

# Strategic Management

## Free State Provincial Treasury

### Establishing 'return on investment' through effective Strategic Management<sup>1</sup>

The Free State Provincial Treasury (as all the other provincial treasuries) derives its core functions and responsibilities from the Public Finance Management Act (PFMA), Treasury Regulations, as well as oversight and support functions in relation to the Municipal Finance Management Act (MFMA). Provincial Treasury's role is defined not only in terms of ensuring compliance to the PFMA and MFMA, but also to provide support to provincial departments and municipalities to improve financial management. Given its centrality in improving performance in the province, the Free State Provincial Treasury has set out to conduct itself in exemplary fashion.

Accordingly, the Provincial Treasury has developed a reputation of performing exceptionally well in the field of Strategic Management. The MPAT results for 2012/13 in terms of the key indicators with respect to Strategic Planning indicated that the plans show exceptional performance as they are 1) based on analysis; 2) aligned with the MTSF and/or PGDS, Delivery Agreements, as well as **Annual Performance Plans (APPs)**; and 3) is aligned to the departmental strategic plan.

The case describes the five-yearly Strategic Planning process as well as the linked processes which operationalize the Plan, such as the APP, review processes, the quarterly budget bi-laterals, monthly Management Committee Meetings, Human Resource Planning and finally, individual performance management processes. The case study ventures into identifying some factors that seems to contribute the Free State Provincial Treasury's success in strategic management. These factors are:

- Ensuring stability with respect to strategic direction and mandate
- Achieving an excellent fit between organisational culture, strategy and operational activities
- Achieving an excellent fit between organisational structure and strategic priorities
- Alignment between planned activities and resource allocation
- Building and maintaining leadership and management systems to support the strategic management process; and, finally
- Building and maintaining sustainable capacity and effort.

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<sup>1</sup> This case story was drafted for the Department of Performance Monitoring and Evaluation (DPME) by Ms Hanlie Robertson, with the support of Mr Salim Latib, both of whom are based at the Wits Graduate School of Public and Development Management ([www.wits.ac.za/Academic/CLM/PDM/](http://www.wits.ac.za/Academic/CLM/PDM/)).

## Introduction<sup>2</sup>

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The Official's image reflects back at him in the dim light of the lift. He is ascending slowly to his less than fashionable office on the 26<sup>th</sup> floor of one of the few high rise buildings in the Free State provincial capital. Once in his office the view that meets him impresses on him the importance of his role. Together with his fellow public servants, he must work to a situation where the abject poverty and hopelessness faced by the street beggars and destitute below is something of the past. Collectively they must work to a future of prosperity for all in the province. As Treasury Officials their main responsibility is to ensure that the limited financial resources the province has at its disposal goes furthest to the goals government has set for itself. His thoughts are eloquently captured in the framed Departmental Mission and Vision Statement decorating his wall:

### *Vision*

*"Your partner in financial resource management excellence, for a better life for all in the Free State Province"*

### *Mission*

*"To promote sound financial resource management, for improved service delivery in the Free State Province"*

He cannot help but contemplate how working in the Provincial Treasury -- a government department he has joined five years earlier -- is going to be affected by the announcement he heard on the news last night. The Provincial Premier has decided to reshuffle his cabinet! One of the most important changes has been the appointment of a new Member of the Executive Council (MEC) of Finance.

Having come from a position as a qualified professional accountant in the private sector, The Official is thankful for the way in which the political-administrative interface has unfolded under the former MEC. He has heard of difficulties for delivery when this relationship goes wrong, and neither his professional training, nor his private sector background has prepared him specifically to manage in a political environment. In the Provincial Treasury's case, although little real power has been formally delegated by the former political office bearer to his Head of Department (HoD), the former MEC had a reputation of being highly appreciative of the professionalism of the team of people he has been working with. He provided the necessary political leadership, but otherwise allowed the team the latitude to function with relatively few encumbrances, building up a department, putting in place sustainable and durable systems, recruiting from the best in the industry and also growing their own timber through the implementation of an extensive internship programme. He allowed his team of officials to perform their jobs, implementing the strategic plan which he was part and parcel of crafting three years earlier.

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<sup>2</sup> Although the inspiration for the introduction came from the Free State cabinet reshuffle that took place in March 2013, and some of the background was gathered during the research process, the actual character of "The Official" as well as the thoughts associated with him cannot be attributed to any of the officials encountered during the interview process. "The Official" is a fictitious character created for this case.

