



treasury

Department of  
Treasury  
FREE STATE PROVINCE

# **2018 MTEF**

# **Technical Guidelines**

# **for Provinces**

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

June 2017

## CONTENTS

|          |  |           |
|----------|--|-----------|
| <b>1</b> | <b>PURPOSE .....</b>                                     | <b>3</b>  |
| <b>2</b> | <b>INTRODUCTION .....</b>                                | <b>3</b>  |
| <b>3</b> | <b>2018 MTEF GUIDANCE .....</b>                          | <b>4</b>  |
| <b>4</b> | <b>SCOPE AND APPLICATION .....</b>                       | <b>5</b>  |
| <b>5</b> | <b>BUDGET SUBMISSION DOCUMENTATION REQUIREMENTS.....</b> | <b>5</b>  |
| <b>6</b> | <b>THE BUDGET PROCESS .....</b>                          | <b>10</b> |
| <b>7</b> | <b>SAVINGS INITIATIVES .....</b>                         | <b>15</b> |

# 1 PURPOSE

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

# 2 INTRODUCTION

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

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

### **3 2018 MTEF GUIDANCE**

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

## 4 SCOPE AND APPLICATION

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

## 5 BUDGET SUBMISSION DOCUMENTATION REQUIREMENTS

### Provincial Growth and Development Strategy

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

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

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

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

**5.6 Explanatory narrative:** Each department should submit an explanatory narrative to its provincial treasury as part of the 1<sup>st</sup> draft documentation. It is important to keep in mind that this explanatory analysis of the institution's budget is the determinant of the credibility of its budget. This narrative is the main proposal and should clearly articulate the rationale of the proposal, with the provincial database providing supporting information. Provincial Departments must submit this on **21 July 2017** and Provincial Treasuries need to consolidate these narratives and submit to the National Treasury on 11 August 2017.

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

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

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

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

**5.9 Personnel templates:** Provinces will not be expected to submit the personnel model in preparation for the 2018 MTEF submission. However, Provincial Treasury will request additional information if it is necessary to do so. Furthermore, National

Treasury acknowledges the feedback that has been received from provinces and is in the process of amending the model.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**5.16** Although business plans are submitted yearly, they technically form part of a much longer planning horizon, particularly where infrastructure is concerned. As such the business plan for the year shows the activities that will be carried out for a year, and how the activities link with outputs, and in the long run address the priorities under

which the grant was created. It is important to ensure that the dates, activities that will take place, the outputs expected from the activities, and when they are expected, are spelt out. This is especially important for activities that are sequential and are required before other activities can be carried out.

**5.17** Based on an activities and output execution plan, the projected cash flow, matching the dates of the activities will need to be provided. Activities, outputs, and cash flow projections are necessary but not the only inputs into business plans. Business plans should also demonstrate how activities will allow the achievement of some outputs, which eventually should be linked to the outcomes of the grants. Risks to the projected activities, and mitigation strategies against them, should also be spelt out. Business plans templates provided by the national departments responsible for monitoring the grants should be a guiding principle when drafting plans.

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

**When completing the submissions:**

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

## Costing Assumptions

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

## 6 THE BUDGET PROCESS

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

### Provincial budget process

- 6.4 The budget process allows government to:
  - Prepare the 2018/19 expenditure estimates in the context of enhancing service delivery and ensuring value for money.
  - Strengthen and evaluate the alignment between medium and long-term plans.
  - Revise its policy priorities, macro-economic framework and resource envelope.

- Evaluate departmental plans in line with the national outcomes, provincial priorities and the objectives of the PGDS.
- Involve various role-players that provide political and technical advice when faced with trade-offs between competing spending priorities.
- Focus on changing the structure of the economy from a resource extraction economy to a more production-led economy that can create employment opportunities.
- Focus on fiscal prudence by way of cost-cutting, ensuring enhanced service delivery, as well as value for money.
- Compile a reprioritised budget (with the focus on cost-cutting) that is aligned with the national outcomes, the nine- point plan, as well as provincial priorities. Note that this approach builds on previous years' budget reforms.
- Obtain the required authority (voting process) from the Provincial Legislature to spend.

