

Buffalo City Metropolitan Municipality Policy



1. POLICY TITLE

MUNICIPAL COST CONTAINMENT MEASURES

2. PREAMBLE

- 2.1 The national government has been aware of the need to contain costs and Cabinet resolved that all spheres of government, including municipalities and municipal entities must implement measures to contain operational costs and eliminate all non-essential expenditure. These can then be re-prioritised to address service delivery backlogs
- 2.2 In the 2016 State of the Nation Address, cost containment measures were reemphasised. It was highlighted that excessive and wasteful expenditure has to be reduced, and that increased action be taken to manage unnecessary expenditure.
- 2.3 In implementing the above, the Minister of Finance also announced cost containment measures in his budget speech on 24 February 2016 and urged Mayors of municipalities to exercise and oversee the elimination of wasteful expenditure in government.

3. LEGAL MANDATES AND REGULATORY FRAMEWORK

The following laws and regulations, amongst others, inform this policy:

- 3.1 The MFMA (Act 56 of 2003) section 62(1) read in conjunction with section 65(1), regulates as follows:
- a) the accounting officer of a municipality is responsible for managing the financial administration as well as the management of the expenditure of the municipality, and must for this purpose take all reasonable steps to ensure:
 - i. that the resources of the municipality are used effectively, efficiently and economically;
 - ii. that the municipality's available working capital is managed effectively and economically in terms of the prescribed cash management and investment framework.



4. PURPOSE OF THE POLICY

4.1 To prescribe a process to be followed in implementing the austerity measures in the municipality in line with National Treasury Regulations on Municipal Cost Containment which directs that, prime amongst other things that:

- a) Accounting Officers must ensure that appropriate expenditure control measures are instituted to provide reasonable assurance that all expenditure incurred by municipalities is necessary, appropriate, paid promptly, recorded adequately and reported accordingly in the relevant accountability instruments.

5. STRATEGIC OBJECTIVES

5.1 The underlying objective of this *Policy* is to prescribe cost containment measures for Buffalo City Metropolitan Municipality in line with Municipal Cost Containment Regulations (MCCR).

5.2 To give effect and regulate cost containment measures (austerity measures) in terms of expenditure incurred by the municipality in the process of carrying out Council business and discharging its duties for purposes of service delivery, taking into account that:

- i. Limited resources should be used effectively, efficiently and in accordance with the approved budget as well as any relevant financial policy as determined by the financial regulations for local authorities and guidelines by the Financial Management of the Buffalo City Metropolitan Municipality.
- ii. Given the economic problem of scarcity, it is imperative that resources be applied effectively and efficiently to achieve economic and social objectives. The global economic crisis has resulted in the contraction of many economies and in this regard, South Africa has also adopted measures to ensure fiscal prudence.



6.1 Financial control

The Chief Financial Officer has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control. A municipality's policy on cost containment measures and its underlying administrative process within the system of delegations is one of these controls.

Section 81(1)(d) of the MFMA states *inter alia* that "The chief financial officer of a municipality must advise senior managers and other senior officials in the exercise of powers and duties assigned to them in terms of section 78 or delegated to them in terms of section 79".

6.2 Effective, efficient, economical and transparent utilisation of funds

It is the responsibility of each senior manager, to plan and conduct assigned operations in a manner not to spend more funds than budgeted for and to ensure that funds are utilised effectively and efficiently.

Section 78(1)(b) of the MFMA states *inter alia*, "Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently."



7. DEFINITIONS AND ABBREVIATIONS

Abbreviations:

MFMA: Municipal Finance Management Act (Act 56 of 2003)

CFO: Chief Financial Officer

GRAP: Generally Recognised Accounting Standards

IDP: Integrated Development Plan

MCCR: Municipal Cost Containment Regulations

SCM: Supply Chain Management

Definitions:

Accounting Officer/ City Manager

“- (a) in relation to a municipality, means the municipal official referred to in section 60;” The municipal manager of a municipality is the accounting officer of the municipality for the purpose of this Act (MFMA, 2003).

Chief Financial Officer

“a person designated in terms of section 80(2) (a)”. A chief financial officer is designated by the accounting officer of the municipality (MFMA, 2003).

