-Natal and Gauteng to 5% in Northern Cape.
- Between 2018/19 and 2020/21 personnel expenditure in health grew at annual average rate 7%, with the highest rate of growth in North West at 13% and smallest in Limpopo at 3%. Personnel expenditure in administration grew at an average rate of 3%, and it decreased in Limpopo and the largest increase was 9% in North West.

Below a number of analysis of personnel expenditure in administration are presented, all of which illustrate significant variances in expenditures on personnel in administration.

The figure below shows expenditures on compensation of employees in administration as a percent of administration expenditures and puts these in the context of total health expenditures.

Figure 6 Compensation of employees in the administration budget programme



Provinces are ranked in descending order of compensation of expenditure as a proportion of Administration expenditures (blue bars, read on left hand axis). The orange line shows administration as a share of the province's health budget (right hand axis). The dotted blue line is a proxy for the size of the province's health budget. Logically, the range that salary expenditures as a proportion of total administration expenditures across all provinces should be narrow (blue bars should all be similar size). However, this value ranges from 84% in Limpopo to 20% in Gauteng. There is a negative correlation between the proportion of the

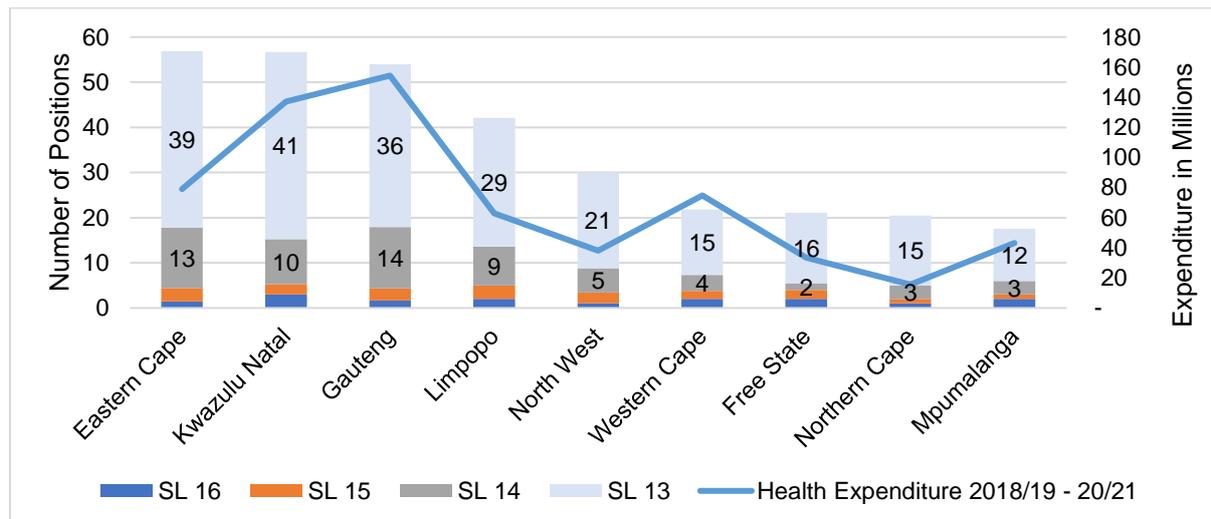
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administration budget spent on salaries and the size of the administration budget in relation to total health expenditures, however the total health expenditures in each province is not correlated with either. *This is another illustration of the lack of coherence and consistency in expenditures on administration.*

The figure below shows the number of posts in senior management services (SMS) in each province and compares these to total health expenditures in each province.

**Figure 7 Senior Management Services Posts in Administration**



Provinces are ranked from largest number of positions in senior management services to least. The blue line shows total health expenditures. If the total of the bars are compared to the line it is not clear which provinces are the outliers and which are on trend:

- Eastern Cape has a similar size SMS to KwaZulu-Natal and Gauteng, but its health budget is notably smaller.
- Western Cape spends more than twice as each of the North West and Free State on health, but its SMS is two thirds of North West and the same as Free State.

