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National Treasury
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Party Time with Government:

A review of events/international trips in KZN departments

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SAVINGS@WORK

GOVERNMENT SPENDING REVIEWS

Summary

Provincial events are costing far more to the fiscus than initially thought. ~~M~~any events are not forwarded to Provincial Treasury for approval, thus undermining efforts to control costs and increasing the amount of irregular expenditure that departments declare.

Provincial Treasury needs better controls to be implemented in the compiling of it's events register, as well as to be able to highlight the large gap of R145.996 million between approved spending on events requests and actual costs as per the Basic Accounting System.

Departments need to reconcile their actual events for 2019/20 with those recorded in the register to determine the extent of the problem and to ensure that this is reduced going forward.

Departments also need to take pricing norms for event services into account when sourcing quotations from suppliers, to ensure value for money. These will be regularly updated (every six months) by Provincial Treasury to ensure that inflation is taken into account.

Contents

1. Introduction

Over the past four financial years (2015/16 to 2018/19), the province has spent more than R1.411 billion on events, averaging more than R350 million per year. In the current climate of less and less money available for service delivery and expected budget cuts, departments and public entities need to identify areas of savings and wasteful expenditure, and redirect these savings to other more service delivery-based areas. The focus of these savings should include over-priced services provided at events, as well as events that are not part of departments' core mandates:

a)   What costs are departments/public entities incurring with respect to events since the beginning of 2018/19? These costs were reviewed at the level of services provided (marquees, catering, transport, accommodation, etc.)

b)   Are events directly related to the core mandate of departments?

c)   What are the main drivers of costs for events?

d)   Can costing norms be established for the various services provided at events to force departments to negotiate better prices from service providers?

2. Policy and Institutional Information

The programme of monitoring departmental/public entity events and international trips began after the financial crisis of 2008, as well as the more than R3 billion bank overdraft incurred by the province in 2009/10. Provincial Treasury was thus mandated by EXCO to verify and monitor areas of potential cost containment. The Public Finance unit within Provincial Treasury was identified as the centre where this programme would be controlled from, with each budget analyst within the unit responsible for their client department's/public entity's cost containment measures.

Provincial Treasury issued a cost-cutting circular setting out areas to be targeted for cost containment. The circular is updated annually and is constantly refined and amended as experience has shown that some initial cost-cutting measures were poorly defined. Each

year, new measures were identified and, in addition, National Treasury also began issuing their own cost-containment measures and alignment with these was required. (Annexure 3 – 2019/20 cost-cutting circular)

Until recently, the system was driven by the 10 budget analysts in the Public Finance unit in relative isolation from one another. There was no central register and no co-ordination of costs for events, resulting in no cost norms being established. After April 2019, a full time staff member was appointed to manage and monitor the process, who developed a central register of event requests received (Annexure 4). In December 2019, this register was improved to determine costing norms for various services provided at events (marquees, chairs/tables, stage/sound, toilets, security, etc.), with three months data captured from October to December 2019. The three months-worth of data from more than 160 events has provided sufficient current costs for norms to be established.

3. Programme Chain of Delivery

The process for approval requires that the department submit a formal request to Provincial Treasury to hold an event. The request should include a submission, authored by the line function unit hosting the event and signed off by the Chief Financial Officer and the Accounting Officer of the requesting department, setting out the nature of the event and motivation as to why it is necessary, as well as how it links to the department's core mandate.

The submission should be accompanied by at least three quotations for all services at the event that will incur a cost. If there are less than three quotes, then the normal Supply Chain Management (SCM) procedures and rules for deviation would be applied (if less than R500 000 then accounting officer could approve and if more than R500 000 then Provincial Treasury approval for deviation is required).

In addition, the complete submission (formal request and all quotations) should reach Provincial Treasury at least five working days before the proposed event, to allow the

relevant analyst time to assess the request and, if necessary, interact with the department to address any concerns or omissions. Once the analyst is satisfied, then a letter of approval is prepared and sent for signature. The approval can only be signed by the Head of Provincial Treasury or the Deputy Director-General: Sustainable Resource Management. Once signed, the approval letter is sent to the department, who can then finalise the events logistical arrangements.