Head of Directorates

Section 56 of the Municipal Systems Act states *inter alia* “Appointment of managers directly accountable to municipal managers - (a) a municipal council, after consultation with the municipal manager, appoints a manager directly accountable to the municipal manager...”

Austerity Measures

Refers to official actions taken by the government entity, during a period of adverse economic conditions, to bring its expenditures in line with revenues generated using a combination of spending cuts and/or cost saving initiatives.

Financial year

The 12-month period between 1 July and 30 June (MFMA, 2003).



8. SCOPE OR APPLICABILITY OF THE POLICY

- 8.1 As directed by the National Treasury Regulation on Municipal Cost Containment, it is mandatory that all government departments, constitutional institutions and public entities (including municipalities) implement the cost containment measures.
- 8.2 This policy is in line with the National Treasury Regulations on Cost Containment and applies to Buffalo City Metropolitan Municipality.

9. GOVERNANCE ISSUES/ AUTHORITY/ DELEGATIONS

9.1 The Administration

The Accounting Officer:

- a) must annually facilitate the revision of this cost containment measures policy;
- b) must communicate and make this policy accessible to all relevant officials; and
- c) is responsible for the interpretation and administration of the policy.

9.2 The Council

- a) Councillors are required to familiarise themselves with this policy's contents, and oversee its implementation by the officials; and
- b) Council to approve and adopt the cost containment policy.

10. POLICY PROCEDURES/ IMPLEMENTATION

10.1 GUIDING PRINCIPLES

Implementation of cost containment measures in line with treasury regulations on municipal cost containment.



10.1.1 Engagement of consultants

- a) The municipality may only contract consultants after a gap analysis has confirmed that the municipality does not have the requisite skills or resources in its full-time employment to perform the assignment in question. Based on a business case, the appointment of consultants may only be approved by the accounting officer.
- b) Consultants may only be remunerated at the rates:
 - i. determined in the "Guideline for fees", issued by the South African Institute of Chartered Accountants (SAICA);
- c) 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.
- d) (An accounting officer must adopt a fair and reasonable remuneration framework for consultants taking into account the rates –
 - I. 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;
 - II. set out in the "Guide on Hourly Fee Rates for Consultants ", issued by the Department of Public Service and Administration; or
 - III. as prescribed by the body regulating the profession of the consultant.)
- e) 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 -clause 10.1.1 (d).
- f) When negotiating cost -effective consultancy rates for international consultants, the accounting officer may take into account the relevant international and market -determined rates.
- g) When consultants are appointed, an accounting officer must –
 - I. Appoint consultants on a time and cost basis with specific start and end dates;
 - II. Where practical, appoint consultants on an output- specified basis, subject to specific measurable objectives and associated remuneration;



- III. Ensure that contracts with consultants include overall cost ceilings by specifying whether the contract price is inclusive or exclusive of travel and subsistence disbursements;
 - IV. Ensure the transfer of skills by consultants to the relevant officials of a municipality or municipal entity;
 - V. Undertake all engagements of consultants in accordance with the Municipal Supply Chain Management Regulations, 2005 and the municipality or municipal entity's supply chain management policy; and
 - VI. Develop consultancy reduction plans to reduce the reliance on consultants.
- h) All contracts with consultants must include a fee retention or penalty clause for poor performance.
 - i) 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 are appropriately recorded and monitored.
 - j) The travel and subsistence costs of consultants must be in accordance with the national travel policy issued by the National Department of Transport, as updated from time to time.
 - k) The contract price must specify all travel and subsistence costs 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 national travel policy of the National Department of Transport.
 - I. Set out in the "Guide on Hourly Fee Rates for Consultants", by the Department of Public Service and Administration (DPSA); or
 - II. Prescribed by the body regulating the profession of the consultant.
 - l) Hotel accommodation and related costs in respect of consultants may not exceed the amount prescribed in the Municipal Cost Containment regulation. Air travel must be restricted to economy class and claims for kilometers may not exceed the rates approved by the Automobile Association of South Africa (AA).



- m) All contracts of consultants must include penalty clauses for poor performance and in this regard, accounting officers and accounting authorities must invoke such clauses where deemed necessary.
- n) In line with the Cost Containment regulations, the municipality must develop consultancy reduction plans each year for implementation in the ensuing financial year. The first consultancy reduction plan required in terms of this Policy must be developed before 30 June 2020 for implementation in the 2020/2021 financial year.