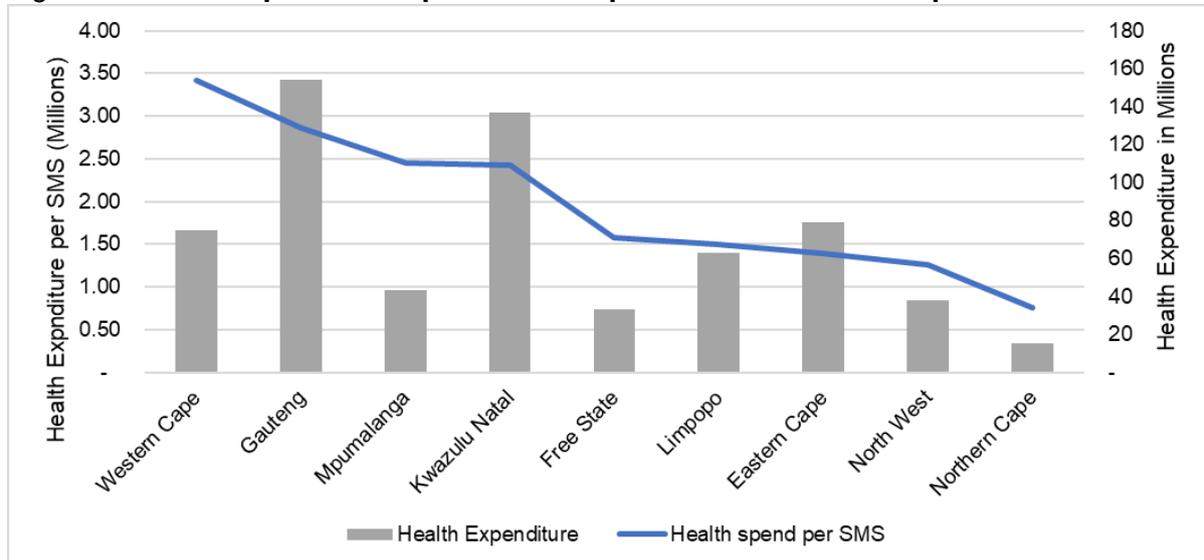
Senior management staff in the administration programme carry out oversight, monitoring, planning type of roles. As large economies of scale can be achieved with the number of people required to carry out these tasks and the expenditures they are planning and overseeing, there should be at most a weak correlation between the number of these staff and the size of the health budget in the province. However, there is no clear correlation and there are no logical reasons for the large variances across provinces.

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The figure below shows the total health expenditure per senior management staff. This is calculated by dividing the total health budget by the number of SMS positions. Therefore, the larger the value the more efficient use the province is making of SMS staff.

Figure 9 Health expenditures per SMS compared to total health expenditures



Provinces are ordered largest health expenditure per SMS staff to least (left hand axis, blue line) and the grey line shows the total health expenditure (right hand axis). One would expect the provinces with the largest health budgets to have the largest expenditures per SMS as they can get economies of scale on these staff. At the very least, the largest to smallest ranking should be similar for the above two measures, but they are clearly not. The following is observed:

- Expenditure per SMS is the Northern Cape is the smallest, however this province has the smallest health budget.
- Western Cape has the largest expenditure to SMS ratio (most efficient) but has the fourth largest budget. Its budget is 1.2 times as large as Limpopo's yet its expenditure per SMS is 2.3 times as much. Western Cape's budget is 94% of Eastern Capes (i.e. similar size) yet Western Cape's expenditure per SMS is 2.4 times as much.
- Limpopo spends over 80% of its administration on compensation of employees (see Figure 6), which is not unreasonable given the purpose of the programme yet its health spend per SMS is one of the least efficient.

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There are no norms and standards one can use to evaluate which province is spending too much or too little, the best the above analysis can do is point out the variances between the provinces.

## **4. Conclusion and Recommendations**

### **4.1 Lack of uniformity**

The budget programme structure in provincial budgets is intended to enable provinces to follow uniform approaches to recording expenditures. However, there is almost no uniformity in the types of expenditures recorded against the Administration Budget Programme in Health. This analysis has shown in detail how difficult it is to meaningfully analyse this budget programme across provinces.

There are cases of misallocation and wrongful allocation of expenditures to this budget programme, however, this does not explain the scale of the variation across provinces. It is notable too how many expenditures related to Covid were recorded against the administration programme. This raises questions as to how well planned and thought through these expenditures were and the extent to which the administration budget programme is a 'dumping zone' for expenditures that provinces are not sure how to allocate.

### **4.2 Items of Concern**

Areas of concern and deeper investigation are:

- Wrongful allocations in North West and Gauteng
- Massive allocations in 2020/21 on:
  - consumable supplies in Gauteng
  - property payments in North West

If the above reveal these have been recorded incorrectly then any savings suggested for these item segments are an illusion and they should be recorded correctly.

### **4.3 Taking the findings of this review forward**

#### **4.3.1 Add the proposed objectives to the Objective Segment**

Through consultation with 7 of 9 provinces, this study has identified descriptions of administration expenditures that are meaningful to provinces. It is recommended that National

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Treasury takes steps to incorporate these into the lowest level of the Objective Segment of the Chart of Accounts.

