

# FRANCES BAARD DISTRICT MUNICIPALITY



## COST CONTAINMENT POLICY

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## 1. DEFINITIONS

### **"Accounting officer"**

- a) In relation to a municipality, means the municipal official referred to in section 60 of the Municipal Finance Management Act; or
- b) In relation to a municipal entity, means the official of the entity referred to in section 93 of the Municipal Finance Management Act, and include a person acting as the accounting officer;

**"Financial year"** means a year ending on 30 June;

**"Fruitless and wasteful expenditure"** means expenditure that was made in vain and would have been avoided had reasonable care been exercised;

**"Category D Vehicles"** are economical vehicles that have: Sedan, 4/5 door, manual or automatic transmissions, air-condition, radio and power starring.

**"Group B Vehicles"** are vehicles that have: Hatchback, 5 door, manual transmission, air-condition, radio/cd, and power steering. e.g. Polo, VW or something similar to that.

### **"Overspending"**

a) in relation to the budget of a municipality, means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;

b) In relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or

c) In relation to expenditure under section 26, means causing expenditure under that section to exceed the limits allowed in subsection (5) of that section;

**"Municipal Finance Management Act"** means the Municipal Finance Management Act, 2011 (Act No. 56 of 2003);

**"SCM"** means Supply Chain Management Unit, where the procurement process takes place.

**"SAA"** – means South African Airways

**"BA"** – means British Airways

**"Senior Manager"** means the head of the department in the municipality

## 2. BACKGROUND

The economic downturn has tremendously imposed serious financial challenges on the government service delivery mandates. This crippling effect has pushed the government to re-assess its current financial position. It is therefore vital that available resources are channeled towards service delivery, placing emphasis on the efficient allocation of resources, away from spending on non-essential items and frills.

The proposed Division of Revenue (DoRA) continues to prioritise funding services for poor communities. Allocations to local government subsidise the delivery of free basic services to low-income households, and the infrastructure needed to deliver those services. MFMA Circular 89 indicates that the 2017 projected Gross Domestic Product growth forecast of 1.3% in the 2017/18 budget was revised down to 0.7%. the rate of recovery will be slow and at this time, it is anticipated that growth of 1.9 per cent may be reached by 2020. In summary, the country's collection targets have not been met and this means that the fiscus has less funds available to allocate across the various spheres of government. Unfortunately, a similar decline cannot be measured in expenditure and this means that deficits are growing.

The Presidency announced in a press statement on 27 November 2017 that, "President Jacob Zuma has directed the Minister of Finance, Mr Malusi Gigaba, assisted by the Presidential Fiscal Committee, to identify concrete measures to urgently address the challenges notorious in the Medium Term Budget Policy Statement (MTBPS)." These measures should focus on four areas, one of which is, "To identify and finalise proposals for cuts in expenditure amounting to about R25 billion. Such proposed cuts should not be in areas that will negatively economic growth prospects and job creation."

National Treasury is currently working to implement this directive from the President. If the proposed cuts in expenditure are adopted by Cabinet, they could result in substantial changes to the DoRA that was tabled in the 2017 MTBPS. The municipality should be aware in planning for the 2018/19 budget and the outer years that these changes could include substantial reductions to grants allocation to local government.

Frances Baard District Municipality has for the past five (5) financial years adopted a budget with an operating deficit, which means that the revenue anticipated was less than the expenditure budgeted for. The approval of such a budget was on the basis that the municipality had accumulated reserves that could off-set the deficit. The reserves depleted over the years because of the financial assistance to our local municipalities and it is crucial to implement cost containment measures to eliminate wasteful expenditures.

### **3. PURPOSE**

In terms of the legal framework, the elected council 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. It is crucial for the municipality to ensure that expenditure is limited to the maximum revenue collected and not spend on money that we do not have. Furthermore, the municipality is reminded that the local government equitable share allocation is mainly for the costs of free basic services and to subsidise the administration costs of our smaller municipalities.

The cost containment policy is meant to give effect to provisions of the Municipal Finance Management Act (MFMA) which 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. Failure to do this will result in the accounting officer committing an act of financial misconduct which will trigger the application of chapter 15 of the MFMA read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

The purpose of this policy is therefore, to guide France Baard District Municipality (FBDM) on cost containment measures that must be implemented in an effort to address the impact of the country's economic challenges and to promote growth, address unemployment and equality, amongst others. Furthermore, the policy will demonstrate how the municipality should undertake annual budget preparation in accordance with the budget and financial reform agenda.