In reflecting on the planning experience in Treasury, The Official thought, “we have actually thrived”. “We are being recognized as a positive example to others, both in the province, but also elsewhere. This is how it should be!” he thinks. “How else can we play a credible role in providing support to other departments, and facilitate capacity building with respect to financial management and other associated functions?” As the champion for developing the necessary capacity with respect to financial management, including exercising effective oversight, monitoring and control, it could be expected that all the provincial treasuries themselves should serve as exemplary cases for exactly the kinds of capacity they are charged with to develop across the province.

Experience has taught The Official and his colleagues that in the end all good performance begins and ends with strategic management. It is strategic planning and management that allows a department to respond to its environment. It is strategic management that allows a department to align the big picture with day-to-day, weekly and monthly planning and activities, accommodating adjustments in a changing environment. It is strategic management that allows the alignment between planned activities and allocated resources, but also allowing for reallocation of resources as and when need or opportunity arises. It is strategic planning that provides the foundations for monitoring and evaluating performance, making performance measurement more relevant since the big picture is at the back of everybody’s minds, rather than the pursuance of ad hoc performance indicators. It is strategic planning and management that effectively constitutes the golden thread that ties it all together!

The Official was excited when others started recognising the effort his branch have been putting into this aspect of their work. The logical alignment between the department’s 5-year strategic plan, its annual performance plans, the prioritization and allocation of its budget, its organizational structuring, its human resource planning endeavours, its performance management as well as its monitoring and reporting practices are exemplary by any measure. The MPAT results for 2012/13 in the field of Strategic Management vindicated the provincial treasury’s standing in this regard. In terms of both the key indicators with respect to STRATEGIC PLANNING (i.e. **Strategic Plans** (indicated by the extent to which strategic planning is 1) based on analysis, 2) aligned with the MTSF and/or PGDS, and with Delivery Agreements) as well as **Annual Performance Plans** (indicated by the extent to which the contents of the APP comply with 1) Treasury planning guidelines and 2) is aligned to the departmental strategic plan) the provincial treasury was deemed to have shown “exceptional performance”. According to the Auditor General’s report In the 2011/12 auditing process the department achieved a 92% on its departmental targets (non-financial performance).<sup>3</sup>

The Official wonders whether or not the appointment of a new political head will have an influence on the success they have achieved in this respect over the past 5 year. As a provincial treasury their mandate is very clear. She cannot really think of making changes in that respect. But other cabinet shuffles have proven that organizational culture could be influenced by a change in key role players. “Did we manage to

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<sup>3</sup> The department has achieved clean audits in the past 3 financial years from the AGSA and received recognition from SAIGA for the Annual Reports of 2010/11 and 2011/12.

adequately institutionalise the factors that underpin our successes with respect to strategic management -- the so-called softer issues, such as our carefully nurtured organisational discipline, and the orderly way in which we complete tasks?" "Will we be able to continue to inculcate the new organizational value system we have formulated?"<sup>4</sup>, "Will we be allowed to continue to recruit from the best amongst the auditing profession; economists; statisticians and so forth who understands the processes we are involved in, the tools we use and the logics we apply, or will we be forced to make human resource decisions in future on the basis of political expediency?"

He cannot help to think that they themselves do not necessarily adequately understand the interaction between the individual style and personality of the political principle, the strategic management process that they have embraced for the Provincial Treasury and the organization they are part of. He decides there and then, for his own learning, but also for those of colleagues in the province and elsewhere, he will commission the preparation of a document which could begin unpacking the process and identify the variables at play. To keep things simple, he needs to do this before the presence of a new MEC becomes another variable in an already complex picture that needs painting. He decides to task one of his analysts to attempt to reflect on some of the following questions in the process: "What are the processes and practices followed with respect to Strategic Management in the Free State Provincial Treasury?", "What are the factors we can point to that contribute to our successes in this area of management?", and finally "What are the lessons that can be shared with others should they strive to improve on their own practices and performance?" .

## Background

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Apart from the parameters set by the Constitution, the Free State Provincial Treasury (as all the other provincial treasuries) derives its core functions and responsibilities from the Public Finance Management Act (PFMA) Act 1 of 1999, as amended, Treasury Regulations promulgated in terms of Section 76 of the Act, as well as oversight and support functions in respect of municipalities in terms of the Municipal Finance Management Act (MFMA), Act 56 of 2003. It has to do so in a manner that:

- Facilitates effective and efficient management of provincial assets, liabilities and financial management systems
- Promotes accountability and transparency through substantive reflection of financial activities of the Province, as well as effective compliance with prevailing financial norms and standards
- Promotes the use of government service delivery as a catalyst for enhanced economic growth and development and social equity.