National Treasury, the Provincial Treasuries and the CFO's office in the Provincial Departments of Health should embark on a process of agreeing on the principles and rules to be followed in recording administration expenditures against the "Proposed Administration objectives" identified in this study and presented below:

<b>Proposed Administration Objectives</b>		
Human Resource	Legal	Head of Department
Finance	Infrastructure	Corporate Services
Clinical Support	Planning	Communication
Supply Chain Management	Information Technology	

This process should involve a few iterations of workshops and discussions to reach agreement on:

- Which of the above are relevant to the administration programme and should be added to the Objective Segment of the Chart of Accounts to be used for the Health Administration Budget Programme by Departments of Health.
- A definition of the kind of activities that should be recorded against each objective.

The above process can be conducted during existing workshops and meetings that happen during the budget process. It does not need to be a lengthy process and implementation can begin immediately and the names and rules regarding these objectives can be revised and updated when the need arises, even annually.

See Annexure A for more details.

#### **4.3.2 Investigate the Feasibility of Norms and Standards for Administration Personnel and Expenditures**

There is significant variation in the composition of personnel expenditure as well as personnel expenditure as a share of total administration expenditures.

Further analyses of personnel and the activities they carry out are required to understand whether staffing norms and standards for personnel in administration personnel are feasible.

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## 5. Annexures

### 5.1 Annexure A: Proposed lowest level objective for P1

The table below shows the proposed lowest level objectives. Not all these necessarily have to be used by provinces – but if they do record certain allocations against P1, they must use these descriptions.

General principles:

- P1 should only carry the costs of running programme 1 and costs of transversal systems. Whatever can logically be allocated to other programmes, should be allocated to other programmes.
- Health should carry the cost of Rates and Taxes; not Public Works.

Objectives	What should be recorded against this?	What is not for
Human Resources	Both for programme 1 and transversally in the province, including wellness.	It is not a placeholder for the payment of salaries
Finances	Activities related financial management, including: <ul style="list-style-type: none"> <li>• Financial Accounting;</li> <li>• Management Accounting;</li> <li>• Budget Administration;</li> <li>• Bookkeeping;</li> <li>• Revenue;</li> <li>• and Salary Admin</li> </ul>	
Internal audit	I propose we separate this out because Internal Audit is centralised in the province in some provinces. Including: <ul style="list-style-type: none"> <li>• Fraud and anti-corruption;</li> </ul>	
Clinical Support	Transversal coordination in the provinces of: <ul style="list-style-type: none"> <li>• Health Programmes;</li> <li>• Nursing services;</li> <li>• Laboratory services;</li> <li>• Pharmaceuticals;</li> <li>• Community based programmes</li> </ul>	Not Epidemiology or Information Research
Supply Chain Management	Both for programme 1 and transversally in the province, including: <ul style="list-style-type: none"> <li>• Governance;</li> <li>• Asset management;</li> <li>• Logistics;</li> <li>• Acquisition</li> </ul>	
Legal services	Both in- and outsourced, including: <ul style="list-style-type: none"> <li>• For medico legal claims, SCM and all other legal costs</li> <li>• Preparation of legislation and contracts</li> </ul>	Medico-legal claims

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Medico-legal claims	Claims paid	
Infrastructure	None – all Infrastructure expenses should be debited to P8	<ul style="list-style-type: none"> <li>• Infrastructure Planning;</li> <li>• Hospital Revitalization Programmes;</li> <li>• Securing;</li> <li>• Lundry;</li> <li>• ICT Infrastructure</li> </ul>
Strategic Planning	Both for programme 1 and transversally in the province, including: <ul style="list-style-type: none"> <li>• Monitoring &amp; Evaluation;</li> <li>• Epidemiology</li> </ul>	
Information Technology	Both for programme 1 and transversally in the province, including: <ul style="list-style-type: none"> <li>• ICT Infrastructure;</li> <li>• Information Technology management/services;</li> <li>• ICT Operation</li> </ul>	
Head of department	<ul style="list-style-type: none"> <li>• Office of the HOD</li> <li>• Office of the MEC/HOD;</li> <li>• Communication - Public communication and marketing; Services marketing and health promotion; communication</li> </ul>	
Corporate Services	<ul style="list-style-type: none"> <li>• Security services (only for P1)</li> <li>• Corporate service centre management;</li> <li>• Fraud management</li> </ul>	Not legal services

### ***Annexure A: How administration posts are appointed.***

The following diagram shows the processes and rules followed in appointing administration posts. Given the rank and type of posts considered, there may be slight variations from the illustration below.

