

# **UBUHLEBEZWE MUNICIPALITY**

## **Cost Containment Measures**



## Introduction

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

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

The purpose of this Circular is to guide municipalities and municipal entities 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.

## Cost Containment Measures

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-prioritized to address service delivery backlogs.

In the 2016 State of the Nation Address, cost containment measures were re-emphasized. It was highlighted that excessive and wasteful expenditure has to be reduced, and that increased action be taken to manage unnecessary expenditure.

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

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municipalities to exercise and oversee the elimination of wasteful expenditure in government.

Municipalities are advised to ensure appropriate monitoring and reporting on such cost saving measures is instituted for ease of reporting to management and council on progress on a regular basis. The internal audit unit of municipalities must be copied with such reports.

### **Vehicles used for political office -bearers**

Regulation 6 introduces an expenditure ceiling for the procurement of vehicles for qualifying public office bearers. This is aligned to the notices issued in terms of the Public Office Bearers Act by the Minister of Cooperative Governance and Traditional Affairs whereby the latter Act provides for an allowance for the procurement of vehicles and the MCCR now specify the expenditure ceiling when the allowance is utilised. This is consistent with the MFMA, the management of expenditure and internal controls. Council policy must give effect to these measures.

As part of demand management, municipalities must first conduct market research, taking into account the national government transversal contract and must use the transversal contract mechanism to procure vehicles in order to realise the actual cost savings already negotiated under the contract if this is the cheaper option after all associated costs have been taken into account. The most cost effective option should be utilised. Municipal fleet should also be considered in this regard because more often than not, the municipal fleet specifications would be aligned for the specific municipal terrain.

It has become common practice for municipalities to purchase vehicles for public office bearers when a new incumbent takes office. The regulation requires municipalities to first assess the state of the current vehicle(s) that was used by the previous incumbent before purchasing a new vehicle for a public office bearer. The costs mentioned in the regulation represents total costs, including financing charges. The same ceiling applies when the municipality policy allows for rentals or leasing arrangements.

### **Travel and Subsistence**

Regulation 7 provides the context, where viable, and does not oblige the use of public or alternative modes of transport for public office bearers, but rather requires municipalities to ensure that expenditure in this regard is reasonable and balanced against the service delivery needs and priorities of the municipality or municipal entity. This will also address the challenges faced in rural areas. The principle of prudent use of public funds as well as obtaining value for money must feature in council policies. Security and other related needs of public office bearers can be considered in council policy, however when it comes to transport, these must not be the determining factors. The service delivery needs of the community and issues of budgetary constraints must always have a higher weighting than any other factors.

A municipality may hire a vehicle that is higher than the Group B class outlined in regulation 7(6), but only where this is required for a particular terrain or to cater for the special needs of an official or when the number of officials attending a specific event necessitate a higher class vehicle. However, this must be done with the prior approval of the accounting officer. Therefore, in determining the appropriate mode of transport to enable the performance of duties, municipalities should apply the factors mentioned in the regulation. However, these factors are not exhaustive and the cost containment policy of the municipality and municipal entity may include other factors including safety considerations.

The MCCR require municipalities and municipal entities to first consider their own fleet, where viable, prior to hiring of vehicles. The use of shuttle services, if the cost of such a service is below the cost of hiring a vehicle, and other options can be considered. Therefore, accounting officers must encourage officials and councillors to make use of the most cost effective option so as to reduce travel costs. Council policy can permit employees to accept up-graded group of hired vehicles if such an up-grade is offered with no extra charge or at a lower charge than a Group B vehicle. Vehicle travel claims by employees of municipalities and municipal entities 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. The principle of cost containment and savings should inform council's policies.