Provincial Treasury's role is defined not only in terms of ensuring compliance to the PFMA and MFMA, but increasingly also to provide support to provincial departments and municipalities to improve on financial management, and thus promoting improved service delivery.

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<sup>4</sup> The latest formulation provides for the following organizational values: integrity; accountability; assertiveness; collaboration; responsiveness; commitment; and pro-activeness (Annual Performance Plan, 2012)

The following acts constitute the most important dimensions of the legal framework within which the Free State Treasury functions:

- The Constitution of the Republic of South Africa, 1996
- The Public Finance Management Act, 1999 (Act No. 1 of 1999) as amended by Public Finance Management Amendment Act, 1999 (Act No. 29 of 1999)
- The Public Service Act, 1994 as amended by Act 30 of 2007
- The Division of Revenue Act, 2005 (Act No. 4 of 2005)
- The Promotion of Access to Information Act, 2000 (Act No. 2 of 2000)
- The Promotion of Administrative Justice Act, 2000 (Act No. 3 of 2000)
- The Skills Development Act, 2003 (Act No. 31 of 2003)
- The Occupational Health and Safety Act, 1993 (Act No. 85 of 1993)
- The Preferential Procurement Policy Framework Act (PPPFA), 2000 (Act No. 5 of 2000)
- The Broad Based Black Economic Empowerment Act 2003, (Act No. 53 of 2003)
- The Compensation for Occupational Injuries and Disease Act, 1993 (Act No. 130 of 1993)

Since 1999 the South African government system is in a process of being transformed to give effect to an outcomes-based approach of governing, where government units must account for how resources are applied in furthering the strategic priorities of government. The Free State Provincial Government is a key player in the province to embed the planning, budgeting and reporting systems that has been developed nationally to support such an outcomes-based approach.

## **Strategic Management in the Free State Provincial Treasury<sup>5</sup>**

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*"We are accountants, we like working with spreadsheets."*

*Chief Financial Officer, Free State Provincial Treasury, March 2013.*

The Provincial Treasury's cycle for Strategic Planning is five yearly, preparations for a new cycle starting shortly after the general elections have been completed, but effectively becoming operational only in the new financial year following elections. Accordingly the current five-year Strategic Plan covers the period 2010 - 2015, and goes under the theme: **"Value for money"**.

The starting point of the strategic planning process is a process of collectively revisiting, and reconfirming the mandate with which the provincial treasury is charged. This is gleaned from the legislative framework, directives from National Government, most notable National Treasury as well as political direction from the Provincial government. In addition, prior to a formal strategic planning workshop away from the offices, where the MEC and HOD is joined by all officials in the management echelon, much preparatory work is being done. A task team located in the Economic Analysis Unit of the Provincial Treasury with the necessary research and analysis skills is charged with the responsibility

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<sup>5</sup> The content of the case was substantially informed by a group interview that was conducted with three officials from the Provincial Treasury on 14 March 2013. They were the CFO, a senior Finance Manager and an official in the Strategic Planning Unit.

of completing some contextual analysis in collaboration with departmental officials. In the past these contextual analysis have involved the application of the SWOT (Strengths/ Weaknesses/ Opportunity and Threat) and PESTLE (Political/ Environmental/ Social/ Technical/ Legal/ Economic analysis) analytical tools in an inclusive and participatory manner in the department, across all employee levels.

In the words of the Senior Finance Manager:

*“The analysis fed into the department for all units to see. This formed the basis for the formal strategic planning session.”*

The planning team for the session, constituted by officials from the Strategic Management Unit which is located in the CFO’s office, is responsible for circulating outlines of the format of the strategic planning document, to allow those attending to start thinking about their inputs. Political and managerial leadership for the entire strategic planning process are exercised respectively by the MEC and the HoD. Their views are garnered as part of the preparatory phase, and incorporated in the initial thinking. Their presence during the strategic planning workshop provides a further opportunity for them steer the process during the more interactive sessions and ensure that both political and managerial imperatives are taken on board.