#### 4. GOODS AND SERVICES –

**The following expenses should be curtailed:**

##### **Engagement of Consultants**

- The accounting officer must only contract with consultants after a gap analysis report has confirmed that the municipality does not have the requisite skills or resources in its permanent employment to perform the services required.
- Evidence of acute planning of the project must be visible to all relevant persons including the administration and political oversight mechanisms in place at the municipality.
- Consultants, including construction and infrastructure related services, must only be remunerated at the rates equal to or below those:
  - determined in the “Guidelines on fees for audits done on behalf of the Auditor-General South Africa”, issued by the South African Institute of Chartered Accountants (SAICA);
  - set out in the “Guide on Hourly Fee Rates for Consultants”, by the Department of Public Service and Administration (DPSA); or
  - Prescribed by the body regulating the profession of the consultant.
- Ensure an exacting “specification” of the work to be accomplished accompanies the tender and is used as a monitoring tool, are appropriately recorded and monitored.
  - a) Ensure that contracts for consultants include retention and penalty clauses for poor performance and in this regard against the above specification, accounting officers must invoke such clauses, where deemed necessary.
  - b) It is mandatory that the accounting officer of municipality conclude on the best “value for money”, i.e. matching fees against quality and against benchmarked practices.
  - c) The accounting officer must appoint consultants on a time and cost basis with specific start and end dates.
  - d) Travel and subsistence costs for the appointment of consultants must be in accordance with the travel policy of government and the contract price specifies all travel & subsistence costs.
  - e) If travel and subsistence costs for appointed consultants are exclusive of the contract, the costs must be in accordance with the following provisions:
    - Hotel accommodation may not exceed the amount mentioned in municipality’s S&T policy;
    - Only economy class air tickets may be purchased for flights;
    - Only group B vehicles or lower may be hired for engagements;

- Kilometers claimed for the use of private vehicles may not exceed the rates approved by the National Department of Transport, as updated from time to time.
- f) The municipality must develop consultancy reduction plans.
- g) The municipality must undertake all engagements of consultants in accordance with the SCM Regulations and the municipality's Supply Chain Management
- h) policy.

### Travel and subsistence

The National Treasury, on behalf of all three spheres of government, has negotiated improved upfront discounts for flights as well discounted accommodation rates

#### 1. Air Travel

The municipality will only utilize SAA and BA due to upfront discounted rates negotiated by National Treasury for government officials. Only Economy Class tickets will be procured by the municipality officials, however where a single flight exceed 5 hours, consideration may be applied with approval of the Accounting Officer.

#### 2. Domestic Hotel Accommodation

National Treasury has established maximum allowable rates for domestic accommodation. When sourcing accommodation for employees and councillors, municipalities should find option that are equal to or lower than the rates in the table below:

Voucher included	BAND 1	BAND 2	BAND 3
	Room only; Tourism Levy; and VAT.	Bed & breakfast; Tourism Levy; and VAT.	Dinner, bed & breakfast; Tourism Levy; VAT; and 2 x soft drinks at dinner.
<b>Graded Hotel, Boutique Hotel, Lodge or Resort</b>			
1 Star	R 580	R 710	R 855
2 Star	R 900	R 1 030	R 1 230
3 Star	R 1 100	R 1 200	R 1 400
4 Star	R 1 250	R 1 350	R 1 550
5 Star	R 2 100	R 2 200	R 2 500
<b>Bed &amp; Breakfast, Country Hotel or Guest House</b>			
	BAND 1	BAND 2	BAND 3
1 Star	R 300	R 450	R 630
2 Star	R 500	R 650	R 830

3 Star	R 900	R 1 050	R 1 230
4 Star	R 1 000	R 1 150	R 1 330
5 Star	R 1 200	R 1 350	R 1 530
<b>Self-Catering</b>			
	<b>BAND 1</b>	<b>BAND 2</b>	<b>BAND 3</b>
1 Star	R 580		
2 Star	R 900		
3 Star	R 1 100		
4 Star	R 1 250		
5 Star	R 2 100		
<b>Meals</b>			
	<b>BAND 1</b>	<b>BAND 2</b>	<b>BAND 3</b>
<b>Breakfast</b>	R 120	R -	R -
<b>Lunch</b>	R 150	R 150	
<b>Dinner</b>	R 150	R 150	R -
<b>Total</b>	<b>R 420</b>	<b>R 300</b>	<b>R 150</b>

Officials who travel on the business of the municipality, where the business unavoidably entails one or more nights to be spent away from home, may stay in a hotel, guesthouse, lodge or resort or a bed and breakfast establishment. Quotes must be obtained from different hotels depending on availability, locality and lower rates. Competition and cost effectiveness must remain a key principle while procuring for hotel accommodation;

Overnight accommodation must be limited to instances where the distance travelled by road by the officials exceeds 500 kilometers to and from the destination (return journey).

The actual cost of accommodation will be borne by the municipality and the meals will be paid directly by the municipality to the bank accounts of the employees/councillors.

### 3. Vehicle hire

Officials are encouraged to consider their own fleet first, where viable, prior to hiring of vehicles. Notwithstanding these provisions, all employees must make use of shuttle services if the cost of such a service is below the cost of hiring a vehicle.