The National Treasury, on behalf of all three spheres of government, has negotiated improved upfront discounts for flights as well as discounted accommodation rates. Therefore, municipalities and municipal entities are requested to utilise these agreements to assist in implementing their respective cost containment measures, unless you can negotiate lower air travel rates or utilise other service providers that offer lower rates. The intention with this specific measure is to ensure that institutions actually realise the discounts which have been negotiated at National Government level. These thresholds will contribute towards institutions achieving cost savings on their travel and accommodation budgets. All rates offered to Government as of 1 April 2016 will be net and non-commissionable. This will include the informal accommodation market e.g. Guest Houses and Bed & Breakfast establishments.

In the spirit of transparency, the Office of the Chief Procurement Officer is taking a firm position on rebates, overrides or any volume driven target incentives being paid by suppliers to Travel Management Companies (TMC). As of 1 April 2016, these payments and the practice of overrides are to discontinue for Government business. The National Treasury has issued the National Travel Policy framework which can be used for municipalities and municipal entities.

## **Air Travel**

- The National Treasury has negotiated with South African Airways (SAA) and Comair/British Airways (BA) for upfront discounted air fares for government employees, including councilors, travelling domestically for official purpose. These Domestic Air Travel Fares will be regularly reviewed by the National Treasury (These rates are not applicable for International Air Travel).

- For SAA, the discounts range from 5% (L class) up to 30% (Y Class) for Economy Class tickets and 10% (D Class) up to 26% (C Class) for Business Class tickets.

Please note that business class is not encouraged, however where a single flight exceeds 5 hours, consideration may be applied.

- For BA the discounts range from 10% (O, Q class) up to 25% (Y Class) for Economy Class tickets; and 20% (J Class) for Business Class tickets. Please note that business class is not encouraged, however where a single flight exceeds 5 hours, consideration may be applied.

- The premise of “Best Fare on the Day” should be implemented making full use of the negotiated Government Corporate Agreements with SAA and BA Comair. Quotations are to be obtained from at least SAA and BA Comair before issue. Municipalities and municipal entities must also request quotations from other Low Cost Carriers. Please note that all discounted rates are subject to class availability.

- In order to make full use of the corporate discount with SAA and BA, municipalities and municipal entities must instruct their appointed TMCs or persons making their bookings for domestic airline tickets, to book against the relevant deal codes as detailed in Annexure B.

- Corporate agreements with SAA and BA/Comair will be made available to TMCs that are currently contracted to Government. Should the municipal TMC have not

been contacted by the full service carrier representative, they are to inform National Treasury with the agent’s name; physical address, contact name, email address and IATA number. Upon receipt of the information, the representatives of the full service carriers will ensure that the TMC is given access to the deal code. The TMC must have an authenticated IATA number.

- Accounting officers of municipalities and municipal entities are advised to include a clause in their respective documents that travel agencies are only permitted to make booking arrangements on behalf of municipalities and municipal entities in line with the MCCR, 2019 read together with this Circular. Current arrangements need to be updated and amended to reflect these changes.

- Disabled persons can be accommodated in economy class, however, in extremely exceptional and rare cases an Accounting Officer may approve, with evidence, other than economy class air travel.

## **Domestic Accommodation**

Regulation 8 requires municipalities and municipal entities to only book accommodation where the return trip exceeds 500 kilometers. 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. The council policy must address the practicalities around travelling in and out from meeting venues each day or the circumstances that pose risk to health of the official or councillor, consistent with the cost containment principles of prudent use of public funds. The municipal cost containment policy may allow for exceptions in such instances, and approval of the Accounting Officer or delegated official would be required. National Treasury has established maximum allowable rates for domestic accommodation. When sourcing accommodation for officials, municipalities and municipal entities should find options that are equal to or lower than the rates in Table

1, as contained in Annexure A to this Circular, depending on the allowable star grading and the band. Competition and cost effectiveness must remain a key principle.

