



Municipal Cost Containment Policy

Council resolution number and Date

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[1] Background

Section 62(1)(a) of the Municipal Finance Management Act No. 56 of 2003 (MFMA) stipulates that the accounting officer of a municipality is responsible for managing the financial administration of a municipality and must for this purpose take all reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically.

In terms of the legal framework, elected councils and accounting officers are required to institute appropriate measures to ensure that the limited resources and public funds are appropriately utilized to ensure value for money is achieved.

To this effect, the MFMA Circular 82 which introduced cost containment measures for implementation by municipalities and municipal entities was published on 30 March 2016 (updated November 2016) together with draft municipal cost containment regulations no 41445.

[1.1] Aims / Objectives of the Policy

The objectives of the Cost Containment policy are as follows:

In line with section 62(1)(a), 78(1)(b), 95(a) and 105(1b) of the Act, is to ensure that resources of a municipality and municipal entity are used effectively, efficiently and economically by implementing cost containment measures

[1.2] Definitions

- "Act" means the Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003);
- "consultant" means a professional person, Individual, partnership, corporation, or a company appointed to provide technical and specialist advice or to assist with a design and implementation of projects or to assist a municipality or municipal entity perform its functions to achieve the objects of local government in terms of section 152 of the Constitution;
- "cost containment" means measures implemented to curtail spending in terms of this policy and
- "credit card" means a card Issued by a financial service provider, which creates a revolving account and grants a line of credit to the cardholder.

[2] Application of the Policy

This Policy applies to all municipalities officials and councillors and municipal entities

[3] Use of Consultants**[3.1] Appointment of Consultants**

Use of consultants

3.1.1 - A municipality or municipal entity may only appoint consultants if an assessment of the needs and requirements confirms that the affected municipality or municipal entity does not have the requisite skills or resources in its full time employ to perform the function.

3.1.2 - An accounting officer must adopt a fair and reasonable remuneration framework for consultants taking into account the rates- determined in the "Guideline on fees for audits undertaken on behalf of the Auditor-General of South Africa", issued by the South African Institute of Chartered Accountants; set out in the "Guide on Hourly Fee Rates for Consultants", issued by the Department of Public Service and Administration as prescribed by the body regulating the profession of the consultant

3.1.3 - The tender documentation for the appointment of consultants must include a clause that the remuneration rates will be subject to negotiation, not exceeding the applicable rates mentioned in sub-regulation 3.1.2

3.1.4 - When negotiating cost-effective consultancy rates for international consultants, the accounting officer may take into account the relevant international and market-determined rates. When consultants are appointed, an accounting officer must appoint consultants on a time and cost basis with specific start and end dates;

3.1.5 - Where practical, appoint of consultants will occur on an output-specified basis, subject to a clear specification of deliverables and associated remuneration;

3.1.6 – The Municipality must ensure that contracts with consultants include overall cost ceilings by specifying whether the contract price is inclusive or exclusive of travel and subsistence disbursements

3.1.7 – The Municipality must develop consultancy reduction plans; and undertake all engagements of consultants in accordance with the Municipal Supply Chain Management Regulations and the municipality's Supply Chain Management policy

3.1.8 - All contracts with consultants must include fee retention or penalty clause for poor performance.

3.1.9 - A municipality or municipal entity must ensure that the specifications and performance, are used as a monitoring tool for the work to be undertaken and is appropriately recorded and monitored.

3.1.10 - The travel and subsistence costs of consultants must be in accordance with the travel policy issued by the National Department of Transport, as updated from time to time.

3.1.11 - The contract price must specify ad travel and subsistence cost and, if the travel and subsistence costs for appointed consultants are excluded from the contract price, such costs

must be reimbursed in accordance with the above-mentioned travel policy of the National Department of Transport

[4] Vehicles used for political office-bearers

4.1 - The threshold limit for vehicle purchases relating to official use by political office-bearers may not exceed R700 000 or 70% of the total annual remuneration package for different grades, whichever is greater.

4.2 - The procurement of vehicles must be undertaken using the national government transversal contract mechanism, if any other procurement process is used, the cost may not exceed the threshold set out in 4.1.

4.3 - Before deciding on another procurement process as contemplated in 4.1, the chief financial officer must provide the council with information relating to the following criteria which must be considered:

- ❖ status of current vehicles;
- ❖ affordability;
- ❖ extent of service delivery backlogs;
- ❖ terrain for effective usage of vehicle; and
- ❖ any other policy of council.