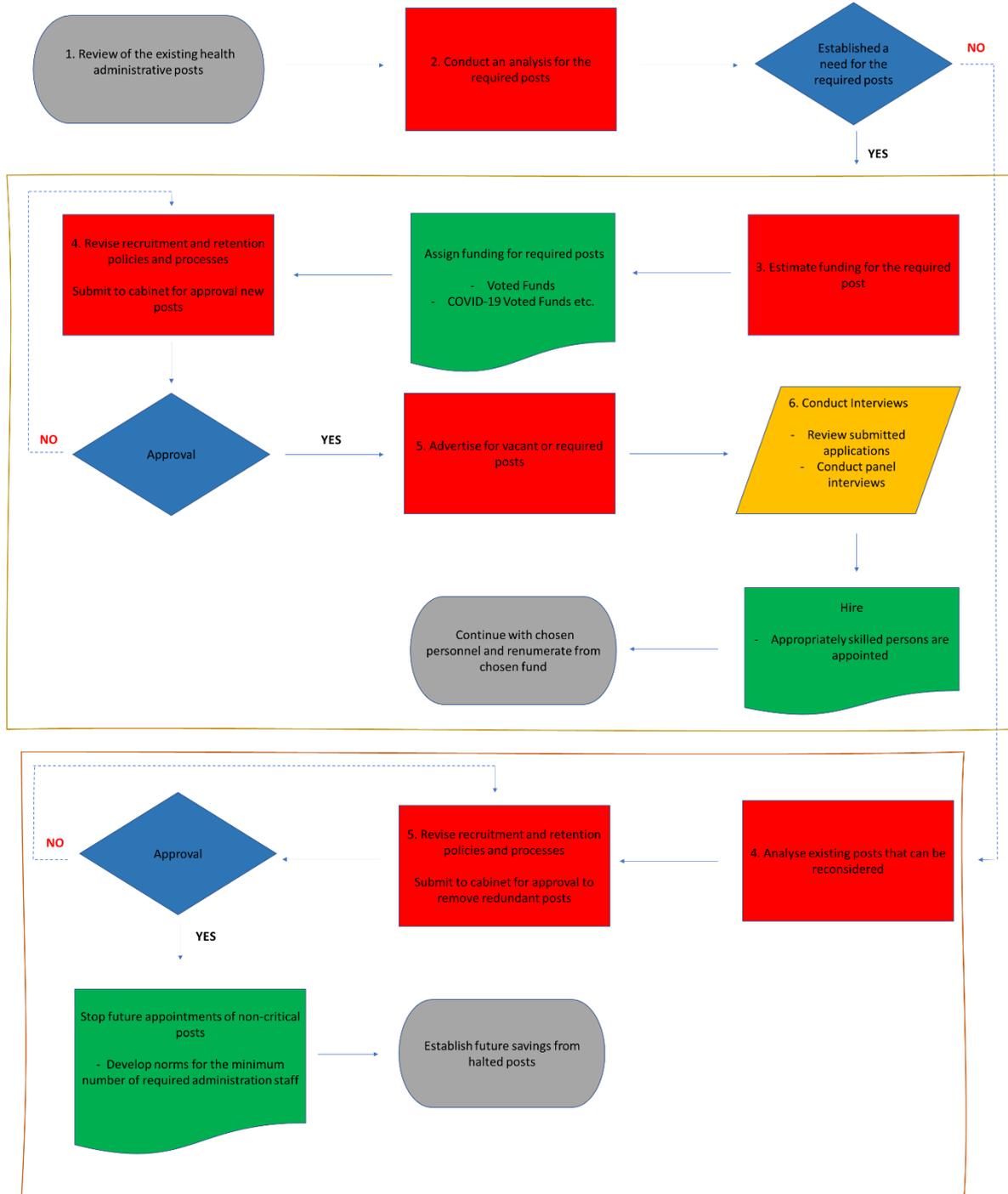
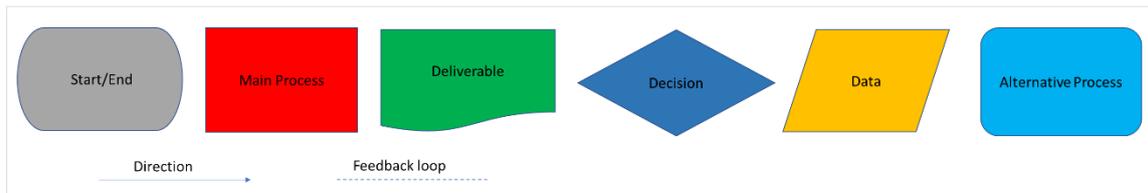
An analysis by the Budget & Expenditure and Human Resources Management directorates is conducted for post lists, for administrative staff that already exists in the system and those that potentially must be appointed.