This process is intended to ensure that all the required cost limits, as set out in the cost-cutting circular, are met. The process is ultimately intended to bring some control into the number of events held, as well as reduce costs. Until relatively late in 2019, the extent of control was dependant on the individual analyst at Provincial Treasury, and standards did differ from one department to the next (such as leniency on the five working-day rule, as well as differing norms applied to costing of items procured). With the introduction of a single person processing the requests, these problems are largely eliminated. There are still event requests where senior staff intervene and instruct that an event must be approved despite time-frame requirements/costing limits not being met, but they feel that the event needs to proceed regardless of these issues.

4. Expenditure Observations

The data for this PER was sourced from the following:

Basic Accounting System (BAS), with complete annual records from 2015/16 to 2018/19, as well as the current year (2019/20), with data available from 1 April 2019 to 30 November 2019 (Annexure 2). Data items used were audio-visual, stage and sound, event promoters, artists and performers, transport for events, as well as venues and facilities. Note that the costs are probably understated as these items are not a conclusive list as other possibly relevant items are not used exclusively for event costs, such as accommodation.

The register of events as recorded at Provincial Treasury. As mentioned, the register was started in April 2019, with the arrival of a dedicated person to record and process event

requests, replacing the 10 analysts who did this previously. The register was incomplete at the time of commencing this PER and some essential data had to be obtained from the source documents, and additional sheets were added for the determination of norms.

Table 1: Event spending per department

R'000	2015/16	2016/17	2017/18	2018/19	2019/20
Office of the Premier	77 993	64 824	115 477	150 766	85 116
Agriculture and Rural Development	11 211	8 622	6 313	6 108	7 379
Economic Development, Tourism and Environmental Affairs	23 652	23 873	12 645	21 662	17 404
Education	18 700	23 155	23 496	27 845	9 444
Provincial Treasury	418	1 368	1 234	1 637	1 280
Health	4 169	1 439	1 520	1 932	1 261
Human Settlements	2 817	2 047	1 326	1 589	1 589
Community Safety and Liaison	18 597	12 021	9 557	7 972	3 649
Sport and Recreation	118 012	94 277	87 629	89 577	54 487
Co-operative Governance and Traditional Affairs	34 999	56 835	17 675	33 044	31 595
Transport	15 009	13 756	16 612	10 758	11 952
Social Development	6 234	5 096	5 692	2 885	2 987
Public Works	669	977	246	1 072	597
Arts and Culture	25 153	25 340	35 615	32 587	29 111
TOTAL	**357 633**	**333 630**	**335 037**	**389 434**	**257 851**

Note: Spending in 2019/20 is for 8 months only

Spending on events for the province as a whole was significantly higher than anticipated. It was expected that events would total approximately R100 million per year, based on the number of events requested for approval by departments and their values. However, the annual total for the province for 2015/16 to 2018/19 averaged more than R350 million, with 2018/19 the highest at almost R390 million. More than R257 million was spent in the first eight months of 2019/20, on track to exceed the yearly average.

This discrepancy between the anticipated spending and actual costs has highlighted what was long suspected, that departments were not submitting all events to Provincial Treasury for approval. Further investigation will have to be undertaken to determine whether this is intentional on the part of departments, or whether it is an oversight by event organisers.

The second notable observation is that the Office of the Premier, an oversight department, is the highest spending department in the last three years, which is surprising as it is not a line function/service delivery department. The department attributes the high spending to its programme of Moral Regeneration and Social Cohesion, which is aimed at addressing a

variety of social ills including gender-based violence, declining family values and xenophobia, among others.

