

# **COST CONTAINMENT POLICY**

## **METSIMAHOLO LOCAL MUNICIPALITY**

**July 2021**

## **INDEX**

1. DEFINITIONS
2. INTRODUCTION
3. OBJECTIVES OF THE POLICY
4. LEGISLATIVE
5. USE OF CONSULTANTS
6. VEHICLE USED FOR POLITICAL OFFICE BEARERS
7. TRAVEL & SUBSISTENCE
8. DOMESTIC ACCOMODATION
9. CREDIT CARDS
10. SPONSORSHIPS, EVENTS AND CATERING
11. COMMUNICATIONS
12. CONFERENCES, MEETING AND STUDY TOURS
13. OTHER RELATED EXPENDITURE ITEM
14. ENFORCEMENT PROCEDURES
15. DISCLOSURE OF COST CONTAINMENT
16. IMPLEMENTATION AND REVIEW OF THIS POLICY
17. SHORT TITLE AND COMMENCEMENT

## **1. 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 these regulations; 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. INTRODUCTION**

Each municipality and municipal entity must develop or revise and implement a cost containment policy which must-

- in the case of a municipality, be adopted by the municipal council, and in the case of a municipal entity, by the board of directors as part of its budget related policies;
- define municipality or municipal entity’s objectives for the use of consultants, and
- Be consistent with the Act and these Regulations.

The cost containment policy of a municipality contemplated in sub-regulation

- Must be in writing
- Give effect to these regulations
  - o Be reviewed annually, as may be appropriate
  - o Be communicated on the municipality’s website and
  - o Set out Measures for ensuring implementation of the policy
  - o Procedures for the annual review of the policy and
  - o Consequences for non-adherence to the measures contained therein.

## **OBJECTIVES OF POLICY**

The objectives of the policy are to ensure that resources of the municipality are used effectively, efficient and economically by implementing cost containment measures.

## **3. LEGISLATIVE**

The legislative framework governing cost containment is:

- ✓ Local Government Municipal Finance Management Act, Act 56 of 2003 section 62(1) a, 78 (1) b, 95(a) and 105(1) (b).
- ✓ Municipal Cost Containment Regulations

## **4. USE OF CONSULTANTS**

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

4.2. An accounting officer must adopt a fair and reasonable remuneration framework for consultants taking into account the rates-

4.2.1. Determined in the “Guidelines on fees for audits undertaken on behalf of the Auditor general of South Africa, issued by the South African institute of chartered accountant.

4.2.2. Set out in the “Guide on Hourly fee rates for consultant” issued by the Department of Public Service and Administration.

4.2.3 As prescribed by the body regulating the profession of the consultants.

4.3. The tender documentation for the appointment of consultants must include a clause that the remuneration rate will be subject to negotiation, not exceeding the applicable rates mentioned in sub-regulation (4.2)

4.4. When negotiating cost-effective consultancy rates for international consultants, the accounting officer may take into account the relevant international and market determined rates.

4.5. When consultant is appointed, an accounting officer-

4.5.1. appoint consultants on a time and cost basis with specific start and end dates;

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

4.5.3. Ensure that contract with consultants include overall cost ceilings by specifying whether the contract price is inclusive or exclusive of travel and subsistence disbursements;

4.5.4. Ensure the transfer of skills by consultants to the relevant officials of the municipality;

4.5.5 Undertake all engagement of consultants in accordance with the municipal supply chain management regulations, 2005 and the municipality's supply chain management policy; and

4.5.6. Develop consultancy reduction plans

4.6 All contracts with consultants must include fee retention or penalty clause for poor performance

4.7. A municipality 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.

4.8 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.

4.9 The contract price must specify all 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 abovementioned travel policy of the National Department of Transport.

## **5. VEHICLE USED FOR POLITICAL OFFICE - BEARERS**

5.1. The threshold limit for the 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, as defined in the Public Office Bearers Act and the notices issues in terms thereof by the minister of Cooperative Governance and Traditional affairs, whichever is lower.

5.2. The procurement of vehicles in sub-regulation (5.1) must be undertaken using the national government transversal contract mechanism, unless if maybe procured at a lower cost through other procurement mechanisms.

5.3 Before deciding on another procurement process as contemplated in sub regulation (5.2), the accounting officer or delegated official must provide the council with information relating to the following criteria which must be considered;

5.3.1 Status of current vehicles

5.3.2 Affordability of options including whether to procure a vehicle as compare to rental or ire thereof, provided that the most cost effective option is followed and the cost is equivalent to or lower than that contemplated in sub regulations 5.1

5.3.3. Extent of service delivery backlogs

5.3.4. Terrain for effective usage of vehicles; and

5.3.5. Any other policy of council

5.4. If the rental referred to in sub regulation 5.3 is preferred, the accounting officer must review the cost incurred regularly to ensure that value for money is obtained.

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

5.6. Notwithstanding sub-regulation 5.5, a municipality 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.

5.7 The Accounting Officer must ensure that there is a policy that addresses the use of vehicles for official purposes.

## **6. TRAVEL AND SUBSISTENCE**

6.1. An accounting officer-

6.1.1 May only approve purchase of economy class tickets for official or political office bearers where the flying time for the flights is five hours or less; and

6.1.2. May only approve purchase of business class tickets for officials, political office bearers, and persons reporting directly to accounting officers for flights exceeding five hours.

6.2. In the case of the accounting officers, the mayor may approve the purchase of economy class tickets where the flying time for the flights is five hours or less and business class for flights exceeding five hours.

6.3 Notwithstanding sub-regulation 6.1 and 6.2, an accounting officer or mayor in case of the accounting officer, may approve the purchase of business class tickets for an official and political office bearer with a disability or a certified medical condition.

