

ILEMBE DISTRICT MUNICIPALITY



Cost Containment Policy

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ANNEXURES:

SCHEDULE A COST CONTAINMENT PROCEDURES FOR CONSIDERATION BY THE MUNICIPALITY

SCHEDULE B EXEMPTED EXPENDITURE

1. DEFINITIONS AND ABBREVIATIONS

1.1. DEFINITIONS

“Accounting Officer”	A person appointed in terms of section 82(1) (a) or (b) of the Municipal Structures Act; and also refers to the municipal manager of the municipality in terms of section 60 of the MFMA.
“CFO”	means the Chief Financial Officer of the ILembe District Municipality, a person designated in terms of section 80(2)(a) of the Local Government: Municipal Finance Management Act,56 of 2003.
“GRAP”	means the Generally Recognised Accounting Standards.
“Municipal Manager”	means a person appointed as the Accounting Officer of the Municipality.
“Municipality”	means ILembe District Municipality.
“MCCR”	<u>refer to Municipal Cost Containment Regulations;</u>
“Municipality”	iLembe District Municipality
“IDP”	Integrated Development Plan.

1.2. ABBREVIATIONS

SCM	Supply Chain Management
CFO	Chief Financial Officer

2. OBJECTIVES OF THE POLICY

- 2.1 The underlying objective of this *Policy* is to prescribe cost containment measures for iLembe District Municipality in line with National Treasury's Cost Containment measures as contained in the MCCR.
- 2.2 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:

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 iLembe District Municipality.

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

3. STRATEGIC PRIORITY AREAS (INTENT)

- 3.1 The strategic priority areas of the District Municipality are enshrined in the District Municipality's Integrated Development Plan (IDP) and are categorized into six pillars.
- 3.2 These pillars are namely, Creating Sustainable Livelihood, Socially Cohesive District Municipality, A Financially Sustainable District Municipality, Creating a Safer District Municipality, Promoting an Accessible District Municipality as well as Environmentally Sustainable District Municipality.
- 3.3 This policy supports the Financially Sustainable District Municipality pillar which is aimed at maximizing the Municipality's financial resources by ensuring long-term financial viability and sustainability, thus improving service delivery and giving impetus to the District Municipality's vision of being "A world class destination, with excellent service and quality of life for its people" by 2030.

4. DESIRED OUTCOMES

4.1 The primary desired outcome of this policy is to ensure that the municipality complies with section 62(1) of the Municipal Finance Management Act read in conjunction with section 65 (1) and section 78 of the same act. In essence, these sections of the act provide that 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:

- (a) that the resources of the municipality are used effectively, efficiently and economically;
- (b) that the municipality's available working capital is managed effectively and economically in terms of the prescribed cash management and investment framework.

5. PURPOSE

5.1 The purpose of this policy is to prescribe a process to be followed in implementing the cost containment measures in line with the Municipal Cost Containment Regulations:

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.

6. SCOPE OF THE POLICY

6.1 As directed in terms of the Municipal Cost Containment Regulations (MCCR) as promulgated on 7 June 2019 and came into effect on 1 July 2019, also guided by the MFMA Circular 97 of July 2019, the Municipality has set forth this policy document to guide and regulate its expenditure framework.

POLICY PROVISIONS

7. USE OF CONSULTANTS

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

- 7.2 An accounting officer must adopt a fair and reasonable remuneration framework for consultants taking into account the rates -:
- (a) 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;
 - (b) set out in the "Guide on Hourly Fee Rates for Consultants ", issued by the Department of Public Service and Administration; or
 - (c) as prescribed by the body regulating the profession of the consultant.
- 7.3 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 (2).
- 7.4 When negotiating cost -effective consultancy rates for international consultants, the accounting officer may take into account the relevant international and market – determined rates.
- 7.5 When consultants are appointed, the Accounting Officer must :-
- (a) appoint consultants on a time and cost basis with specific start and end dates;
 - (b) where practical, appoint consultants on an output- specified basis, subject to specific measurable objectives and associated remuneration;
 - (c) ensure that contracts with consultants include overall cost ceilings by specifying whether the contract price is inclusive or exclusive of travel and subsistence disbursements;
 - (d) ensure the transfer of skills by consultants to the relevant officials of the municipality;
 - (e) undertake all engagements of consultants in accordance with the Municipal Supply Chain Management Regulations, 2005 and the municipality's supply chain management policy; and
 - (f) develop consultancy reduction plans to reduce the reliance on consultants.
- 7.6 All contracts with consultants must include a fee retention or penalty clause for poor performance.
- 7.7 The municipality 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.
- 7.8 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.