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**Process Map for Administration Posts**



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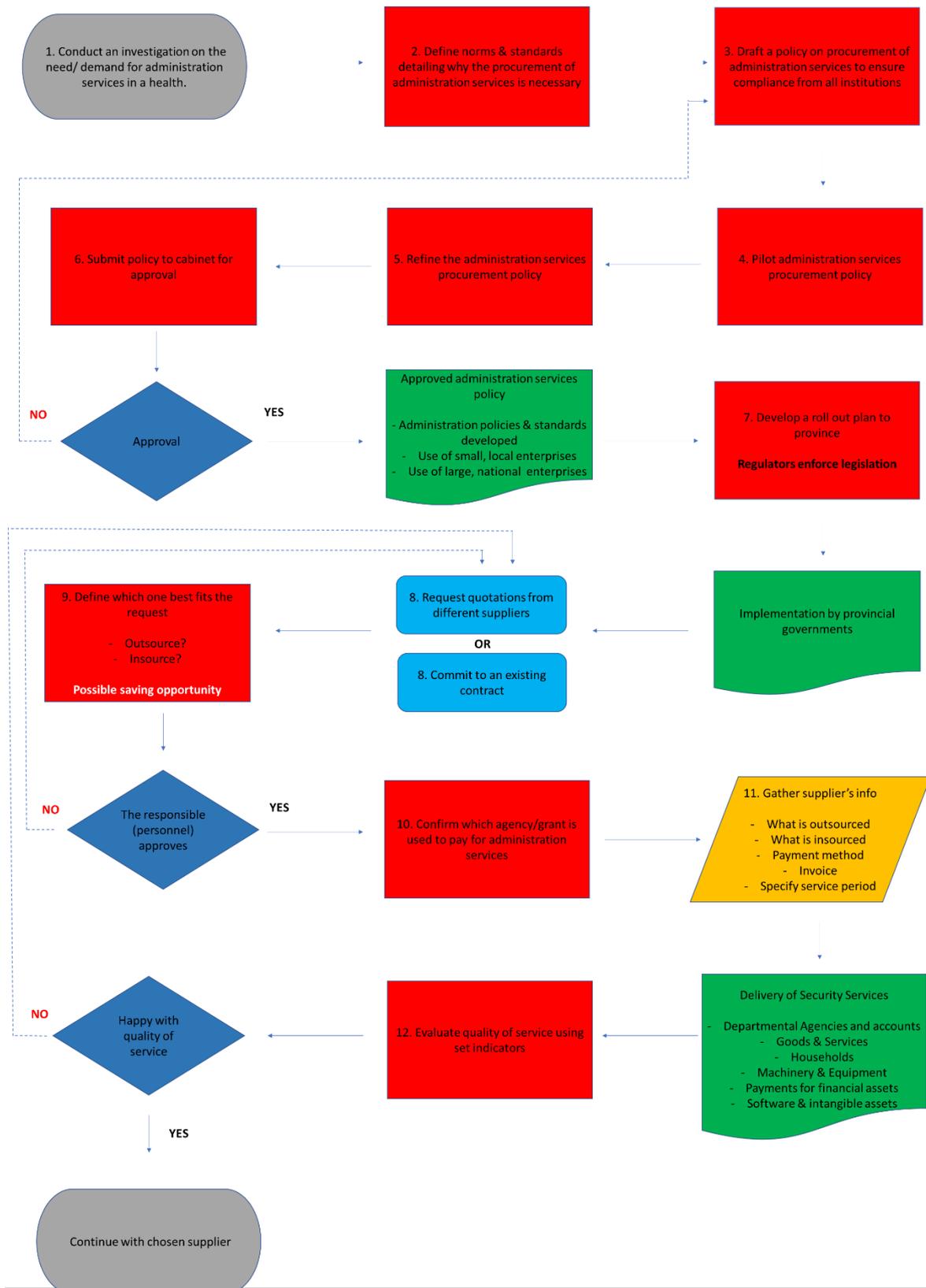
## **5.2 *Annexure B: Process map for procurement of administration services.***

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## Process Map for Administration Services



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### 5.3 Annexure C: Investigative Analysis on comparative costs

Gauteng and North West have the highest expenditures of 6.4% and 6.0%, respectively. This is roughly double the country's average at 3.5%. In Gauteng, contributing to this high expenditure is Consumable Supplies with 2.8% of the 6.4%. In North West contributing to this high expenditure is Property Payments, also with 2.8% of the 6.0%.

In Gauteng, the replacement of consumable supplies with the country's average of 0.3% expenditure will bring its total administration expenditure to 3.91%. Similarly, in North West, replacement of property payments with the country's average of 0.3% expenditure, will bring its total administration expenditure to 3.6%.