By the time the workshop takes place, the information for most parts of the Strategic Planning document has been collected. What remains for the workshop to do is to hammer out the nitty-gritty details. During the strategic planning workshop extensive use is being made of matrixes (columns and rows), following a logical framework approach, which are -- except for the background documentation which are already placed in the correct places in the matrix -- completed in an interactive and transparent manner while reflected through a data projector. The workshop results in an initial draft strategic plan, the ownership of which is lodged in all who participated. The matrix format allows for a disciplined approach in applying the logic that any lower level/ more detailed breakdowns must be logically connected to the main items derived from the reconfirmation of the provincial treasury’s mandate and their sub-units. A clear hierarchical logic is thus maintained throughout the planning session, and this hierarchy is later carried over into the annual reviews of the strategic plan, as well as the resourcing decisions that face the department.

The departmental structure was also considered and reconfigured based on a consistent questioning of who does what tasks given the overall mandate, and the structure that emerged out of main elements of the mandate and key performance areas. Accordingly one finds a very close match between the organizational structure at branch level and the key strategic objectives for the department as contained in the Strategic Plan. The single deviation to this principle, i.e. programme 4, which accommodates two branches is as a consequence of a change in emphasis on work that has developed after the adoption of the 5 year plan, and the approval of the medium term expenditure framework. In conversation the CFO and Senior Financial Manager recall how the structure came about and changed since 1994. The CFO relates:

*“We list the organizational and component strategic objectives... if a component feels an objective speaks to what they are doing, they should feel part, and become part of it...”*

The Senior Financial Manager elaborates further on this point:

*“... the placement happened long ago. And thereafter as things changes. Say at that stage transversal systems was all programme 4 and then it was decided, ‘no, it is not really programme 4, but about assets, systems, etc’. It was then unhooked from programme 4 and placed into programme 3. That is how we moved it, here and there small little changes, until we are where we are today.”*

Once back in the office after the strategic planning workshop the managers of different units have the responsibility of editing and tightening up on formulations contained in the draft strategic plan and formally confirm responsibility and acceptance of the content which is specifically relevant to their section.

The five year strategic plan is used as the departure point for the preparation of Annual Performance Plans (APP) (as well as other operational plans), and the preparation of the departmental budget to resource the performance objectives for the relevant financial year. For public purposes the highlight of this focusing process between the broad strategic direction (i.e. Value for Money) and the annual focus is represented by the MEC’s budget vote speech where he publicly does the review of the previous year’s performance, and then seeking the legislature’s approval of the plans, and associated budget, for the next financial year. For example, during the 2012/13 Budget Vote Speech the then MEC for Finance, The Honourable S J Mohai presented the strategic direction for the provincial Treasury for that financial year under the theme: **“Building sustainable capacity for effective Oversight, Monitoring and Control”**.

During that Budget Vote he identified the development of sustainable capacity across provincial departments to plan, monitor, control and carry out oversight as the most fundamental and critical aspect of the provincial treasuries work for the foreseeable future, since this capacity, once created, would serve as the foundation for further development to be carried out through-out the province. He commented that the capacity needed is also not necessarily that of the past, nor unique to the province, but given the new national integrated planning, budgeting and performance management architecture, the strategic intent of Treasury is to explore new competencies, building new, or re-engineer existing business processes. He also hinted at the possible need for redesigning the provincial treasury’s organisational structure in line with the national changing public sector planning paradigm. On this basis (according to the then MEC) the provincial Treasury would assume the responsibility of effectively coordinating a process of continuous skilling, re-skilling, empowerment and training across departments and municipalities to leverage requisite competencies and capacity. This is for the sole purpose of improved internal control, oversight and prudent financial management.

There is an almost seamless progression from reviewing progress in terms of the overall strategic plan, a more detailed evaluation of implementation of the previous year's APP, and the preparation of the new one. In the words of the CFO:

*"We use that Strategic Plan again and again to do operation plans and monthly reporting. There is a high degree of alignment. We keep on updating the APP. ... The Strategic Plan is carried forward in subsequent operational plans, annual performance plans, etc. It cascades now!"*

Flowing from the review process, comments for inclusion in the new APP will be developed with respect to why the implementation of previously planned activities became compromised, and explaining why, in some instances, where it has become necessary to cancel them completely. This opens up the way to resource other strategic initiatives which hitherto could not be entertained due to resource constraints.

The process followed is similar to that followed for the preparation of the five year Strategic Plan, starting off with reconfirming the department's mandate and what the legislation provides on how the mandate should be fulfilled. The department relies on the internal specialist research and analytical capability for the information required in the process. The only external role-player involved is an independent process facilitator drawn from one of the institutions of Higher Education in the province.