10.1.2 Travel and Subsistence

- a) The municipality may only purchase economy class tickets for its employees where the flying time for their flights is for five (5) hours or less.
- b) For flights exceeding five (5) hours, business class tickets may only be purchased for the Mayor, Deputy Mayor, Chief Whip, Speaker, Metropolitan Mayoral Committee or members of the Executive Committee (EXCO).
- c) Notwithstanding the provisions of this Policy, the accounting officer may approve the purchase of business class tickets for employees with disabilities or for those with special needs.
- d) Notwithstanding the provisions of this Policy, the purchase of business class tickets for flights that are less than five (5) hours shall be limited to the Mayor, Deputy Mayor, Chief Whip, Speaker, Metropolitan Mayoral Committee or members of the Executive Committee (EXCO).
- e) An accounting officer –
 - I. may approve the purchase of economy class tickets for all officials or political office bearers where the flying time for the flights is five hours or less; and
 - II. may only approve the purchase of business class tickets for officials, political office bearers and persons reporting directly to the accounting officer for flights exceeding five hours.
 - III. In the case of the accounting officer, the mayor may approve the purchase of economy class tickets where the flying time is five hours or less and business class tickets for flights exceeding five hours.



- IV. Notwithstanding clause 10.1.2(i) or 10.1.2 (ii), an accounting officer, or the mayor in the case of an accounting officer, may approve the purchase of business class tickets for an official or a political office bearer with a disability or a medically certified condition.
- f) 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.
- g) 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 the National Treasury through a notice only –
- I. during peak holiday periods;
 - II. 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 /or international guests in that particular geographical area.
- h) An official or a political office bearer of a municipality or municipal entity must –
- I. utilise the municipal fleet, where viable, before incurring costs to hire vehicles;
 - II. make use of available public transport or a shuttle service if the cost of such a service is lower than the cost of hiring a vehicle; the cost of kilometres claimable by the official or political office bearer; and the cost of parking.
 - III. not hire vehicles from a category higher than Group B or an equivalent class; and
 - IV. 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.
- i) A municipality or a municipal entity must utilise the negotiated rates for flights and accommodation as communicated from time to time by the National Treasury through a notice or any other available cheaper flight and accommodation.



10.1.3 Conferences, Meetings and Study Tours

- a) An accounting officer must establish policies and procedures to manage applications 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.
- b) When considering applications from officials or political office bearers to attend conferences or events within and outside the borders of South Africa, an accounting officer or mayor as the case may be, take the following into account –
 - I. the official's or political office bearer's role and responsibilities and the anticipated benefits of the conference or event;
 - II. whether the conference or event addresses relevant concerns of the institution;
 - III. the appropriate number of officials or political office bearers, not exceeding three, attending the conference or event; and
 - IV. the availability of funds to meet expenses related to the conference or event.
- c) 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.
- d) The benchmark costs referred to in clause 10.1.3(c) may not exceed an amount as determined from time to time by the National Treasury through a notice.
- e) The amount referred to in clause 10.1.3 (d)) excludes costs related to travel, accommodation and related expenses, but includes –
 - I. (a) conference or event registration expenses; and
 - II. any other expense incurred in relation to the conference or event.
- f) 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.
- g) The accounting officer of a municipality or municipal entity must ensure that meetings and planning sessions that entail the use of municipal funds are, as far as may be practically possible, held in- house.



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

10.1.4 Domestic Accommodation

- a) Domestic hotel accommodation may not exceed one thousand three hundred rand (R1 300) per night per person (including dinner, breakfast and parking).
- b) The National Treasury may periodically review this amount.
- c) MCCR requires municipalities and municipal entities to only book accommodation where the return trip exceeds 500 kilometres. There may be circumstances that such limitations may be impractical. For example, in instances where attendance is required over a number of days, or there is a risk to the health of the official or councillor and cost vs benefit considerations can warrant such expenditure.

10.1.5 Vehicle Hire

- a) The municipality may not hire vehicles from a category higher than Group B or an equivalent class.
- b) Where a different class of vehicle is required for a particular terrain or to cater for the special needs of an employee, such a vehicle may only be hired with the prior written approval of the Accounting Officer.
- c) The number of employees travelling on Council business for the same matter and where there are financial implications in terms of car hire shall be limited to such a number as will be accommodated in one vehicle, unless otherwise approved in advance by the Accounting Officer.