4.4 - Regardless of their usage, vehicles for official use by public office bearers may only be replaced after completion of 120 000 kilometres.

4.5 - Notwithstanding 4.4, a municipality or municipal entity may replace vehicles for official use by public office bearers before completion of one hundred and twenty thousand kilometres only in instances where the vehicle experiences serious mechanical problem and is in a poor condition, and subject to obtaining a detailed mechanical report by the vehicle manufacturer or approved dealer.

[5] Travel and subsistence

An accounting officer-

5.1 - May only approve purchase of economy class tickets for officials where the flying time for the flights is five hours or less; and

5.2 - For flights exceeding five hours, may purchase business class tickets only for accounting officers, and persons reporting directly to accounting officers.

5.3 - Notwithstanding 5.1, an accounting officer may approve the purchase of business class tickets for officials with disabilities.

5.4 - The cost containment policy must limit international travel to meetings or events that are considered critical. The number of officials attending such meetings or events must be limited to those officials directly involved in the subject matter related to such meetings or events.

5.5 - An accounting officer may approve accommodation costs that exceed an amount as determined from time to time by the National Treasury during peak holiday periods; or

5.6 - When major local or international events are hosted in a particular geographical area that results in an abnormal increase (n the number of local and/or international guests in that particular geographical area.

5.7 - Officials of a municipality or municipal entity must utilize the municipal fleet, where viable, before incurring costs to hire vehicles;

5.8 - Make use of shuttle service if the cost of such a service is lower than-

5.8.1 - the cost of hiring a vehicle;

5.8.2 - the cost of kilometres claimable by the employee; and

5.8.3 - the cost of parking.

5.9 - Not hire vehicles from a category higher than Group B or an equivalent class; and

5.10 - Where a different class of vehicle is required for a particular terrain or to cater for the special needs of an official, seek the written approval of the accounting officer before hiring the vehicle.

5.11 - Municipalities and municipal entities must utilize the negotiated rates for flights and accommodation, communicated by the National Treasury, from time to time, or any other available cheaper flight and accommodation.

[6] Domestic accommodation

An accounting officer must ensure that costs incurred for domestic accommodation and meals are in accordance with the maximum allowable rates for domestic accommodation and meals. as communicated by the National Treasury, from time to time.

[7] Credit cards

7.1 - An accounting officer must ensure that no credit card or debit card linked to a bank account of a municipality or a municipal entity is issued to any official or public office bearer, including members of the board of directors of municipal entities.

7.2 - Where officials or public office bearers incur expenditure in relation to officials municipal activities, such officials or public officer bearers must use their personal credit cards or cash or arrangements made by the municipality or municipal entity, and request reimbursement from the municipality or municipal entity in accordance with the relevant municipality or municipal entity's policy and processes.

[8] Sponsorships, events and catering

8.1 - A Municipality or municipal entity may not incur catering expenses for meetings which are only attended by persons in the employ of the municipality or municipal entity, unless the prior written approval of the accounting officer is obtained.

8.2 - An accounting officer may incur catering expenses for hosting of meetings, conferences, workshops, courses, forums, recruitment interviews, and proceedings of council that exceed five hours.

8.3 - Entertainment allowances of officials may not exceed two thousand rand per person per financial year, unless approved otherwise by the accounting officer.

8.4 - An accounting officer may not incur expenses on alcoholic beverages.

8.5 - An accounting officer must ensure that social functions, team building exercises, year-end functions, sporting events, budget vote dinners and other functions that have a social element are not financed from the municipality or municipal entity's budgets or by any suppliers or sponsors.

8.6 - A municipality or municipal entity may not incur expenditure on corporate branded items like clothing or goods for personal use of official, other than uniforms, office supplies and tools of trade, unless costs related thereto are recovered from affected officials.

8.7 - An accounting officer may incur expenditure to host farewell functions in recognition of officials who retire after serving the municipality or municipal entity for ten or more years or retire on grounds of ill health, not exceeding the limits for petty cash usage

[9] Communication

9.1 - A Municipality or municipal entity must, as far as possible, advertise municipal related events on its website instead of advertising in magazines or newspapers.