5. Performance

The determining indicators for the success/failure of the events held were not part of this PER. The ultimate aim was to determine if departments were paying fair value for the services hired to support the various events. The unit costs for various services were identified by obtaining the quotations submitted and accepted for events from October to December 2019. These costs were then captured on a spreadsheet and simple scatter graphs created to determine the most common price charged for a service. This was also compared to the average price for the same service. As there are numerous categories of services, not all graphs are shown in this PER, but the following are of interest:

Graph 1 – costs for 3 000 seater marquees as hired from October to December 2019
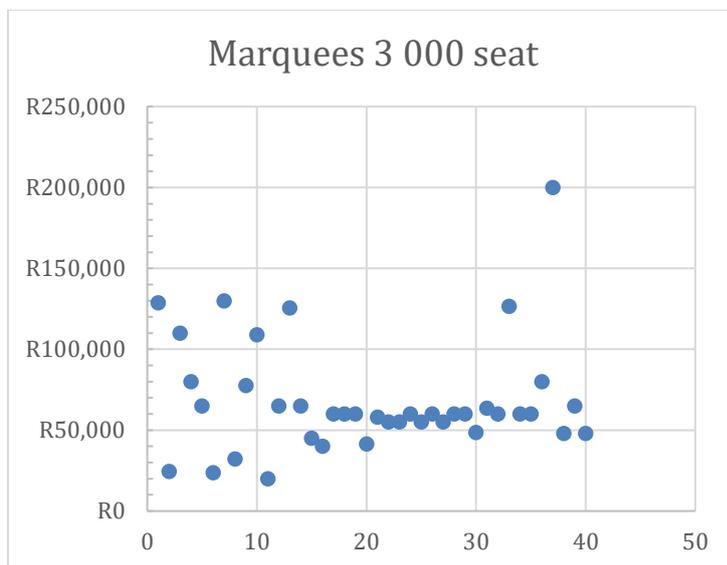
A 3 000 seater marquee was hired 40 times in the assessment period by all departments. The cheapest was R23 719.00 with seven occasions being more than R100 000.00 and the most expensive at R200 000.00. The most common price was R60 000.00 while the average was at R68 513.00. The average is high due to these seven outliers.

Graph 2 – costs for sound systems as hired from October to December 2019
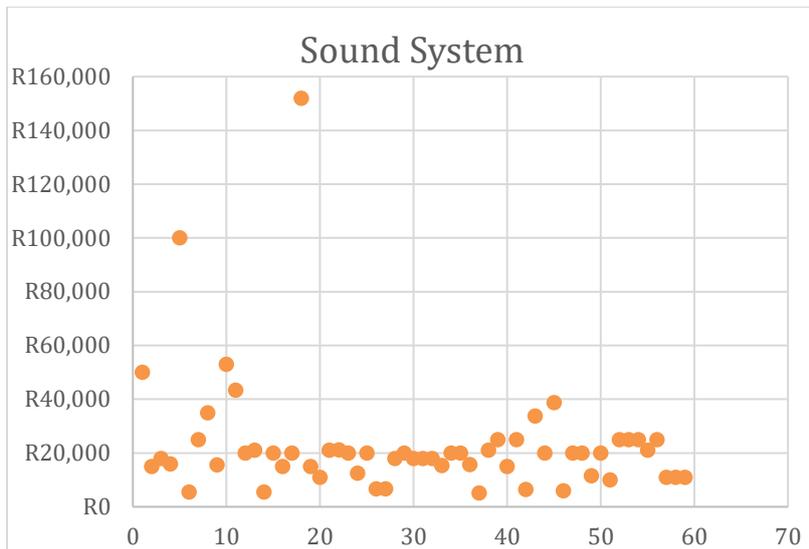
Sound System

A sound system was hired 60 times for events across all departments during the assessment period. The cheapest was R5 175.00 while, on a number of occasions sound systems costs in excess of R40 000.00, with the most expensive being R152 000.00 and R100 000.00. However, the norm was noted at R20 000.00 while the average was at R23 032.00. The average is high due to the outliers over R40 000.00. Sound systems do vary in size depending on the size of the venue and audience. Most of the events are at a maximum of 3 000 people and the norm is based on this. Leeway on price is considered if events are notably smaller or larger than the norm