- d) Similar to clause 10.1.5(c) of this Policy, the number of employees travelling by air to other Centre's to attend official engagements on the same matter shall be limited to three (3) employees, unless otherwise approved in advance by the Accounting Officer.
- e) No municipal employee may extend or approve extension of services in respect of either car hire, hotel accommodation or air travel without prior written consent of the Accounting Officer.

10.1.6 Expenses related to catering and events

- a) The municipality may not incur catering expenses for internal meetings, i.e. for meetings attended only by persons in its employment, unless approved by the Accounting Officer.
- b) The municipality may not incur expenses on alcoholic beverages except for instances where alcohol is to be served at functions relating to:
 - i. state banquets;
 - ii. the hosting of foreign dignitaries.
- c) The Accounting Officer must ensure that team building exercises and social functions, including year-end functions, are not financed from the budget of the municipality.

10.1.7 Arrangements related to debit and credit cards

- a) MCCR prohibits the issuance of credit cards to municipal officials or public office bearers.
- b) A bank, or any other institution, may not issue credit cards or debit cards linked to a bank account of a municipality or a municipal entity to any councillors, entity board members, municipal or entity officials or any other person.
- c) Where officials or councillors incur expenses in relation to official municipal activities, they can use their personal credit cards or cash, and request reimbursement from the municipality in accordance with the relevant municipal policy and processes.



- d) Alternatively, the municipality should make arrangements with the service provider that the expenditure be settled directly by the municipality.

10.2 ADDITIONAL COST CONTAINMENT MEASURES FOR CONSIDERATION BY THE MUNICIPALITY

10.2.1 Municipal Fleet Maintenance

- a) Trips by vehicles (including use of municipal fleet) must be optimized to reduce costs. To the extent possible, any usage of municipal fleet must be in line with pre-approved work plan and such plan must be reconciled on a periodic basis and any deviations from the planned travel.
- b) Any deviations on this policy should be reported to the Council quarterly for corrective measures to be instituted against the defaulting parties.
- c) Motor vehicle travel claims must be restricted to the actual distance travelled in excess of the normal distance from the employee's residence to his or her place of work. Claimable kilometers travelled shall be calculated from the employee's residence or his/her place of work, whichever ever constitutes the actual distance travelled.

10.2.2 Employee Related Costs

- a) Where possible and practical:
 - i. Payment of overtime must be curbed to a bare minimum
 - ii. Leave encashment to be approved only under extreme emergency cases.
 - iii. Leave encashment in lieu of long service awards to be negotiated with employees and where practical to be taken as annual leave.

10.2.3 Inventory

- a) Bulk purchases should be considered for regularly consumed inventory. Measures must be taken to ensure that unnecessary wastages and/or water losses are minimised. Further steps must be taken to implement measures
- b) Supplier and early settlement discounts must be negotiated to secure lower prices.



- c) Production costs related to publications must be minimized for example, by limiting the number of photographs, paying due attention to the quality of paper and giving consideration to the number of copies printed.
- d) Savings on the amount of paper used must be considered by printing draft documents 'back to back' and by using color printing facilities prudently.
- e) The use of electronic mail (email) must be encouraged instead of postage, hand book diaries, etc.
- f) All newspapers and other publications for employees (Excluding Top Management, Mayor and EXCO) should be discontinued.
- g) Consideration should be given to purchasing software licenses through the State Information Technology Agency (SITA) to leverage economies of scale and preferential rates.

10.2.4 Water and Electricity

- a) The prudent use of water and electricity must be encouraged to lower utility costs.

10.2.5 Communication and Printing Costs

- a) Telephone costs to employees for must be limited to R 250 per month.
- b) Printing of material which otherwise is readily available in electronic format must at all times be discouraged. To this end, circulation of agendas for various meetings must be converted into electronic media as opposed to hard copies of printouts.
- c) The allocation of cellular phones and data facilities to employees must be based on the nature of their work as opposed to the positions they hold.
- d) Telephone and/or video conferencing facilities must be used, where possible, to avoid unnecessary travel and subsistence costs.
- e) To the extent possible, usage of branded materials e.g. diaries, calendars and flyers must be minimized. Where circumstances compel that this expenditure be incurred, such may only be done after obtaining prior approval of the Accounting Officer.



