

DCS MTEF outlook and **Strategy/ framework presentation**

Branch: Finance
Date: 25 November 2020



PART A DCS MTEF outlook



OVERVIEW OF IN YEAR PERFORMANCE

- The year-to-date expenditure of the Department as at 30 September 2020 was R12,095 billion (46.69%) against the spending plan of R13,460 billion (51.96%) resulting in R1,364 billion underspending of the projected expenditure.
- All programmes underspent with the exception of Programme Care.
- Underspending during the second quarter was mainly attributable to:
 - Compensation of employees: due to cost of living adjustment that was included in the spending plan, however COLA was there was not implemented
 - Goods and services: impact of lockdown led to reduced general expenditure items such as fleets services, travel and subsistence. Other contributing factors include delays in procurement of materials for rehabilitation programme.
 - Payment of Capital Assets: COVID19, specifically the lockdown had significant impact on spending capital, i.e. delays in infrastructure delivery due to stoppage of construction works, as well as procurement of fleet

OVERVIEW OF IN YEAR PERFORMANCE

Key messages to management:

- The budget for the current financial year has been reduced during the Adjustment of Estimate of National Expenditure, as tabled by Minister of Finance in October 2020
 - An amount of R895 million was reduced on the CoE budget for 2020/21
 - R308 million was also reduced on non CoE budget to fund the SAA business rescue plan
- Notwithstanding the underspending on CoE as reported, it is projected that the department will overspend on its revised CoE allocation by R273 million
- This situation requires management intervention to prevent irregular expenditure in this regard
- Management must review the PERSAL and HRBP tool to ensure alignment of HRBP funded posts against the PERSAL funded established. The variance of 4 300 between the two systems requires urgent intervention
- Lastly, the above will ensure that there is reliable data and information for decision making purposes on recruitment, learnership and any expenditure drivers such as benefits for officials (i.e. implementation of resolutions).

MTEF BUDGET OVERVIEW

Economic classification R,000	2021/22			2022/23			2023/24		
	2020 ENE	Baseline reductions	2021 MTEF allocation	2020 ENE	Baseline reductions	2021 MTEF allocation	2021 MTEF	Baseline reductions	2021 MTEF allocation
Compensation of employees (CoE)	20,027,950	-2,599,753	17,428,197	20,882,411	-3,513,064	17,369,347	21,801,237	-2,670,072	19,131,165
Reversal of wage agreement (last leg)		-1,552,098			-1,897,399				
CoE baseline cut		-1,047,655			-1,615,665			-2,670,072	
Non-CoE	8,537,692	-453,639	8,084,053	8,896,748	-314,821	8,581,927	9,288,855	-219,733	9,069,122
Goods and Services		0			0			0	
Land & Buildings		-453,639			-314,821			-219,733	
Total	28,565,642	-3,053,392	25,512,250	29,779,159	-3,827,885	25,951,274	31,090,092	-2,889,805	28,200,287
% reduction on CoE		-13%			-17%			-12%	
% reduction on non CoE		-5%			-4%			-2%	
% reduction on total vote		-11%			-13%			-9%	

IMPACT OF BUDGET REDUCTION

Impact on human resource capacity

- The baseline reductions (excluding COLA reversal) amounts to R1,047 billion (2021/22), R1,615 billion (2022/23)
- The average cost of personnel in 2019/20 financial year was reported at R397 000 per employee
- Taking into account the above, the cuts is equivalent to 2 639 and 4 069 posts to be forfeited in 2021/22 and 2022/23 respectively. An estimated total of 6 708 posts will be forfeited in the next two financial years.
- 6 708 represents 17% reduction of our current permanent establishment of 38 808 filled posts
- Alternatively, an average of 960 posts reduced per region and head office.

IMPACT OF BUDGET REDUCTION

Strategic reflections and choices

- In light of significant budget cuts which threaten the current organisational form and national footprint of Correctional Services:
 - What will be the operational impact of reduced human resources capacity on the effectiveness and efficiency of correctional centres nationwide?
 - Which strategic choices can we make in reviewing our national footprint i.e. rationalisation and amalgamation of correctional centres
 - What opportunities does the District Development model present to us and how can we leverage on this?
 - Layers of management (i.e. Regional offices and Head office Programme Administration) expenditure for 2019/20 amounted to R2,3 billion, of which R437 million is regional offices whereas R1,9 billion).
 - What are the efficiency gains that would be realised if we reorganise, review and restructure these layers?

IMPACT OF BUDGET REDUCTION

Impact on Infrastructure delivery programme

- The baseline reductions on capital works programme amounts to 436,6 million (2021/22); R314,8 million (2022/23) and R219,7 million
- These cuts will negatively impact on the upgrade, refurbishment and maintenance of existing correctional facilities.
- Suspension of planned construction of new generation correctional centres.