The hiring of vehicles for officials of the municipality is from a category below Group B or an equivalent class. Accounting officers may permit employees to accept up-graded group of hired vehicles if such an up-grade is offered for free or at a lower charge than Group B.

Vehicle travel claims by employees of municipalities 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 or as may be negotiated using a motor vehicle allowance scheme.



### **Catering costs**

The municipality will not incur catering expenses for any meetings where only municipal officials are in attendance. Notwithstanding the above, the accounting officer may incur catering expenses for the following, provided that such meeting lasts for five (5) continuous hours or more:

- a) The hosting of conferences, workshops, courses, forums, recruitment interviews, training courses, hearings;
- b) Meetings related to commissions or committees of inquiry; or
- c) Meetings hosted by municipal council.

Entertainment allowances of qualifying officials/councillors must not exceed two thousand rand (R2 000) per person per financial year. The National Treasury may periodically review this amount.

The municipality must not incur expenses on alcoholic beverages and ensure that the team building and social functions, including year-end functions, must not be financed from the municipal budgets or by any suppliers or sponsors.

Notwithstanding the above, the accounting officer may incur no more than the petty cash allocation or limitations on expenditure from their respective budgets to host farewell functions to employees who are either:

- a) proceeding on retirement due to ill health; or
- b) Proceeding on retirement after reaching the qualifying age limit of a minimum of ten (10) or more years working for the public service.

The Accounting officer may **not** host farewell functions for employees who have:

- a) been dismissed;
- b) elected to resign or leave by accepting severance packages; or
- c) Approached the end of their contractual term.

### **Events, advertising and sponsorships**

The municipality may not incur wasteful expenditure on events, advertising in magazines, television, newspapers etc. where the municipality can use other cost-effective means such as websites to market the institution or properly publicize the matters or events under consideration, unless deemed necessary.

### **Conferences, meetings, study tours,**

Employees of the municipality may attend conferences hosted by professional bodies or non-governmental institutions (external conferences) held within the borders of South Africa provided that expenses related to their attendance do not exceed two thousand five hundred rand (R2 500) per person per conference. The number of municipal officials attending such conferences and workshops must be limited to three (3) employees, unless otherwise approved in advance by the accounting officer, having due regard to the cost containment measures.

Employees must make every effort to take advantage of early registration discounts by seeking the required approvals to attend well in advance of the conference as it relates to their area of work. No late registrations will be allowed.

The officials must utilise municipal office facilities for conferences, meetings, strategic planning sessions, etc.

There should be a limit or stop to overseas trips and the delegations going on such trips unless a tangible and clear benefit to the local community and performance of essential service provision can be established beforehand.

Similar to the above, the number of officials travelling by air to other centers to attend an official engagement on the same matter is also limited to two (2) employees, unless otherwise approved in advance by the accounting officer, having due regard to the cost containment measures.

### **Office furnishing**

The municipality should exercise due precaution in refurbishing offices, purchasing equipment, etc. especially when new persons are elected or appointed. Use of existing facilities and equipment must be considered first, unless the assets are broken and cannot be used.

Office furnishing, when required, must be contained to minimal costs, avoiding elaborate and expensive furniture or equipment.

### **Staff study, perks and suspension costs**

Training attended by employees and councillors of the municipality may only be attended with the pre-approved service providers to ensure sufficient quality of training and obtain value for money

Officials who worked overtime must be given time off and not compensated financially. Planned overtime must be submitted to the relevant supervisor for consideration on a

monthly basis. Unplanned overtime worked must be motivated and approved by the relevant supervisor.

Costs associated with long-standing staff suspensions and legal costs associated with not following due processes when suspending and dismissing staff must be eliminated.

### **COST CONTAINMENT ON OTHER RELATED EXPENDITURE ITEMS**

The Chief Financial Officer should ensure that all commodities and products that the National Treasury designated as transversal contracts are utilized to benefit from savings where lower process or rates have been negotiated.

Municipal funds may not be used to fund election campaign activities, including the provision of supporting material, clothing, food, inducements to vote either as part of, or during election rallies.

Printing of documents should carefully be considered back-to-back and use of color printing for graphs only, while use of electronic means should be preferred.

The sectional heads should review limits on municipal staff telephones and limiting private call to a reasonable amount.

Every effort must be made to recover debt from consumers before write-off.

Where possible the warranties on vehicle and computer equipment should be extended instead of procuring new ones;

Purchasing of newspapers and other publications for municipal employees should be limited and / or stopped.

The municipality should ensure that awareness is raised with municipal staff so that a high degree of energy saving measures can be introduced, e.g. air-conditioning and lights in buildings are switched off at night and when offices are not in use.

#### **Breach of policy**

Non-adherence to this policy would result in a unauthorised, irregular and fruitless & wasteful expenditure and will be recovered from an employee or councillor involved.

#### **Commencement of policy**

This policy takes effect on the date of approval by Council.