Matrixes are once more extensively used as tools to allow for the logical stringing of ideas, plans, activities, resources and also the indicators that will eventually be used to determine success or failure. As the CFO has described it previously:

*"We put the strategic objectives in one column, and then whatever a unit is saying, we will be asking "where does it fit into my grid?". So it is a physical link that has to be made. As somebody is speaking, you say 'Chief, here is the strategic plan. These proposals that you make, can you just plug them into the strategic plan. To which one does it talk to in the grid form?'. So you can immediately see when you read from left to right, does it still link backwards....."*

Performance indicators form a critical bridge between the Strategic Plan, the APP and the performance management system in the department. Great care is taken to ensure that the guidelines issued by National Treasury with regards to the formulation indicators are followed. The Strategic Planning Unit assists components in the department with ensuring that they get this right. The members of this unit use resources which they gather at training events to cascade skills and knowledge they have gained, e.g. checklists with respect to the formulation of what is known as SMART<sup>6</sup> indicators, deeper into the organization.

Implementation of the APP is supported through a system of management meetings and management practices, for example monthly Management Committee meetings (MANCOM), chaired by the HoD; quarterly budget bilateral (which integrates resource management with the APP), as well as the system of individual performance assessments

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<sup>6</sup> SMART is an acronym for Specific, Measurable, Appropriate, Reliable and with a stated Timeframe.

in line with the public service prescripts (which aligns individual performance with organization performance). All these meetings and processes are structured around different reports based on the progress indicators derived from the APP for the year and tied back into the strategic plan. Since component managers were involved in crafting them there is commitment and ownership.

## Understanding Strategic Management success in the Treasury

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The threads that spins the success story under study, emerges under the following themes: (i) stability and fit between culture, strategy and operations; (ii) fit between organisational structure and strategic objectives; (iii) alignment between planned activities and resource allocation; (iv) proven performance in terms of commitments, continually striving at efficiency and effectiveness; (v) leadership and management systems to plan, co-ordinate, monitor, exercise control and learn; and last, but not least (vi) Building and maintaining sustainable capacity and effort.

### Stability and fit between culture, strategy and operations.

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Various aspects of alignment -- as is discussed below -- are critical, but stability is required for alignment to flourish. Stability in the treasury environment is protected given that much of its strategic priorities emanate from strong legislation and is thus a legal mandate, rather than a political mandate to be carried out. Strategic plans based on the legal mandate are accordingly fortified and protected against too much flux and change when inevitable change of key role-players occurs. Linked to this is a supportive organizational culture on the implementation of established policies. Evidently, the more compatible the two are, the better the chance for successful implementation. The policy objectives with the changes contained in the PFMA and MMFA are very compatible with the traits of what has been classified as a "controlled" culture<sup>7</sup>. These being:

- *order and alignment based on clear goals and objectives are recognized as the prime drivers*
- *hierarchical reporting structures where power and authority are vested at the top are created by leadership;*
- *quarterly improvement metrics and benchmarks to determine operational excellence are valued by leadership;*
- *annual and quarterly business plans and key performance measurements are highly valued by the organization.*

Functions often associated with this kind of organisational culture includes financial management and supply chain management. The organisational culture in the Free State provincial Treasury embodies these traits. As the CFO puts it:

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<sup>7</sup> Hofferberth and Ulrich's typology of organizational types provides a useful framework to classify the overarching organizational culture the South African government is seeking to build. The typology recognizes two dimensions of importance, i.e. (1) whether or not decision-making is subjective or objective and (2) whether or not reward structure is individual or group based. Four types of organizational types are identified on the basis of these dichotomies, i.e. creative (individual reward/ subjective decision-making); competitive (individual reward/ objective decision-making); collaborative (group reward/ subjective decision-making) and controlled (group reward/ objective decision-making).

*“But I still want to attribute the success to a number of people who has that high level of discipline. There is a certain culture. It travels from the top.....not adhering to commitments will really be frowned upon to a very large extent. And our performance review process has also a way of revealing some of those things.... everyone is fighting for their performance bonuses within the limitations of what we can pay. Those who have worked have been rewarded. They have been through a fair process. And we keep on doing that annually”.*

The culture has thus become one of high performance, living up to commitments, and continually looking for ways in their way of working that will result in greater efficacy and efficiency. Out of this culture -- and facing the challenge of “Treasury” fatigue<sup>8</sup> -- came a remarkable new tool. First to help themselves, but subsequently rolled out to all departments across the Free State Provincial government is a tool called the “**Key Control Matrix**”<sup>9</sup>.