### **Credit Cards**

Regulation 9 prohibits the issuance of credit cards to municipal officials or public office bearers. 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. The issuing and use of such cards for official purposes:

- Contravenes section 11 and 85 of the MFMA as there is no way of ensuring that all purchases made on the card are in accordance with the items listed in the sections or as prescribed;
- Contravenes section 167 of the MFMA which provides that any bursary, loan, advance or other benefit paid to a municipal councilor otherwise than in accordance with the provisions of the Remuneration of Public Office Bearers Act constitutes irregular expenditure;
- Contravene section 15 of the MFMA by incurring expenditure not authorised in an approved budget;
- Non-compliance with section 164 of the MFMA which provides that no municipality or municipal entity may make loans to councillors or officials of the municipality, directors or officials of the entity or members of the public;
- Non-compliance with the supply chain management regulations; and
- Undermine efforts to safeguard municipal funds, combat fraud and corruption, as well as other irregular practices. While the use of petrol cards or garage cards for municipal vehicles is permitted, it must be utilized in accordance with an appropriate policy and related procedures to avoid misuse thereof. Cost containment measures should be applied in managing and planning trips.

Where officials or councilors 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. Alternatively, the municipality should make arrangements with the service provider that the expenditure be settled directly by the municipality.

### **Sponsorships, events and catering**

Regulation 10 requires municipalities and municipal entities to only incur catering expenses in instances where meetings, conferences, workshops, courses, forums, recruitment interviews, and proceedings of council exceed five hours. The regulation therefore does not prohibit the incurrence of catering expenses, however, the duration of the meeting will be the determining factor.

The regulation also prohibits municipalities and municipal entities from incurring expenditure on alcoholic beverages, unless such expense is recovered from the sale of such beverages. This practice has previously been abused. Municipalities and municipal entities must be guided by their objectives, including where the purchase of alcoholic beverages is part of the business model, and whether expenditure on

alcoholic beverage is in terms of achieving those objectives. Reference to petty cash in the regulations must be understood to mean limits set in council policies.

Municipalities often incur expenditure on social events, team building exercises, year end functions, sporting events or budget vote dinners using municipal funds. The regulation does not prohibit these activities but prohibits the funding of such activities using municipal funds or it being funded by any suppliers or sponsors. The regulation must be read together with regulation 38 of the SCM Regulations which deals with the combating of abuse of the SCM system when it comes to suppliers or sponsors.

## **Communication**

Regulation 11 do not prohibit the publication in newspapers as there are legislative provisions which require municipalities and municipal entities to advertise certain processes in newspapers. This include public participation processes.

There are certain geographical areas where internet connectivity is problematic hence the regulation includes the phrase “as far as possible”. The discretion is still with the municipalities and municipal entities taking into account principles of cost containment. The regulation prohibits the purchase of newspapers unless this is required for professional purposes and where unavailable in electronic format. Therefore, municipalities and municipal entities may purchase newspapers where it is required for professional purposes. It is also noted that officials and councillors possess their own or utilise council equipment to assess information. These additional tools available to access information can be accommodated in council policies.

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

Regulation 12 provides a framework within which municipalities and municipal entities must manage the attendance of conferences, events hosted by professional bodies or non-governmental institutions and study tours by municipal officials and public office bearers. It requires the municipality and municipal entity to be guided by the official's or public office bearer's role and responsibilities and must also determine whether the conference, event or study tour will address the relevant skills gaps in the institution. The number of officials or public office bearers that may attend a conference, event or study tour must be limited to three.

The municipality must also be guided by its operational requirements in approving the attendance. The benchmark cost for attendance of conferences is currently two thousand five hundred rand R2 500.