- 7.9 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.

8. VEHICLES USED FOR POLITICAL OFFICE -BEARERS

- 8.1 The threshold limit for vehicle purchases relating to official use by political office – bearers must not exceed R700 000.00 or 70% (VAT inclusive) of the total annual remuneration package for the different grades of municipalities, as defined in the Public Office Bearers Act and the notices issued in terms thereof by the Minister of Cooperative Governance and Traditional Affairs, whichever is lower;
- 8.2 The procurement of vehicles in sub -regulation (1) must be undertaken using the national government transversal contract mechanism, unless it may be procured at a lower cost through other procurement mechanisms;
- 8.3 Before deciding to procure a vehicle as contemplated in sub -regulation (2), the accounting officer or delegated official must provide the council with information relating to the following criteria which must be considered:
- (a) status of current vehicles;
 - (b) affordability of options including whether to procure a vehicle as compared to rental or hire thereof, provided that the most cost effective option is followed and the cost is equivalent to or lower than that contemplated in sub -regulation (1);
 - (c) extent of service delivery backlogs;
 - (d) terrain for effective usage of the vehicle; and
 - (e) any other policy of council.
- 8.4 If the rental referred to in sub -regulation (3) is preferred, the accounting officer must review the costs incurred regularly to ensure that value for money is obtained;
- 8.5 Regardless of their usage, vehicles for official use by political office bearers may only be replaced after completion of 120 000 kilometres;
- 8.6 Notwithstanding sub -regulation (5), the municipality may replace a vehicle for official use by political office bearers before the completion of 120 000km only in

instances where the vehicle has a serious mechanical problem and is in a poor condition and subject to obtaining a detailed mechanical report by the vehicle manufacturer or approved dealer;

- 8.7 An accounting officer must ensure that there is a policy that addresses the use of municipal vehicles for official purposes.

9. TRAVEL AND SUBSISTENCE

- 9.1 An accounting officer -
(a) 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
(b) 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.
- 9.2 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.
- 9.3 Notwithstanding sub -regulation (1) or (2), 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.
- 9.4 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;
- 9.5 The 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 -

- (a) during peak holiday periods; or
- (b) 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.

9.6 An official or a political office bearer of the municipality must -

- (a) utilise the municipal fleet, where viable, before incurring costs to hire vehicles;
- (b) 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.
- (c) not hire vehicles from a category higher than Group B or an equivalent class; and
- (d) 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.

9.7 The municipality 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.

9.8 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 from time to time by the National Treasury through a notice;

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

10. CREDIT CARDS

10.1 The accounting officer must ensure that no credit card or debit card linked to a bank account of the municipality is issued to any official or political office bearer, including members of the board of directors of municipal entities;

10.2 Where officials or political office bearers incur expenditure in relation to official

municipal activities, such officials or political officer bearers must use their personal credit cards or cash or arrangements made by the municipality, and request reimbursement in accordance with the written approved policy and processes.

11. SPONSORSHIPS, EVENTS AND CATERING

- 11.1 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;
- 11.2 An accounting officer may incur catering expenses for the hosting of meetings, conferences, workshops, courses, forums, recruitment interviews, and proceedings of council that exceed five hours;
- 11.3 Entertainment allowances of qualifying officials may not exceed two thousand rand per person per financial year, unless approved otherwise by the accounting officer;
- 11.4 The municipality may not incur expenses on alcoholic beverages unless the municipality recovers the cost from the sale of such beverages;
- 11.5 The accounting officer must ensure that social events, team building exercises, year –end functions, sporting events and budget vote for dinners are not financed from the municipality budgets or by any suppliers or sponsors;
- 11.6 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.
- 11.7 The accounting officer may incur expenditure not exceeding the limits for petty cash usage 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;

12. COMMUNICATION

- 12.1 The municipality may, as far as possible, advertise municipal related events on its website instead of advertising in magazines or newspapers;
- 12.2 The accounting officer must ensure that allowances to officials for private calls and data costs are limited to an amount as determined by the accounting officer in the cost containment policy of the municipality;

- 12.3 Newspapers and other related publications 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.
- 12.4 The municipality may participate in the transversal term contract arranged by the National Treasury for the acquisition of mobile communication services.