The Key Control Matrix (KCM) effectively correlates the key performance areas (KPAs) a department has to reach, with all compliance requirements in matrix form, making up one giant checklist, with additional features. This facilitates compliance management, making it known to all officials in the government what they have to do, by when, in order to meet all compliance requirements emanating from the Centre of Government. The KCM also facilitates the integration of the Auditor General’s findings of the previous year re performance and resource management, into the current year of management requirements.

In summary, some of the internal control mechanisms and practices followed includes:

- Checking that performance indicators/measures and targets are being reported on a quarterly and annual basis on time
- Ensuring that no directorate increases, decreases or even delete indicators during the implementation period
- Adhering to quarterly and annual reporting guidelines
- Making sure that the indicators meet the SMART principles
- Ensuring alignment between
  - Departmental 5 year Strategic Plan
  - Annual Performance Plans
  - Performance Agreements
  - Provincial growth and development Strategy, and
  - Operational Plans
- The sign-off Certificate (All programmes and sub-programme senior executive managers or senior managers have to sign the certificate when they submit their inputs for the Annual Performance Plans and Quarterly reports. This is to confirm knowledge of the contents and correctness of the submitted information or set targets)
- Building up, and submitting “Portfolios of Evidence” for all reporting requirements

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<sup>8</sup> This is fatigue reported by line Departments with all reporting requirements emanating from Treasury and the DPSA, and more recently further aggravated by reporting requirements from the Integrated Performance Monitoring and Evaluation system.

<sup>9</sup> A way must be found how to meaningfully attach this tool and a description of it to the case.

- Evidence is collected from all programmes and sub-programmes for the verification of annual and quarterly outputs. These are used for Internal and External performance audits.
- Checklist are kept of who has submitted, when and who has not submitted and follow ups are done constantly.
- Monthly Management Meetings - MANCOM -
- Adhering to a Key Control Matrix - to make sure most of the Internal Controls are monitored

### Excellent fit between organizational structure and strategic priorities

The adage of “form follows function” does not quite hold true in terms of the structuring of the provincial treasury. This debate is not handled in an either/or manner, but ensuring structural fit with strategy is rather deemed to be a dynamic, iterative process. Structural adjustments are considered at the occasion of the annual performance review and when the new APP is crafted. Currently the typical hierarchical relationship between the political and administrative leadership is reflected in the official organogram.

Each of the MEC and CEO is supported by a small dedicated staff, and directly reporting to the CEO are a risk management unit, as well as the security services. The remainder of the organization comprises of 5 branches, 4 of which constitutes areas the provincial treasury is tasked with providing systems for the province as a whole and facilitating improvement in application/ support to provincial departments. The Administration branch (Programme 1) performs the treasury functions and focuses internally. This branch is also responsible for driving the strategic planning processes, compliance and so forth. It's Strategic Objectives as captured in the APP are:

*To provide support to MEC/CEO*

*To facilitate towards a skilled, competent and responsive workforce for the Department*

*To ensure that allocated funds are planned, managed and spent effectively*

*To procure and maintain quality goods and services*

*To ensure compliance with practices, norms and standards, independent assessment of the adequacy and effectiveness of internal controls and risk management*

Appropriately externally focused strategic objectives are associated with the other branches in the organisational structure of the department, these being “Sustainable Resource Management” (Programme 2); “Assets and Liability Management” (Programme 3) as well as “Financial Governance” and “Municipal Financial Management” (Programme 4). The focus of objectives of these four branches are monitoring specific important sub-fields of financial management and providing support for improvement in this regard to the other government entities that constitutes the Free State Provincial government, as well as the Municipalities in the province.

The structured strategic objectives for each of the branches form the basis for the Annual Performance Plan.