### **Provincial Medium Term Expenditure Committee (PMTEC) Meetings**

**6.5** In order to enhance the integration of policy alignment, planning, budgeting and implementation PMTECs are used as one of the platforms that encourage joint planning between departments, municipalities and public entities. This will further promote the alignment of provincial budgets with strategic planning documents such as the PGDS, NDP, IDPs and Spatial Development Frameworks in support of inclusive growth and transformation.

**6.6** PMTEC's committees should make recommendations to Provincial Treasury Committee (consider policy and budgetary matters), Provincial Executive Council EXCO and other political structures tasked with taking final decisions on the budget proposals. Discussions at PMTECs are led and chaired by Provincial Treasuries which also assesses the allocative efficiencies of provincial budget taking into account the current fiscal climate affecting the provincial fiscal framework. However, PMTEC committees may include other stakeholders in order to strengthen joint planning, this may include:

- The Head of Provincial Planning Unit which is sitting in the Offices of the Premier in most cases. This is to ensure that budget proposals presented by provincial departments are aligned to the strategic direction of both the province and the national government. Departments will have to demonstrate the responsiveness of their budget to the policy and delivery context envisaged by government.
- Senior officials from the Department of Cooperative Governance/Local Government responsible for the assessment of municipal IDPs. This should aim to promote a better coordinated approach to integrated planning between provincial and local government. Both provincial departments and municipalities should be encouraged to respond on the extent to which government priorities have been integrated into their various planning processes as well as policy and budget documents.

## Benchmark Process

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

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

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

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

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

- 6.10** In order to prepare for these benchmark exercises Provincial Treasury will analyse the second draft 2018 MTEF budget documentation and engage Provincial Departments in order to represent the province at the benchmark.
- 6.11** Critical dates for the national and provincial budget process are provided in the table below. Provincial departments and public entities follow the specific requirements of their own treasuries and provincial budget processes. These guidelines should thus be read together with the Provincial Budget Process Schedule and Guide for Provincial Budget Formats. Provincial treasuries must receive revised baseline estimates from provincial departments and public entities at least two weeks before submission to National Treasury.

### **National budget process**

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

## Provincial budget process

| ITEM  | DATE                  |
|---|-----------------------|
| Provincial Treasury issues Initial allocation letter to departments   | 30 June 2017          |
| Provincial Departments and Entities submit 1 <sup>st</sup> draft 2018 MTEF budgets documents (Budget submission, EPRE, Database) to Provincial Treasury | 21 July 2017          |
| Provincial Budget Visits by National Treasury   | 27-28 July 2017       |
| Provincial Treasuries submit 1 <sup>st</sup> draft 2018 Budgets to National Treasury  | 11 August 2017        |
| EXCO Planning session for 2018 MTEF Priorities  | 24-25 August 2017     |
| Provincial Medium Term Expenditure Committee (PMTEC) sessions   | 15-17 September 2017  |
| Provincial EXCO Lekgotla Setting of the Priorities for the upcoming MTEF  | October               |
| Issue of 2017/18 Adjustment Budget request letters to departments   | 10 October 2017       |
| Provincial Departments and Entities submit 2017/18 budget inputs to Provincial Treasury   | 14 October 2017       |
| Tabling of National Adjustment Budget and MTBPS   | 25 October 2017       |
| Presentation to EXO – Proposed allocations for the 2017/18 Adjustment Budget  | October 2017          |
| Issue of 2017/18 Adjustment Budget allocation letters to departments  | 27 October 2017       |
| Preliminary allocation letters (2018 MTEF) issued to provinces – equitable share and conditional grant allocations                                      | 27 October 2017       |
|   |                       |
| Treasury Committee / 2017/18 Adjustment meetings with departments   | 2-3 November 2017     |
| Provincial Treasury issues Preliminary allocation letters to departments (2018 MTEF)  | 6 November 2017       |
| Treasury Committee (2017/18 Preliminary Budget Engagements)   | November 2017         |
| EXCO Budget Lekgotla (2017/18 Preliminary allocations)  | November 2017         |
| Departments submit 2017/18 Adjustment Budget to Provincial Treasury   | 10 November 2017      |
| Provincial Departments and Entities submit 2nd draft 2018 budgets documents (EPRE, Database) to Provincial Treasury                                     | 14 November 2017      |
| Provincial treasuries submit 2nd draft 2018 Budgets to National Treasury  | 20 November 2017      |
| Tabling of Medium Term Budget Statement and Adjustment Budget in Provincial Legislature   | 21 November           |
| EXCO Budget Lekgotla (Finalisation of 2018 MTEF Priorities)   | 7-8 December 2017     |
| Provincial benchmark exercise for 2018 Budget (1st round) at National Treasury with Provinces   | 04 – 08 December 2017 |
| Free State  | 6 December 2017       |
| National Treasury issues conditional grant allocation letters to provinces  | Mid December 2017     |
| Provincial Treasury issues conditional grant (CG) allocation letters to departments that receive CGs  | Mid December 2017     |
| Second allocation letter to provinces   | 08 December 2017      |
| Provincial benchmark exercise for 2018 Budget (2nd round) at National Treasury  | 10 - 16 January 2018  |
| Extended EXCO Lekgotla (following decision of ANC & Lekgotla Cabinet)   | February 2018         |
| Final allocation letters issued to provinces  | February 2018         |
| Provincial Treasury issues Final Allocation letter to Departments   | Mid-February 2018     |
| Tabling of National Budget in parliament  | February 2018         |
| State of Province Address   | Early March 2018      |
| Provincial 2017 Budgets tabled at provincial legislatures   | March 2018            |