## **Other related expenditure items**

Regulation 13 addresses measures that aims to encourage the reduction and excessive spending on office furniture and equipment and other items. It prohibits the use of municipal funds for electioneering, printing of brochures, limits spend on tools of trade but is aligned to what is provided for in the Public Office Bearers Act and Notices issued in terms thereof. For example, municipal policies can address the requirements during election period as municipal officials are required to support the IEC with its mandate. On security matters, the regulations provide for an assessment to be undertaken before the provision of security measures for qualifying public office bearers can be approved. It also requires motivations to be submitted before overtime is approved or for all unplanned overtime. Municipalities and municipal entities are encouraged to ensure that proper processes are followed when dismissing and

suspending officials, to minimise unnecessary legal costs. Once, more we repeat that the spirit, intent and principle of the MCCR must be applied and addressed in council policy,

### **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 municipal entities will have to implement the provisions of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

Municipalities and municipal entities are required to revise their policies and delegations. Where practical considerations are required to be addressed, these should be included in municipal/entities' policies. Municipalities are reminded that the National and Provincial Treasuries annually conducts municipal budget benchmark engagements with municipalities during which all budgets will be assessed against the cost containment measures outlined in the MCCR. Municipalities and municipal entities are 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 for a template on quarterly reporting and the annual report. Municipalities must also ensure that there is consistency between its own policies as the parent municipality and that of its entities.

It is also requested that the measures implemented 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. The contents of this Circular have been shared with the office of the Auditor-General for their application, scrutiny and assessment.



**Table 1: Rates set for Domestic Hotel Accommodation**

Table 1: Rates set for			BAND 1	BAND 2	BAND 3
			Room Only Tourism Levy VAT	Bed & Breakfast Tourism Levy VAT	Dinner, Bed and Breakfast Tourism Levy VAT 2 x soft Drinks at Dinner
<b>Graded Hotel, Boutique Hotel, Lodge or Resort</b>					
			BAND 1	BAND 2	BAND 3
1 Star	R	590		R 730	R 855
2 Star	R	920		R 1 050	R 1 230
3 Star	R	1 120		R 1 230	R 1 400
4 Star	R	1 275		R 1 380	R 1 550
5 Star	R	2 140		R 2 250	R 2 500
<b>Bed &amp; Breakfast, Country House or Guest house</b>					
			BAND 1	BAND 2	BAND 3
1 Star	R	3350		R 495	R 630
2 Star	R	510		R 670	R 830
3 Star	R	920		R 1 080	R 1 230
4 Star	R	1 020		R 1 180	R 1 330
5 Star	R	1 225		R 1 385	R 1 530
<b>Self-Catering*</b>					
			BAND 1	BAND 2	BAND 3
1 Star	R	590			
2 Star	R	920			
3 Star	R	1 120			
4 Star	R	1 275			
5 Star	R	1 475			
<b>Meals**</b>					
			BAND 1	BAND 2	BAND 3
Breakfast	R	110		R -	R -
Lunch	R	160		R 160	R 160
Dinner	R	180		R 180	R -
<b>Total</b>	<b>R</b>	<b>4500</b>		<b>R 340</b>	<b>R 160</b>
<p>Accommodation costs are assumed to be inclusive of Parking and Wi-Fi (if available), and exclusive of Laundry expenses.</p> <p>*Including Exclusive and Shared Facilities. Exclusive facilities offer travellers a sole occupancy unit consisting of one or more bedrooms and self-contained public areas e.g. kitchen, dining area and lounge.</p> <p>Shared Facilities consisting of one or more bedrooms and self-contained shared public areas e.g. kitchen, dining area and lounge.</p> <p>**Maximum amounts that can be claimed for meals. The claim for the actual amounts must be supported by a receipt.</p>					

- If a negotiated rate for a specific star grading is equivalent to or lower than the rate for the lower star grading, the official may be accommodated in the establishment with the higher star grading. This means that an official may be accommodated at a four star establishment if the rate at the four star establishment is the same as or lower than a three star establishment.

### **Recommendation**

It is important that the accounting officer ensures that the content of this Circular is brought to the attention of the Municipal Council and all other relevant officials within the municipality and municipal entities .

It is recommended that : Municipalities adopt this Circular together with their annual budget.

This Policy will be effective from 1 July 2021

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