## Alignment between planned activities and resource allocation

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The Auditor General has commended the Free State Treasury for its practice of setting targets that are within the control of the department and that are also what the department can achieve. This basic practice is very crucial to the achievement of performance targets

A powerful mechanism employed to ensure alignment and coordination between the department's strategic direction and resource allocation is the structural positioning of the Strategic Management unit. Different from the common placement of this type of unit in the office of the HOD, Free State Provincial Treasury has opted to keep this unit directly under the control of the CFO. This was a conscious decision, even after the rest of the Corporate Service division was re-located to the HoD's office. This structural arrangement facilitates operationalization of the strategic plan. As the CFO puts it:

*"A lot of what I do, the budget part and so forth are tying in nicely with what the department should do strategically. We'll move from the strategic plan, into the operational plans, and then come to the budget part. It all flows into that direction. It is more an issue of coordination and getting the required attention...."*

This point is further underscored by a senior financial manager in the department:

*"Remember, Treasury is structured in two ways: 'Treasury functions' and 'Support'. Being linked to the office of the CFO, Strategic Management can give instructions to programmes 2, 3 and 4. Was the strategic planning function in another place it would not have been able to take advantage of the authority of the post of CFO, specifically with respect to Treasury. That is why it also helps linking the authority to the post of the CFO."*

The second mechanism used is the quarterly budget bilaterals. At these meetings all the components are together, revisiting their performance against the Annual Performance Plan. Since the meeting is attended by those responsible for the budget, corporate service, including Human Resources (HR), and so forth, performance is assessed in terms of resource allocated. Under-spending or overspending have to be explained in terms of the effect it has on performing in terms of the annual plan. HR planning and recruitment considerations are similarly assessed.

On the basis of these discussions, and always staying within the prescripts of the PFMA and not deviating from the strategic objectives as outlined in the plan, some "wish list" activities that could not be financed earlier can sometimes be accommodated towards the end of the financial year. Many of these additionally accommodated activities are actually where innovation happens. During the past year, for example, this process allowed for the development of a new tool that should have great effect in terms of supply chain management in the province. In order to assist departments in terms of the processes they have to comply with when acquiring services, departmental resources were used to revisit all legislation and regulation pertaining to the work of supply chain

management, documenting this in an easy to follow grid system that are loaded on the intranet of respective departments. This tool will lead officials, whether new or highly experienced, step-by-step through what they have to do in order to be 100% compliant.

## **Leadership and management systems to plan, co-ordinate, monitor, exercise control and learn**

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Building further on those elements already highlighted some other management practices also contribute to the success of treasury. One of these is to allow managers to plan their reporting obligations (and accordingly pace of work against the annual workplan, and spending of resources against the budget). Written communications is circulated early on in financial year, setting out the due dates for various reporting and compliance requirements. This communication is duly done under the signature of the CFO, or even the HoD. This authority associated with the signature contributes greatly to compliance.

In support of this, the Strategic Planning unit - a small unit currently comprising of only two people<sup>10</sup> -- supports individual directorates to do things in the best way possible<sup>11</sup>, but they are also authorized to "irritate" programme and sub-programme managers into compliance with reminders, follow-up phone calls, personal visits and so forth. They also do quality control of submitted evidence and documentation, and follow up if something is lacking. This "flea in the ear" way of operating by the Strategic Planning is described as follows by an official in the Department:

*After the due time, an e-mail will go out naming those who have submitted, but also naming those who have not. From Strategic Planning they will also phone to check whether there is a problem, and when they can expect it. Once you have submitted, you will get rid of the officials from the Strategic Planning unit, otherwise they will keep asking. But they start asking long in advance.... you know the dates long in advance.*

The Department is making effective use of group/ peer pressure, for managers to fall into line with the organizational culture of compliance to reporting requests. This pressure builds on a sense of "professionalism", inculcated through the fact that a sizeable number of the staff is drawn from the accounting profession, economists, statisticians, and so forth. The practice of "naming and shaming" is invoked where necessary. Sometimes it is subtly done via a group e-mail that will reveal who has complied with a given time-line and whose reports are still outstanding. But it could escalate into personal embarrassment in monthly EXCO meetings, or quarterly performance management meetings.

In an information-rich setting the Provincial Treasury has been embracing a learning approach -- both internally, but also directed to its "client" departments. Note for example the approach the former MEC outlined to the further alignment of his

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<sup>10</sup> The Unit recently lost its director, when he was headhunted for a similar role in another province.

<sup>11</sup> Note for example, the Auditor General expressed appreciation for the way in which the Provincial Treasury is holding APP sessions with individual directorates to inculcate good target setting and performance measures/indicators formulation practices.

department with the outcomes-based planning and budgeting systems of National government, as one of “more rigorous dialogue, interface and sharing of experience and knowledge in order to ensure that the Provincial Treasury becomes a success story in the coming period”.