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#### Gauteng Consumable Supplies

The purpose of this investigative analysis is to interrogate Gauteng and North West provinces with regards to their high expenditure in Consumable Supplies and Property payments, respectively.

The following table shows consumable supplies for the 2020/21 financial year along with the compound average growth rate from the 2018/19 financial year to 2020/21 financial year per province.

**Table 5: Consumable Supplies from 2018/19 to 2020/21 financial year and their respective CAGR.**

National_Provincial	2018/2019	2019/2020	2020/2021	CAGR
<b>Gauteng</b>	<b>R 117 744</b>	<b>R 601 255</b>	<b>R 1 628 902 899</b>	<b>11662%</b>
Western Cape	R 284 982	R 521 780	R 21 446 931	768%
Northern Cape	R 464 486	R 2 483 607	R 3 189 486	162%
Mpumalanga	R 201 284	R 2 009 083	R 986 624	121%
KwaZulu Natal	R 14 278	R 227 641	R 63 967	112%
Limpopo Province	R 449 265	R 567 690	R 1 021 215	51%
North West	R 1 054 549	R 1 912 072	R 729 558	-17%
Eastern Cape	R 957 118	R 780 444	R 485 381	-29%
Free State	R 1 378 249	R 128 083	R 35 029	-84%
Average	R 546 884	R 1 025 739	R 184 095 677	1735%

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Gauteng has shown the greatest growth in *consumables supplies* expenditure, going from a thousand rands to R1.6billion between the 2018/19 and 2020/21 financial years. Gauteng showed a CAGR of 11662%, which pulled the overall average up to 1735%. Western Cape, Northern Cape, Mpumalanga and KwaZulu Natal, all showed a CAGR above 100%, which is indicative of a supposed increase in demand for the *consumable supplies*, probably due to COVID. However, to this contrary, a decrease in expenditure on *consumable supplies* is seen in North West, Eastern Cape, and Free State, for the same period.

Nonetheless, the average expenditure for consumables supplies is just below R1 Million between 2018/19 and 2019/20. With the exclusion of Gauteng, the average expenditure in the 2020/21 financial year would be R3 Million.

The following table shows the breakdown of consumable supplies (item level 5 in BAS) for the 2020/21 financial year in Gauteng.

**Table 6: Gauteng Item Segment as a percentage of total Consumable Supplies from 2018/19 to 2020/21 financial year.**

Item_Level_5	2018/19	2019/20	2020/21
<b>Cons Supp:Medical Supplies</b>	<b>0%</b>	<b>0%</b>	<b>86%</b>
Cons Supp:Household Supplies	38%	8%	12%
Cons Supp:Uni/Prot Clth&Clothes	0%	31%	1%
Cons:Laboratories Consumables	0%	0%	0%
Cons:Contraceptives	0%	0%	0%
Cons:Materials & Supplies	2%	2%	0%
Cons:Bags & Accessories	0%	0%	0%
Cons:IT Consumables	8%	43%	0%
Cons Supp:Gifts & Awards	3%	15%	0%
Cons:Photographic Cons	0%	0%	0%
Cons:Communication Accessories	0%	1%	0%
Cons:Security Access Consumables	2%	0%	0%
Cons Supp: Uniform & Clothing	47%	0%	0%
Cons:Medical Kit	0%	0%	0%

In the 2020/21 financial year, medical supplies make up 86% of expenditure of consumables in Gauteng. This is a total of R1.4 billion of the R1.6 billion spent on consumable supplies,

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which can be attributed to COVID. In addition, Gauteng as a central province could have been a hub for some provincial consumable supply orders, and for distribution to relevant provinces.

Shown below is the objective segment for consumable supplies as per BAS in the 2020/21 financial year.

**Table 7: Objective Segment of Consumable Supplies in the 2020/21 financial year for Gauteng**

Objective_Lowest_Level	2020/2021	
covid 19 disaster response	R	11 599 744
management health - covid 19	R	150 117 925
management health - covid 19	R	1 171 708
provincial minister	R	913
<b>Total</b>	<b>R</b>	<b>162 890 290</b>

**Table 11** shows that the funds spent on consumable supplies are due to COVID-19 related activities, as shown by the corresponding objective segment.

If this expenditure is brought down to the national average of R20 million, total savings of R1.6 billion could be achieved.

### North West Property Payments

The following table shows property payments for the 2020/21 financial year, along with the compound average growth rate seen from the 2018/19 financial year to the 2020/21 financial year per province.