Strategic reflections and choices

- Do we continue building new facilities or upgrade the existing infrastructure?
- Which planned construction and upgrade projects should we suspend or prioritise given the financial constraints?
- How can we expand maintenance using own resources?

BUDGET PRINCIPLES

Key priorities requiring funding

- Capital investment into self sufficiency, agriculture, production and manufacturing (in-sourcing of corporate wear, expansion of agriculture output through hi-tech methods)
- Investment in advanced machinery and equipment for production workshops
- Renewable energy (reducing reliance on electricity grid and containing costs)
- National water security in correctional facilities
- Refurbishment of integrated security systems
- Programme management office

PART B

Strategy/ framework presentation

Branch: Finance
Date: 25 November 2020



INTRODUCTION

Problem Statement

The Department of Correctional Services has in place a Strategic blueprint (Vision 2068), which was developed in 2018. The successful implementation of Vision 2068 is dependent on strategy alignment of support and enabling function amongst others (Finance and Supply Chain). The lack of an integrated Financial Strategy as well as continuous reduction in budgets, projected Departmental expenditure that may exceed its budget allocation currently and in the foreseeable future, poses a threat in attaining the outcomes in Vision 2068. The development and implementation of an Integrated Financial Strategy will prevent the risk of strategy failure as well as improving the financial health of the department.

Legislative requirements

Key legislation governing the operations of the finance function are:

Public Finance Management Act

Treasury Regulations

Preferential Procurement Policy Framework Act

INTRODUCTION

Background information

The strategic imperatives for Branch Finance were developed during the 2018 and 2019 planning sessions. The Branch contributes towards outcome 6, i.e. *high performing ethical organisation*.

The Strategic intent of Finance included the following:

- *Improved compliance levels with laws and regulation*
- *Clean audit outcomes*
- *Increasing revenue and productivity levels*

INTRODUCTION

Situational analysis overview

Fiscal cliff is a point when tax revenues of the State are swallowed up by amongst others, the wage bill, social security payments and debt servicing costs. This state of finances, if not resolved threatens the existence of State-led Correctional Services as we know it today. This remains the most critical driving forces for a financial strategy that will enable the achievement of Vision 2068.

The department's ability to comply to laws and regulations has remained stagnant as evidenced by unqualified audit outcomes, predominantly on Supply Chain Management (i.e. procurement)

The lack of capacity and skills within the Finance function (department wide) occasioned by continued budgetary cuts on CoE calls for rethinking of financial operating model that supports lean administration

PILLARS / KEY FOCUS AREAS

- Goals and aspirations of Finance function
- Strategic context
- Assessment of performance and capabilities (internal)
- Assessment of Economy Efficiency and Effectiveness of Core operations
- Stakeholder analysis and expectations
- Defining Finance vision
- Identification of strategic objectives and intents
- Setting strategic targets
- Configuration
 - Review, reorganise and restructure
 - Define the SCM operating model (as-is vs to-be)
 - Identify and prioritise change initiatives
- Implementation plans
 - High level business case
 - Defining roadmap and outputs
 - Communication strategies
 - Specific strategies(sourcing strategies, financial strategies, compliance frameworks, risk management)
- Resourcing
- Governance structures

INTENDED OUTCOMES OF THE STRATEGY

What do you wish to achieve

- An effective and efficient finance function that supports financial sustainability of the institution to achieve:
 - *Improved compliance levels with laws and regulation*
 - *Clean audit outcomes*
 - *Increasing revenue and productivity levels*

CRITICAL SUCCESS FACTORS TO MEET TARGET

What are the dependencies and requirements to deliver on the target as contained in the APP

- Credible operational, procurement and spending plans
- Improved planning by programme managers and paying service providers on time
- Management support [Being responsive to internal control deficiencies]
- Availability of resources (Human capital + software's+ budget).
- Proper coordination within functions.
- Operational Models that support mandate and vision of the department.

PROGRESS TO DATE ON THE STRATEGY DEVELOPMENT

- Developed strategic outcomes and intents
- SCM strategy developed but requires review to be aligned with the new thinking
- The Finance team to convene and finalise the integrated strategy
- Consultation to be held in 4th quarter prior to approval

RISK MANAGEMENT

- Inadequate funding
- Lack of skilled personnel
- Resistance to change
- Lack of common vision and integrated management support

PROJECT PLAN TO FINALISE THE STRATEGY

Activities for Q3 and Q4:

- | | |
|---|------------------|
| 1. Refine and align the SCM strategy | 31 December 2020 |
| 2. Develop Compliance Framework | 31 December 2020 |
| 3. Consolidation of elements of Integrated Strategy | 31 December 2020 |
| 4. Consultation with Manco | 31 January 2021 |
| 5. Submission to Executive Authority for approval | 1 March 2021 |



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correctional services

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