13. CONFERENCES, MEETINGS AND STUDY TOURS

- 13.1 The 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.
- 13.2 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, must take the following into account –
- (a) the official's or political office bearer'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 or political office bearers, not exceeding three, attending the conference or event; and
 - (d) the availability of funds to meet expenses related to the conference or event.
- 13.3 The 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.
- 13.4 The benchmark costs referred to in sub -regulation (3) may not exceed an amount as determined from time to time by the National Treasury through a notice.
- 13.5 The amount referred to in sub -regulation (4) 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.
- 13.6 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.
- 13.7 The accounting officer of a municipality 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.

- 13.8 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.
- 13.9 The accounting officer must grant the approval for officials and in the case of political office bearers and the accounting officer, the mayor, as contemplated in sub -regulation (2).
- 13.10 The municipality must, where applicable, take advantage of early registration discounts by granting the required approvals to attend the conference, event or study tour, in advance.

14. OTHER RELATED EXPENDITURE ITEMS

- 14.1 All commodities, services and products covered by a transversal contract concluded by the National Treasury must be considered before approaching the market, to benefit from savings where lower prices or rates have been negotiated.
- 14.2 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.
- 14.3 Expenditure on tools of trade for political office bearers must be limited to the upper limits as approved and published by the Cabinet member responsible for local government in terms of the Remuneration of Public Office Bearers Act, 1998.
- 14.4 The municipality must avoid expenditure on elaborate and expensive office furniture.
- 14.5 The municipality may only use the services of the South African Police Service to conduct periodical or quarterly security threat assessments of political office bearers and key officials and a report must be submitted to the speaker's office.
- 14.6 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.
- 14.7 The municipality must ensure that due process is followed when suspending or dismissing officials to avoid unnecessary litigation costs.

15. ENFORCEMENT PROCEDURES

15.1 Failure to implement or comply with this policy, and, by extension, the Regulations, may result in any official of the municipality, political office bearer or director of the board that authorised or incurred any expenditure contrary to this policy (and, by extension, the Regulations) being held liable for financial misconduct or a financial offence in the case of political office bearers as defined in Chapter 15 of the Act read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014.

16. DISCLOSURES OF COST CONTAINMENT MEASURES

16.1 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.

16.2 The measures implemented and aggregate amounts saved per quarter, together with the regular reports on reprioritisation of cost savings and 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.

16.3 The reports referred to in sub -regulation (2) must be copied to the National Treasury and the relevant provincial treasury within seven calendar days after the report is submitted to municipal council.

17. POLICY ADOPTION

This policy has been considered and approved by the Council of the **iLembe District Municipality** on this day of 2020

COST CONTAINMENT PROCEDURES FOR CONSIDERATION

General

The Expenditure Management Committee of iLembe District Municipality, established to ensure that the resources required to fulfill the service delivery needs identified in the Integrated Development Plan (IDP) of the municipality are delivered at the correct time, price and place and that the quantity and quality will satisfy those needs as well as to maintain a healthy cash flow including monitoring of budget, will, on an ongoing basis, advise the Accounting Officer and the council on pertinent issues surrounding expenditure management and the status of cash flow position of the municipality.

The structure, modus operandi, authority and powers of the Expenditure Management Committee shall be regulated in terms of the adopted terms of reference of this committee.

Approval of expenditure shall be undertaken in accordance with Schedule B "EXEMPTED EXPENDITURE" which is annexed to this policy.

Other Matters

Travel and Subsistence

1. Trips by vehicles (including use of municipal fleet) must be optimised 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 should be reported to the Expenditure Management Committee and MANCO in the form of discrepancies for corrective measures to be instituted against the defaulting parties.
2. 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 constitutes the actual distance travelled.
3. International travel must be limited to meetings or events that are considered absolutely critical and the number of employees attending such meetings or events must be limited to those employees that are directly involved in the subject matter

related to such meetings or events.

4. At least three quotations must be obtained for all accommodation.
5. Corporate air miles accumulated through loyalty programmes must be used to acquire air tickets.
6. Overnight accommodation must be limited to instances where the distance by road exceeds 500 kilometers to and from the destination (return journey).
7. Claims for meals must be prohibited if the hotel rate already includes dinner and/or breakfast or if the conference fee includes lunch and/or dinner.
8. To the extent feasible, air travel must be properly planned to ensure that restricted airline tickets are used as opposed to the more expensive flexible tickets.