**Table 8: Property Payments from 2018/19 to 2020/21 financial year and their respective CAGR.**

National_Provincial	2018/2019		2019/2020		2020/2021		CAGR
North West	R	16 065 560	R	22 217 216	R	389 331 693	392%
Western Cape	R	156 302	R	164 920	R	824 202	130%
Gauteng	R	4 873 382	R	7 055 170	R	12 518 233	60%
Northern Cape	R	4 254 400	R	4 502 561	R	6 919 083	28%
Mpumalanga	R	4 060 433	R	5 419 948	R	4 360 385	4%
Limpopo Province	R	10 065 235	R	13 495 239	R	10 234 436	1%
KwaZulu Natal	R	34 037 400	R	38 933 135	R	34 225 330	0%
Eastern Cape	R	1 009 930	R	567 299	R	700 593	-17%
<b>Average</b>	<b>R</b>	<b>9 315 330</b>	<b>R</b>	<b>11 544 436</b>	<b>R</b>	<b>57 389 244</b>	<b>148%</b>

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\*Free State has no property payments allocated under administration programme 1.

Seemingly, growth in expenditure for property payments was more significant in North West than the rest of all other provinces from 2018/19 to 2020/21 with a CAGR of 392%. On the other hand, KwaZulu Natal, Limpopo and Mpumalanga showed little to no increase in their property payments expenditure for the same period. Although Gauteng, Northern Cape and Western Cape showed an increase in expenditure, they all had a CAGR below average.

The average expenditure for Property Payments in 2018/19 and 2019/20 financial years is below R12million. With the exclusion of North West, the average in 2020/21 is just below R 10million.

The following table shows the breakdown of property payments (item level 5 in BAS) for the 2020/21 financial year, along with the compound average growth rate seen from the 2018/19 financial year to the 2020/21 financial year in North West.

**Table 9: North West Item Segment Property Payments from 2018/19 to 2020/21 financial year and their respective CAGR.**

Item_Level_5	2018/2019	2019/2020	2020/2021	CAGR
P/P:Security	R 11 942 184	R 18 588 812	R 357 540 597	447%
P/P:Maintenance	R 189 339	R -	R 4 941 632	411%
P/P:Municipal Serv.	R 2 728 768	R 2 909 741	R 26 330 946	211%
P/P:Cleaning Serv.	R 1 586 695	R 361 264	R 518 518	-43%
Total	R 16 446 986	R 21 859 816	R 389 331 693	392%

Contributing to this high expenditure seen in property payment is mainly security, making up 92% of total expenditure in 2020/21. In addition, maintenance, and municipal services both have a CAGR of more than 200%, which also contributed to the overall higher expenditure for property payments in 2020/21. The increase can be inferred to a COVID-19 related response, although further engagements with the province can reveal the resulting cause of this.

If security in 2020/21 is brought down to the average of the two previous financial years (2019/20 and 2018/19), the total property payments for 2020/21 would be R47million. Consequent to that a total of R342million in savings could be realised.

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## 5.4 Annexure D: Proposed Administration Objectives Analysis

The 2018/19 FY 'Proposed Administration Objective' as a percentage of total expenditure for each province is shown below.

**Table 15: 2018/19 Proposed Administration Objective as a percentage of total expenditure per province**

	2018/2019 Responsibility Lowest Level Assigned Category									TOT
	EC	FS	GT	KZN	LIM	MP	NW	NC	WC	
Finance	15%	32%	17%	26%	22%	27%	19%	33%	11%	20%
Corporate	17%	0%	50%	6%	2%	9%	0%	3%	0%	17%
IT	19%	14%	10%	18%	3%	12%	3%	3%	21%	13%
HR	11%	12%	5%	11%	14%	8%	10%	10%	28%	12%
Clinical Support	11%	2%	8%	9%	10%	0%	13%	10%	23%	11%
SCM	6%	10%	4%	8%	19%	5%	23%	9%	6%	8%
Legal	9%	8%	1%	3%	2%	25%	9%	4%	0%	5%
HOD	5%	10%	1%	5%	7%	5%	8%	18%	3%	5%
Infrastructure	3%	4%	2%	5%	7%	0%	8%	2%	0%	3%
Planning	2%	3%	1%	4%	6%	5%	2%	3%	4%	3%
Wrong Allocation	1%	3%	1%	2%	8%	0%	3%	5%	2%	2%
Communication	1%	2%	1%	2%	0%	3%	1%	1%	2%	1%

In the 2018/19 financial year, 50% of expenditures were made up of finance, corporate services, and IT. For finance and corporate services, KwaZulu Natal and Gauteng make up the highest expenditure which can be attributed to the large populations they serve.

Above the average of 8% was HR and clinical support as seen in the total column, for which Western Cape contributes the highest expenditure.