9.2 - An accounting officer must ensure that allowances to officials for private calls are limited to an amount as determined by the accounting officer in the cost containment policy of the municipality or municipal entity.

9.3 - Newspapers and other related publication for the use of officials must be discontinued on expiry of existing contracts or supply orders.

9.4 - A municipality or municipal entity must participate in the transversal term contract arranged by the National Treasury for the acquisition of mobile communication services.

[10] Conferences, meetings and study tours

10.1 - An accounting officer must establish policies and procedures to manage application by officials to attend conferences or events hosted by professional bodies or non-governmental institutions held within and outside the borders of South Africa taking into account their merits and benefits, costs and available alternatives.

10.2 - An accounting officer may consider appropriate benchmark costs with other professional bodies or regulatory bodies prior to granting approval for an official to attend a conference or event within and outside the borders of South Africa.

10.3 - Such benchmark costs may not exceed an amount as determined by the National Treasury.

10.4 - When considering applications from officials to attend conferences or events within and outside the borders of South Africa, an accounting officer must take the following into account-

- (a) the official's role and responsibilities and the anticipated benefits of the conference or event;
- (b) whether the conference or event addresses relevant concerns of the institution;
- (c) the appropriate number of officials, not exceeding three officials, attending the conference or event; and
- (d) availability of funds to meet expenses related to the conference or event

10.5 - The amount referred to in sub-regulation (3) above excludes costs related to travel, accommodation and related expenses, but includes-

- (a) conference or event registration expenses; and
- (b) any other expense incurred in relation to the conference or event

10.6 - When considering costs for conferences or events these may not include items, such as laptops, tablets and other similar tokens that are built into the price of such conferences or events.

10.7 - The accounting officer of a municipality or municipal entity must ensure that meetings and planning sessions that entail use of municipal funds are, as far as may be practically possible, held in-house.

10.8 - Municipal or provincial office facilities must be utilized for conference, meetings, strategic planning sessions, inter alia, where an appropriate venue exists within the municipal jurisdiction.

10.9 - An accounting officer may consider granting approval, as contemplated in 10.4 for officials, and in the case of Councillors, the Mayor.

10.10 - A municipality or municipal entity must, where applicable, take advantage of early registration discounts by granting the required approvals to attend the conference, event or study tour, in advance.

[11] Other related expenditure items

11.1 - All commodities, services and products covered by a transversal contract concluded by the National Treasury must be procured through that transversal contract before approaching the market, to benefit from savings where lower prices or rates have been negotiated.

11.2 - Municipal resources may not be used to fund elections, campaign activities, including the provision of food, clothing and other inducements as part of, or during election periods.

11.3 - E- Learning methods should be considered for in-house training.

[12] Enforcement Procedures

12.1 - Failure to implement or comply with these Regulations may result in any official of the municipality or municipal entity, political office bearer or director of the board that authorised or incurred any expenditure contrary to these regulations being held liable for financial misconduct as set out in Chapter 15 of the Act read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

[13] Disclosures of cost containment measures

13.1 - The disclosure of cost containment measures applied by the municipality and municipal entity must be included in the municipal in-year budget reports and annual costs savings disclosed in the annual report

13.2 - The measures implemented and aggregate amounts saved per quarter, together with the regular reports on reprioritisation of cost savings, on the Implementation of the cost containment measures must be submitted to the Municipal Council for review and resolution. The municipal council can refer such reports to an appropriate Council Committee for further recommendations and actions.

- 13.3 - Such reports must be copied to the National Treasury and relevant Provincial Treasuries within seven calendar days after the report is submitted to Municipal Council. Department shall at all times ensure that there are enough funds in their departmental budgets before requesting approval to any requisition to purchase an asset;
- 13.4 - Head of department shall ensure that the correct vote and expenditure line item are used and recorded on the requisition requesting approval to purchase an asset;
- 13.5 - Tenders or quotations as required in terms of council's Supply Chain Management policy should be obtained and where required submitted to council's tender committee for approval;
- 13.6 - The tender committee resolution of the approved tender or recommended quotation should be attached to the requisition signed by the relevant head of department;
- 13.7 - The order would then be generated by the Budget and Treasury department;
- 13.8 - Once delivered the asset must be labelled / bar-coded by the Budget and Treasury department before such asset is put into use;

[14] Commencement Date

This policy is applicable from **1 July 2019** and will be applicable to all procurement processes commencing from this date