## 7 SAVINGS INITIATIVES

The Office of the Chief Procurement Officer (OCPO) at National Treasury has initiated savings strategies in the 2016/17 financial year which has led to procurement cost reductions that will see the State benefit to the tune of R7 Billion over the medium term expenditure framework.

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

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

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

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

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

Cost Avoidance benefits include:

- i. Price increase limitation - defined as being representative of the difference between prices for goods and services and the probable increase in price occurring if actions had not been taken to obtain reduced costs for the same goods and services. Tender price vs negotiated price.
- ii. Spend avoidance – reduced consumption through better demand management.

## 1. Savings Tracking Principles

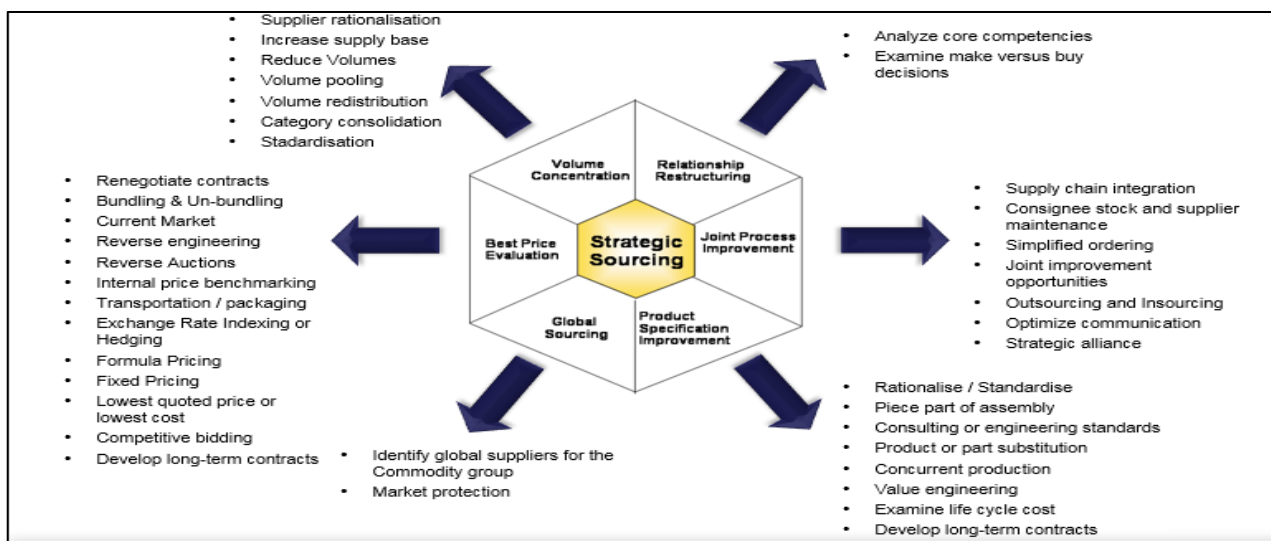
The following principles should be used as guidelines in calculating savings:

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

## 2. The Sourcing Gemstone

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

Figure 1: Sourcing Gemstone



### 3. Techniques for best price evaluation:

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

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

#### 4. Techniques for Volume Concentration:

| No. | Tactic                   | Description  | Question  | Examples   |
|-----|--------------------------|--|---|--|
| 4.1 | Supplier rationalisation | Reducing the number of suppliers is a common technique to maximise the volume on offer and allows resources to be focused on the few preferred suppliers   | <ul style="list-style-type: none"> <li>• Can we reduce the number of suppliers</li> </ul>   | <ul style="list-style-type: none"> <li>• Can we consolidate who provides catering services to a Departments to reduce costs and ensure a successful business venture</li> </ul>  |
| 4.2 | Increase supply base     | Increasing the number of suppliers to improve market competitiveness   | <ul style="list-style-type: none"> <li>• Can we Increase the number of suppliers</li> </ul>   | <ul style="list-style-type: none"> <li>• For billion rand contracts can we engage with more suppliers to make industry more competitive especially in the downstream and upstream supply chain activities?</li> </ul>      |
| 4.3 | Reduce Volumes           | Reducing demand for a product can reduce costs.  | <ul style="list-style-type: none"> <li>• Can volumes be reduced for the product or service?</li> </ul>                                    | <ul style="list-style-type: none"> <li>• Can we reduce the amount of paper that we utilise? Have we encouraged reduction in printing and copying or even moved to double sided printing or even re-using paper?</li> </ul> |
| 4.4 | Volume pooling           | Pulling together the volume of business on offer through supplier rationalisation or consolidation of group wide expenditure can leverage lower prices   | <ul style="list-style-type: none"> <li>• Can we work together with other regions or districts or Departments to bring volumes?</li> </ul> | <ul style="list-style-type: none"> <li>• Can small Departments pool their stationery procurement to save due to more attractive volumes</li> </ul>   |
| 4.5 | Volume redistribution    | Re-allocating business from one supplier (or constantly switching) to another can maintain competitive conflict amongst the supply base.   | <ul style="list-style-type: none"> <li>• Have we considered multiple awards of the contract?</li> </ul>                                   | <ul style="list-style-type: none"> <li>• Awarding of regional suppliers for example courier services</li> </ul>  |
| 4.6 | Category consolidation   | Identifying supplier synergies in the category base can allow greater volumes of business to be offered for tender. This approach will tend to support larger vertically, horizontally and laterally integrated organisations. | <ul style="list-style-type: none"> <li>• Have we considered that certain suppliers can offer multiple products?</li> </ul>                | <ul style="list-style-type: none"> <li>• Awarding business to a supplier that has synergies in different products such as - vehicle financing, maintenance, insurance, repairs and services</li> </ul>                     |
| 4.7 | Standardisation          | Is a tailored/customised product/service necessary? Standardisation opens up competition   | <ul style="list-style-type: none"> <li>• Can we create a common standard for the product or service?</li> </ul>                           | <ul style="list-style-type: none"> <li>• Can we create standards for laptops and computers for the different types of users?</li> </ul>  |

## 5. Techniques for Global Sourcing:

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

## 6. Techniques for Product Specification Improvement

| No. | Tactic                           | Description  | Questions  | Example   |
|-----|----------------------------------|--|--|---|
| 6.1 | Rationalise / Standardise        | <ul style="list-style-type: none"> <li>• Evaluation of the complexity and diversity of products and services.</li> <li>• To what extent can they be merged, simplified or standardised?</li> </ul> | <ul style="list-style-type: none"> <li>• To what extent can the current specifications be simplified, standardised or merged?</li> </ul>             | <ul style="list-style-type: none"> <li>• Can we have a common design for RDP housing and schools or clinics?</li> <li>• Can we simplify the product formulae for agricultural and veterinary products?</li> </ul>         |
| 6.2 | Piece part of assembly           | <ul style="list-style-type: none"> <li>• Savings can be achieved by assessing the costs of differing levels of assembly.</li> <li>• Services can be similarly de-constructed.</li> </ul>           | <ul style="list-style-type: none"> <li>• To what extent can the current product and service requirement be re-configured to reduce costs?</li> </ul> | <ul style="list-style-type: none"> <li>• Can we buy the product internationally and conduct service, maintenance and repairs in-house or through local vendors?</li> </ul>  |
| 6.3 | Consulting Engineering standards | Internal and external standards should be challenged and not considered set in "stone"   | <ul style="list-style-type: none"> <li>• Sometimes standards create unnecessary costs, have we considered changing the standards?</li> </ul>         | <ul style="list-style-type: none"> <li>• Have we considered the relevancy of the SABS standards for our products and opt for an international standard which allows suppliers to supply beyond the borders and</li> </ul> |