One challenge that is flagged for attention is how the Provincial Treasury is going to respond strategically, structurally and in terms of its capacity development to translate what it has learned through all the compliance information it is privy to, to actually carry out the supporting function. Currently not all staff necessarily feels equipped to shift modes to undertake a broad supporting function. The CFO captures this challenge as follows:

*“You can see when a particular department is not conforming; you can see every month they are not DOING it. Then can you go out there and say to them ‘what is the problem?’ ‘Can I do it with you as part of the learning process?’ -- to make sure that by the time you leave they will actually be able to do it by themselves. There is a feeling that we must go down that road. Just change a little bit, and go to the departments. The Acts requires us to do so. We have to discuss it at a strategic level, and when we do it, there will be some form of resistance from the branches that they are not adequately resourced to actually do it. So we do it here and there, but not in a properly coordinated manner. “*

## **Building and maintaining sustainable capacity and effort**

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The Department set high store at the protection they enjoyed from the former MEC to manage recruitment to ensure the continued professionalization of the staff of the provincial treasury. Relevant experience gained in the Treasury context is highly prized. Note for example, the appreciation for the competence of the HoD who himself moved through the ranks, having filled the position of CFO previously, and later returning as HoD. The historical memory and deep, practical understanding of the legislative framework that the long serving Accountant General in the department contributes has been identified as being central to the overall departmental success.

Unlike what the practice is elsewhere, the Provincial Treasury is keeping its vacancies to a minimum. Excluding the implementation of the MFM staffing arrangement (a new arrangement) it has a vacancy rate of only 5%.

At the entrance level the internship policy of the Department of Public Service and Administration (DPSA) is used extensively, with bringing on board students from feeder disciplines and professions. The internship system allows managers to identify future employees who fit the high performance culture the treasury is keen to preserve and effectively constitutes a year-long job interview. The current DPSA prescripts regarding publicly advertising all positions, and not allowing for a seamless movement between the completion of a successful internship period and being offered employment is regarded as “wasteful” by the CFO.

## Conclusion and building on the success

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The Manager puts down the report he commissioned earlier to look at the Strategic Management process in the Free State Provincial Treasury. He feels happy that the initial brief allowed the key variables to be highlighted. These include stability, specifically derived from the legal mandate; alignment between different plans themselves, but also between the organizational culture and structure they have created, as well as the way they allocate resources. And then there are the all-important issues of leadership, management and organizational capacity to do what they are tasked with, and what they have undertaken to do.

He knows in the period to come they will not be able to rest on their laurels. The new MEC will want to make her mark and as the department they must do their best, within their legal mandate, to support her. He is convinced by continuing to work systematically and provide the evidence that they do what they have undertaken to do in a resource efficient way, they will win her confidence! Even the Auditor General has commended them for their practice of setting targets that are within the control of the department and that are achievable within the constraints the department faces. This realistic approach is crucial to the maintaining their record for achieving the performance targets set in the strategic framework and APPs.

In the past years they have succeeded in providing the necessary proof, showing that the resources that were invested in them as a department were indeed used for the purposes it was allocated for. Our Internal Audit has always expressed its satisfaction on the effectiveness of our internal controls, filing systems and synergy of our documents, and even the Auditor General for South Africa arrived at the same conclusion for the 2011/2012 financial year on non-financial performance.

The province as a whole is better off for that. "At last, even though not perfect, we are attending to the additional role of providing support to the line departments to do better in financial management", he thinks. They are assisting other departments in becoming more compliant through the development of some additional tools. He knows they could only have done this through the effective alignment between budget and planning instruments. "This, once again, underlines that" he thinks by himself "plans, budgets and structures are merely tools. They are not blueprints set in stone. They need to be managed, and by doing this well, by exploiting the opportunities that comes your way, you can go so much further on the path you have initially set out on".

As he looks up through his window on this late autumn day, noticing the perfect formation of birds as they migrate to warmer climates to escape the Free State winter, he makes a mental note to take on board the lesson that nature offers: the alignment of the flock of birds in flight, leader ahead, the rest in a perfect V. This removes friction, resulting in better use of available energy, and allowing the weaker to also complete the journey. It applies to them as lead department to the others in the province. But the same also goes for planning documentation. A well-developed strategic plan setting the overall direction, and the rest of the plans and reports can easily each slot in their own space, with the least waste of energy and unnecessary effort!

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