10.2.6 Refreshments

- a) Reasonable steps must be taken to ensure that costs in respect of groceries, and general staff refreshments are minimized. This take into account provision for snacks and drinks for personal use or entertainment purposes.

10.2.7 Advertising

- a) Advertisements for vacancies and tender notices should be placed through bulk advertisements. To the extent possible, the specification content of advertised material should be provided in detail on the municipality’s website of the department.

10.2.8 Financial assets

- a) Every effort must be made to recover debts from debtors before giving any consideration to writing off those debts.

10.2.9 Hiring of venues

- a) Meetings and planning sessions must, as far as practically possible, be held in-house. In instances where such sessions cannot be held in-house, alternate facilities at other government institutions must be sought.

10.2.10 Miscellaneous measures

- a) There should be synergy between similar business activities to avoid duplication of processes and efforts.
- b) Purchasing of new furniture and equipment and office refurbishments should only be undertaken where absolutely necessary.
- c) Caution should be exercised in the selection of training service providers by ensuring that courses attended by employees are of sufficient quality to derive value for money. E-Learning methods should be considered for in-house training.



10.3 CONTRADICTION WITH OTHER POLICY DOCUMENTS

Where any form of contradiction occurs between this policy and any other municipal policy or regulation, to the extent that provisions of this policy are not in any way in contravention with any legislation, provisions of this policy shall supersede such other municipal policy.

10.4 DEVIATIONS FROM THIS POLICY

Requests for deviations from provisions of this Policy may be considered upon written requests to the Accounting Officer, who, as the case may be, may also need to consult with the Municipal Council and National Treasury for purposes of seeking relaxation of a particular policy provisions.

10.5 EVALUATION AND REVIEW

- a) This policy shall be implemented once approved by Council.
- b) This policy must be reviewed on an annual basis.
- c) Changes in and legislation must be taken into account for future amendments to this policy.
- d) Any amendments must be tabled to Council for approval as part of the budget process.

10.6 ENFORCEMENT OF COST CONTAINMENT MEASURES

The non-adherence to the provisions of the MCCR will be an act of financial misconduct as defined in section 171 and 172 of the MFMA and municipalities and the municipality will have to implement the provisions of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.



10.7 REPORTING

10.7.1 The municipality is required to utilise existing reporting requirements, to report internally and externally on cost saving measures. This include reporting such savings in the Annual Report. Refer to Annexure D of MFMA circular 97 for a template on quarterly reporting and the annual report.

10.7.2 It is also required that the measures implemented on Cost Containment are captured in quarterly reports submitted to the Municipal Public Accounts Committee and Mayor for review and recommendations to Council on additional measures to be taken.

11. COMPETENCE AND CAPACITY TO IMPLEMENT THE POLICY

- 11.1 The policy should be available and communicated to all staff
- 11.2 All staff must be aware of the prescriptions of this policy
- 11.3 All staff must be aware of the procedures contained in this policy
- 11.4 Supervisors/ managers must ensure compliance with this policy

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12. CLASSIFICATION TABLE

<i>Governance</i>	2.0	Governance
<i>Sub classification</i>	N/A	None
<i>Title</i>	COST CONTAINMENT MEASURES POLICY	
<i>File Number</i>		
<i>Related Policies or Procedures</i>	<ul style="list-style-type: none"> • Budget Virement Policy, Budget Management Policy, Tariff Policy, Cash Management Policy, Subsistence and Travelling policy 	
<i>Responsible Officer</i>	<ul style="list-style-type: none"> • Accounting Officer 	
<i>Original Authors</i>	<ul style="list-style-type: none"> • Chief Financial Officer, HOD: Corporate Services 	
<i>Current Author</i>	<ul style="list-style-type: none"> • Mr. N Sigcau: Chief Financial Officer • Mr. AS Naidoo: HOD: Corporate Services 	
<i>Date of Approval by Council & Council Minute Number</i>		
<i>Effective date</i>	<ul style="list-style-type: none"> • 	
<i>Last Review Date</i>	<ul style="list-style-type: none"> • 	
<i>Review Date</i>	<ul style="list-style-type: none"> • 	