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

## 7. Techniques for Joint Process Improvement

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

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

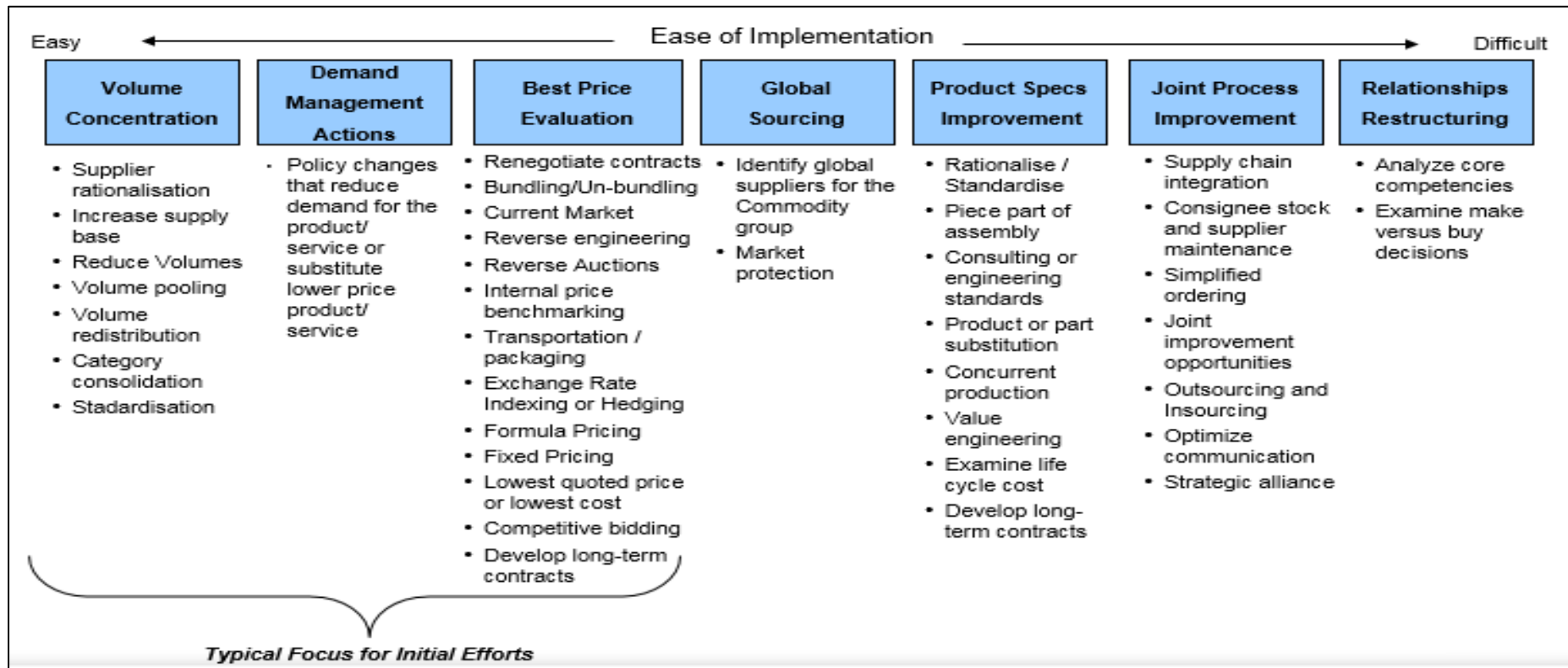
## 8. Techniques for Relationship Restructuring

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

## 9. Ease of Strategy Implementation

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

Figure 2: Ease of Implementation of Sourcing Strategy



## 10. Conclusions

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