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The 2019/20 FY Proposed Administration Objective as a percentage of total expenditure for each province is shown below

**Table 16: 2019/20 Proposed Administration Objective as a percentage of total expenditure per province**

	2019/2020 Responsibility Lowest Level Assigned Category									
	EC	FS	GT	KZN	LIM	MP	NW	NC	WC	TOT
Finance	17%	27%	16%	19%	24%	24%	17%	23%	14%	18%
IT	13%	10%	24%	17%	3%	16%	2%	3%	19%	16%
Corporate	16%	0%	41%	8%	2%	8%	0%	4%	0%	15%
HR	13%	14%	4%	12%	14%	7%	9%	11%	26%	12%
Clinical Support	12%	2%	6%	9%	9%	0%	12%	10%	24%	10%
SCM	6%	12%	4%	12%	18%	4%	30%	12%	8%	10%
Legal	10%	13%	0%	6%	2%	28%	12%	7%	0%	6%
HOD	5%	11%	1%	5%	8%	5%	5%	17%	3%	5%
Infrastructure	3%	4%	2%	5%	8%	0%	10%	2%	0%	3%
Planning	2%	3%	1%	4%	5%	3%	2%	3%	4%	3%
Communication	2%	2%	1%	4%	0%	5%	1%	1%	2%	2%
Wrong Allocation	2%	2%	1%	1%	8%	0%	0%	7%	0%	2%

In the 2019/20 financial year, roughly 50% of expenditures were made up of finance, IT, and corporate services. Gauteng spent significantly more than other provinces for IT and corporate services.

Above the overall average was also HR and clinical support, for which Western Cape makes up more than 24% of expenditure for both.

The 2020/21 FY 'Proposed Administration Objective' as a percentage of total expenditure for each province is shown below

**Table 17: 2020/21 Proposed Administration Objective as a percentage of total expenditure per province**

	2020/2021 Responsibility Lowest Level Assigned Category									
	EC	FS	GT	KZN	LIM	MP	NW	NC	WC	TOT
SCM	5%	14%	61%	6%	19%	4%	15%	10%	5%	30%
Finance	16%	30%	5%	12%	25%	28%	9%	19%	34%	14%
Clinical Support	11%	3%	2%	37%	6%	0%	6%	9%	24%	12%
IT	16%	10%	9%	14%	4%	13%	1%	4%	15%	10%
Corporate	15%	0%	15%	4%	2%	7%	0%	6%	0%	9%
HR	13%	15%	2%	7%	15%	8%	5%	9%	15%	7%
Infrastructure	3%	4%	1%	3%	7%	0%	47%	3%	0%	6%
Legal	12%	3%	0%	6%	1%	20%	6%	10%	0%	3%
HOD	4%	12%	2%	3%	8%	7%	3%	21%	2%	3%
Communication	1%	2%	1%	6%	0%	10%	1%	1%	2%	2%
Wrong Allocation	2%	3%	2%	0%	8%	0%	5%	7%	0%	2%
Planning	2%	4%	1%	3%	5%	4%	1%	3%	3%	2%

**DISCLAIMER:**

This document is not for quoting or circulation. It was done as part of the NT training exercise on the spending review methodology and is intended for discussion purposes. Furthermore, there were some data limitations and both the appropriate level of information, and its correctness could not be independently verified.

In the 2020/21 financial year, making up over 50% of administration expenditures was SCM, finance and clinical support related activities. Gauteng made up the majority of the SCM expenditure; Western Cape the finance portion, and KwaZulu Natal the clinical support expenditure. Above the overall average of 8% was IT and corporate-related activities.

The following table shows the total percentage expenditure of all three financial years (2018/19 to 2020/21) in each Proposed Administration Objective for a given responsibility level across all provinces.

**Table 18: 2018/19, 2019,20 and 2020/21 'Proposed Administration Objective' as a percentage of combined total expenditure**

	2018/19	2019/20	2020/21	AVG
Finance	20%	18%	14%	17%
SCM	8%	10%	30%	16%
Corporate	17%	15%	9%	14%
IT	13%	16%	10%	13%
Clinical Support	11%	10%	12%	11%
HR	12%	12%	7%	10%
Legal	5%	6%	3%	5%
HOD	5%	5%	3%	4%
Infrastructure	3%	3%	6%	4%
Planning	3%	3%	2%	2%
Wrong Allocation	2%	2%	2%	2%
Communication	1%	2%	2%	2%

Making up 60% of all expenditure is Finance, SCM, Corporate Service and IT, all of which are main administration services. In line with the individual assessment of financial years as seen above, Clinical Support and HR also contribute a higher percentage of 11% and 10% respectively; This is above the average of 8% for all categories combined.

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