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

6.5. An accounting officer, or the mayor in the case of the accounting officer, may approve accommodation costs that exceed an amount as determined from time to time by National Treasury through notice only-

6.5.1 During peak holiday periods; or

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

6.6. An official or political office bearer of a municipality must-

6.6.1 Utilise the municipal fleet, where viable, before incurring costs to hire vehicles;

6.6.2. Make use of available public transport or a shuttle service if the cost of such a service is lower than-

(i) The cost of hiring a vehicle;

(ii) The cost of kilometres claimable by the official or political office bearer; and

(iii) The cost of parking.

6.6.3. Not hire vehicles from a category higher than group B or an equivalent class; and

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

6.7 Municipality must utilise the negotiated rates for flights and accommodation, communicated by the National Treasury, from time to time, through a notice or any other available cheaper flight and accommodation.

## **7. DOMESTIC ACCOMMODATION**

7.1 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.

7.2. Overnight accommodation may only be booked where the return trip exceeds 500 kilometres.

## **8. CREDIT CARDS**

8.1 An accounting officer must ensure that no credit card or debit card linked to a bank account of a municipality is issued to any official or public office bearer.

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

## **9. SPONSORSHIPS, EVENTS AND CATERING**

9.1. The Municipality may not incur catering expenses for meetings which are only attended by persons in the employ of the municipality, unless the prior written approval of the accounting officer is obtained.

9.2. 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.

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

9.4 The Municipality may not incur expenses on alcoholic beverages unless the municipality recover the cost from the sale of such beverages.

9.5. An Accounting officer must ensure that social functions, team building exercises, year-end functions, sporting events, budget vote dinners are not financed from the municipality's budget or by any suppliers or sponsors.

9.6. The municipality may not incur expenditure on corporate branded items like clothing or goods for personal use of officials, other than uniforms, office supplies and tools of trade unless costs related thereto are recovered from affected officials or is an integral part of the business model.

9.7. An Accounting officer may incur expenditure to host farewell functions in recognition of officials who retire after serving the municipality for ten or more years

or retire on grounds of ill health, not exceeding the limits for petty cash usage, R2 000.

## **10. COMMUNICATIONS**

10.1. The municipality must, as far as possible, advertise municipal related events on its website instead of advertising in magazines or newspapers.

10.2. 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.

10.3. Newspapers and other related publication for the use of officials must be discontinued on expiry of existing contracts or supply orders, unless required for professional purposes and where unavailable in electronic format.

10.4 The municipality must participate in the transversal term contract arranged by the National Treasury for the acquisition of mobile communication services.

## **11. CONFERENCES, MEETING AND STUDY TOURS**

11.1 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.

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

11.2.1 The official's or political office bearer's role and responsibility and the anticipated benefits of the conference or event;

11.2.2 Whether the conference or event addresses relevant concerns of the institution;

11.2.3. The appropriate number of officials or political office bearers, not exceeding three, attending the conference or event; and

11.2.4. Availability of funds to meet expenses related to the conference or event.

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

11.4. The benchmark cost referred to in subregulation 11.3 may not exceed an amount as determined by the National Treasury through a notice.

11.5. The amount referred to in sub-regulation 11.4 above excludes costs related to travel, accommodation and related expenses but includes -

11.5.1. Conference or event registration expenses; and

11.5.2. Any other expense incurred in relation to the conference or event.

11.6. 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 conference or events.

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

11.8. Municipal or provincial office facilities must be utilised for conference, meeting, strategic planning, inter alia, where an appropriate venue exists within the municipal jurisdiction.

11.9. An accounting officer must grant approval for officials and in the case of political office bearers and the accounting officer, the mayor, as contemplated in sub regulation 11.2

11.10 The municipality must, where applicable, taken advantage of early registration discounts by granting the required approvals to attend the conference, event or study tour, in advance.

## **12. OTHER RELATED EXPENDITURE ITEMS**

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

12.2. Municipal resources may not be used to fund elections, campaign activities, including the provision of food, clothing, printing of agendas and brochures and other inducements as part of, or during election periods or to fund any activities of any political party at any time.

12.3. Expenditure on tools of trade for political office bearers must be limited to the upper limits as approved and published by the Cabinet minister responsible for local government in terms of the Remuneration of Public Office Bearers Act, 1998.

12.4 The municipality must avoid expenditure on elaborate and expensive office furniture.

12.5 The municipality may only use services of the South African Police Services to conduct periodical or quarterly security treat assessments of political office bearers and key officials and a report must be submitted to the Speaker's office.

12.6. The municipality may consider providing additional time-off in lieu of payment for overtime worked. Planned overtime must be submitted to the relevant manager for consideration on a monthly basis. A motivation for all unplanned overtime must be submitted to the relevant manager.

12.7. The municipality must ensure that due process is followed when suspending or dismissing officials to avoid unnecessary litigation costs.

### **13. ENFORCEMENT PROCEDURES**

Failure to implement or comply with these policies may results in any official of the municipality, 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.

### **14. DISCLOSURE OF COST CONTAINMENT MEASURE**

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

14.2. 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 municipality can refer such reports to an appropriate council committee for further recommendations and actions.

14.3. The reports referred to in sub regulation 14.3 must be copied to National Treasury and relevant Provincial Treasury within seven calendar days after the report is submitted to municipal council.

### **15. IMPLEMENTATION AND REVIEW OF THIS POLICY**

15.1. This policy shall be implemented once approved by Council.

15.2. In terms of section 17 (1) (e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.

## **16. SHORT TITLE AND COMMENCEMENT**

This policy is called the Municipal cost containment policy 2021/2022 and takes effect on 01 July 2021.