Graph 3 - costs for performing artists as hired from October to December 2019

Entertainment
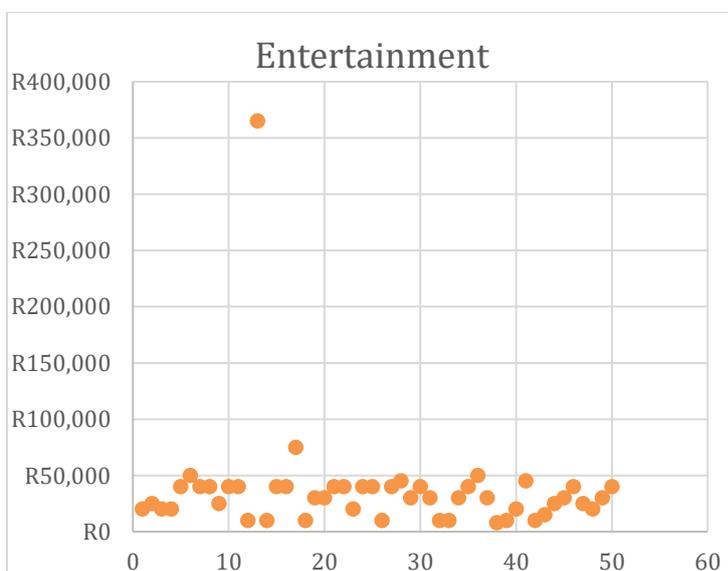
Performing artists were hired 50 times for events in all departments over the assessment period. There is a policy in the province that departments must hire artists approved by the Department of Arts and Culture (DAC), to promote local emerging artists. The department's pricing structure is referred to in the Provincial Treasury's cost-cutting circulars (Honoraria and Special Payments – Annexure 5). It is interesting to note that this policy seems to be effective as the costs are limited to be largely below R40 000.00 per event. This norm is based on two artists per event with a cost of R20 000.00 per artists, which is largely in line with the DAC policy norms.

Table 2: Norms vs Averages (R'000) as established from October to December 2019

Service	Norm	Average
Marquees 1 500 seat	60 000	68 513
Marquees 500 seat	40 000	44 708
Marquees 150 seat	10 000	13 712
Marquees 50 seat	5 000	7 904
Chairs (per chair)	3 000	3 815
Chair covers (per cover)	5	7
Tables	12	16
Table Cloths	70	54
Sound System	70	82
Toilets	20 000	23 032
Disabled Toilets	1 200	1 512
Stage	3 500	4 225
Speed Fence (300 m)	8 000	10 925
Safety Officer	20 000	21 085
Lightning Conductor	15 000	16 061
Podium	3 000	3 837
Generator	1 000	1 032
Entertainment	20 000	6 976

2. The name and purpose of the event is also captured and assessed to see if it matches the mandate of the department, which is does in most cases. There are events where the theme is clearly not the department's mandate. For example, the Department of Social Development held a "Planting Season" event, which is clearly the mandate of the Department of Agriculture and Rural Development. In these cases, the issue is

raised with the senior management of Provincial Treasury before any approval is given.

6. Options

The main role-player that needs to be doing things differently is Provincial Treasury. The events register was not designed in the most logical way and was ignoring Excel best practices. These include ensuring all fields are captured, even if they have no value (capture zero for a blank field). The register has incorrect information in some fields (dates captured in a field for the number of attendees at an event, for example) and formulas are not used in all total columns, or for VAT calculations. Until the preparation of this PER, no formal determination of norms was done, with these arrived at largely through educated guesswork. In fact, averages were more commonly used. Provincial Treasury had started to apply the norms in its assessment of event requests, but only based on these educated guesses. In addition, the application of norms in limiting costs was only recently started (October 2019).