Employee Related Costs

Where possible and practical:

9. Payment of overtime must be curbed to a bare minimum
10. Leave encashment be suspended and only considered for approval under extreme, emergency cases (severity of each case shall be considered by the Accounting Officer on its own merit).
11. Leave encashment in lieu of long service awards to be negotiated with employees and where practical to be taken as annual leave.

Inventory

12. 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.
13. Supplier and early settlement discounts must be negotiated to secure lower prices.
14. Corporate branded items availed to employees must be recovered at least at full cost.
15. Production costs related to publications must be minimised 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.
16. Savings on the amount of paper used must be considered by printing draft documents 'back to back' and by using colour printing facilities prudently.

17. The use of electronic mail (email) must be encouraged instead of postage, hand book diaries, etc.
18. All newspapers and other publications for employees should be discontinued. In instances where the municipality has an existing contract for the supply and delivery of newspapers or other publications, such contracts should not be renewed.
19. Consideration should be given to purchasing software licenses through the State Information Technology Agency (SITA) to leverage economies of scale and preferential rates.
20. Stringent measures must be implemented to ensure tight control of purchase of and issue of stores materials for purposes of maintenance of infrastructure, etc. To the extent possible, such purchases and issues should be authorised by senior personnel (i.e. at the level of Line Managers and above).

Water and Electricity

21. The prudent use of water and electricity must be encouraged to lower utility costs.

Communication and Printing Costs

22. Allowances to employees for private calls must be limited to a reasonable value.
23. Reasonable steps must also be taken to minimise telephone costs are kept to a bear minimum.
24. 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.
25. 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.
26. Telephone and/or video conferencing facilities must be used, where possible, to avoid unnecessary travel and subsistence costs.
27. To the extent possible, usage of branded materials e.g. diaries, calendars and flyers must be minimised. Where circumstances compel that this expenditure be incurred, such may only be done after obtaining prior approval of the Accounting Officer.

Refreshments

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

Advertising

29. 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.

Financial assets

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

Hiring of venues

31. 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.

Miscellaneous measures

32. There should be synergy between similar business activities to avoid duplication of processes and efforts.
33. Labour saving devices should be shared within the establishment to optimize the capacity utilization of each device.
34. Warranties on motor vehicles and computer equipment should, where possible, be extended for reasonable periods instead of procuring new motor vehicles and computer equipment.
35. Purchasing of new furniture and equipment and office refurbishments should only be undertaken where absolutely necessary.
36. 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.
37. Where possible, transversal contracts must be used for the procurement of goods or services.

EXEMPTED EXPENDITURE

Only the following items of expenditure will be considered as exempted. The procedure for approving incurring of any expenditure other than items contained in the list below is that a request with motivation to incur such expenditure will need to be submitted through the Expenditure Management Committee. The Expenditure Management Committee will, after considering merits of each case, apply its own discretion whether or not such a request warrants approving. In the cases of emergency and where it is impractical and/or impossible for the Expenditure Management Committee to convene a special meeting, the chairperson of the Committee is empowered to take decisions on behalf of the Committee and to have such decisions ratified in the following Committee meeting.

List of exempted items of expenditure:

- MAINSTREAM OPERATIONS
 - Pump Repairs & Maintenance (critical failures)
 - Reticulation Maintenance (critical failures)
 - Sewerage services
 - Water / Sewer treatment
 - Disaster related (fatal incidents)
 - Drought related expenditure
 - Fuel & Oil
 - Electrical Repairs & Maintenance (hindering operations/endangering human lives)

- ESSENTIAL MONTHLY OBLIGATIONS
 - Telephone/Cellphone Bills
 - Electricity Bills
 - Purchase of Bulk Water
 - Computer / ICT Support Services
 - Leases (both rental of Fax and Photocopiers as well as vehicles)
 - Postage – Delivery of Consumer Statements
 - Security Costs
 - Cleaning Services (Sanitary)

Lease of vehicles

• OTHER

Loan Redemption Costs and payment of related Interest Charges

Short Term Insurance

Payments in respect of ongoing projects / contracts

Grant funded expenditure

Self-funded projects

Any other statutory obligations