Provincial Treasury will also need to be more proactive in monitoring event costs. It has been proven that relying on departments' to apply for approval for all events is not a failsafe process and many events are not sanctioned by Provincial Treasury. Thus better use of BAS will be required to assist in determining when events are not being forwarded to Provincial Treasury for approval. This will have to be a monthly process as finding out well after the time (such as at the end of the financial year) is not useful and allows bad practices to persist, as well as results in irregular expenditure.

Departments should consider preparing an annual events plan as part of their Annual Performance Plan. Departments will also have to start planning their events in a more organised way. Particularly, they need to be prepared to utilise the determined norms to negotiate better prices for services, which should result in reduced costs. Departments also need to consider how event documentation is prepared and forwarded to Provincial Treasury. The best practice seems to be that of the Department of Health, where a single

component co-ordinates all event requests to be submitted to Provincial Treasury. This component is fully conversant with all the various cost-cutting circular requirements and ensures that event organisers within the department comply with these requirements. In most other departments, event requests are submitted to Provincial Treasury directly from event organisers, which means there are many components active in this area, making controls difficult to implement.

7. Recommendations

1. The Provincial Treasury register needs to be reviewed and corrected to allow for better analysis of historical data. For example, one cannot currently use filter functions due to blank fields or to inconsistent data, such as place names being misspelt. The register is also cumbersome in that it tries to capture both the requested costs and the approved costs with no clear indication as to which is which.

2. The register is also used as a basis to determine unit costs for services, but this was found to be very inconsistent and an additional spreadsheet had to be added for this PER with unit costs captured from the original source documents (a fairly tedious and lengthy process). It is recommended that the current norms that were established in this PER be valid for six months, and that, in mid-2020, a three-month exercise of capturing unit costs be undertaken (on a separate register) to re-evaluate the norms for inflationary increases. This should then become a six-monthly process to ensure norms are continually corrected for inflation.

3. The norms should be made available to all departments so that they can be applied at the procurement stage of preparing for events. This would reduce the back-and-forth process once a request is received at Provincial Treasury as departments would be aware of the cost limits on the various services and would negotiate with suppliers accordingly.

4. Departments need to be encouraged to centralise the submission of event requests to one component, which would then co-ordinate all events from all line function programmes. This should be within the Supply Chain Management components in departments as this is the final source of information for requests, namely the obtaining of quotations to support the event request.

8. Actions

1. The 2019/20 register is being corrected for data omissions, blank fields and formula errors/omissions.

2. The 2020/21 register will be redesigned as recommended by the end of February 2020 to prepare for the receipt of event requests for the new financial year.

3. All departments have been formally requested by circular (Annexure 6) to reconcile their actual events with those contained in the Provincial Treasury register in an effort to ensure that all events are accounted for. This is to allow Provincial Treasury to understand the scope of the failure to acquire approval for events, as well as to send a message that this issue is being monitored and should be addressed by all Accounting Officers/CFOs.

4. Information from this PER has already been included in a submission to the MEC for Finance regarding events. Prior to this PER there was already a concern regarding the scale and cost of events. The data from this PER indicating the high costs incurred by the Office of the Premier has ensured that the focus is on this department to start with. The MEC has sought more information on all the events held to establish whether they are necessary, and whether fair value has been obtained.

5. The register for 2020/21 events will be redesigned in February 2020 to ensure a better quality record is kept, with greater Excel functionality for future analysis and reporting.

6.   The norms for services will be issued to all department once senior management have approved the methodology and findings.

7.   Provincial Treasury is exploring the option of making the use of a project code on BAS compulsory from 1 April 2020 for the payment of event costs. This would allow better tracking of total costs.

8.   Findings of this PER, as well as any new developments in revising the events register, will be shared with departmental finance teams at the annual Budget Guidelines workshop in May 2020.

9.   The norms will be reviewed from June to August 2020, with all unit prices for services recorded over this period and used to establish norms for the next six months.