



# **DRAFT COST CONTAINMENT POLICY**

**EFFECTIVE IMPLEMENTATION DATE: 1<sup>ST</sup> JULY 2020**

## **TABLE OF CONTENTS**

1. Definitions
2. Purpose
3. Objectives of the policy
4. Scope of the policy
5. Legislative framework
6. Policy principles
7. Use of Consultants
8. Vehicles used for political office-bearers
9. Travel & subsistence
10. Domestic accommodation
11. Credit cards
12. Sponsorships, events & catering
13. Communication
14. Conferences, meetings & study tours
15. Other related expenditure items
16. Enforcement procedures
17. Disclosures of cost containment measures
18. Implementation & review process
19. Consequences for non-adherence to the cost containment measures
20. Short title



## 1. DEFINITIONS

“**Act**” refers to the Municipal Finance Management Act, 2003

“**Consultant**” means a Service Provider professional person, individual partnership, corporation, or a company appointed to provide technical and specialist advice or to assist with a design and implementation of projects or to assist the Municipality to achieve its objectives of local government in terms of section 152 of the Constitution.

“**Cost containment**” the measures implemented to curtail spending in terms of this policy.

“**Municipality**” refers to Molemole Local Municipality.

“**Political-office bearers**” mean Municipal Councillors including the Mayor, the Speaker of the Municipal Council and any other political office bearer associated with the Municipality to whom this policy applies.

“**Credit card**” means a card issued by a financial Service Provider, which creates a revolving account and grants a line of credit to the cardholder.

“**Official**” means all employees of the Molemole Municipality.

“**Regulation**” shall unless otherwise stated mean the Municipal cost Containment Regulation 2019.

“**Accounting Officer**” The Municipal Manager appointed by Municipal Council in terms of Section 55 of the Municipal Systems Act 32 of 2000 or the incumbent acting in such capacity.

“**Retention fee**” a percentage of the amount certified as due to the Consultant that is deducted from the amount due and retained the Municipality

“**Penalty fee**” amount collected by the Municipality from the Consultant that represent default charges

“**Poor performance**” performance falling below the agreed and required standard which has been set-out by the Municipality in its project specification which conforms to the general acceptable professional standard.

“**Auditor General**” means Office of the Auditor General of South Africa established by the 1996 Constitution of South Africa as one of the Chapter nine institutions

“**Disciplinary Board**” means a disciplinary board established in terms of regulation 4(1) or a disciplinary board of a district Municipality or provincial structure referred to in regulation 4(8);



**"Financial Misconduct"** means any act of financial misconduct referred to in-

(a) section 171 of the Act committed by an official of a Municipality; or

(b) section 172 of the Act committed by an official of a ;

(c) a committed act contrary to provisions of this Policy

**"Transversal Term Contract"** means a centrally facilitated contract arranged by the National Treasury for goods or services that are required by one or more than one institution.



## **2. PURPOSE**

The purpose of the policy is to regulate spending and to implement cost containment measures starting from 2019 financial year.

## **3. THE OBJECT OF THE POLICY**

The objectives of this policy are to:

- 3.1 To ensure that the resources of Molemole Local Municipality are used effectively, efficiently and economically by implementing cost containment measures.

## **4. SCOPE OF THE POLICY**

This policy will apply to all:

- 4.1 Political office bearers and
- 4.2 Municipal employees.

## **5. LEGISLATIVE FRAMEWORK**

This policy must be read in conjunction with the following:

- 5.1 The Municipal Finance Management Act, 2003
- 5.2 Municipal Cost Containment Regulation, 2019;
- 5.3 Travelling and Subsistence Policy;
- 5.4 Supply Chain Management Policy.



## **6. POLICY PRINCIPLES**

6.1 This policy will apply to the procurement of the following goods and/or services:

- (i) Use of Consultants;
- (ii) Vehicles used for political office-bearers;
- (iii) Travel and subsistence;
- (iv) Domestic accommodation;
- (v) Credit cards;
- (vi) Sponsorships, events and catering;
- (vii) Communication;
- (viii) Conferences, meetings and study tours, and
- (ix) Any other related expenditure items.

## **7. USE OF CONSULTANTS**

7.1 Molemole Local Municipality may only appoint Consultants after an assessment of the needs and requirements have been made to support the need to use of such Consultants by the user department.

7.2 The assessment referred to in 7.1 must be performed by the user department and also confirm that the Municipality does not have requisite skills, time and human resources in its full time employ to perform the function that the Consultant will carry out and such assessment must be approved by the Accounting Officer in writing.

7.3 When Consultants are appointed the following should be included in the Service Level Agreements:

- (i) Consultants should be appointed on a time and cost basis that has specific start and end dates;
- (ii) Consultants should be appointed on an output-specific, specifying deliverables and the associated remuneration;
- (iii) Ensure that cost ceilings are included to specify the contract price as well as travel and subsistence disbursements and whether the contract price is inclusive or exclusive of travel and subsistence; and the travel

and subsistence disbursement should be in accordance with the travel and subsistence policy:

- (iv) All engagements with Consultants should be undertaken in accordance with the Municipality's supply chain management policy read together with the service level agreement and guiding prescript.
- (v) The Consultant must do a thorough investigation or project assessment to avoid variations that may arise during the project. Should the Consultant fail to do a thorough investigation/assessment the Municipality shall recover the variation cost from his retention and/or insurance.
- (vi) User departments must do a thorough preliminary investigation or project assessment to avoid variations that may arise during the project. Should the assigned employee fail to do a thorough investigation/assessment such assigned employee may face a disciplinary process and such variation costs may be recovered from him/her.

7.4 The Accounting Officer shall develop a general consultancy reduction plans for all projects in the Municipality and such plan shall be reviewed annually.

7.5 The Municipality must implement policies that would ensure that reduction plans are developed by hiring individuals with the needed skills.

7.6 All contracts with Consultants must include a retention fee or a penalty clause for poor performance.

7.7 The specifications developed by the Municipality must be used as a monitoring tool for the work that is to be undertaken and performance must be appropriately recorded and monitored.

7.8 The Accounting Officer must adopt a fair and reasonable remuneration framework for Consultants taking into account the rates:

- (a) determined in the Guidelines on fees for audits undertaken on behalf of the, Auditor general of South Africa issued by the south African institute of chartered accountants.
- (b) set out in the guide on hourly fee rates for consultations issued by the Department of Public Services and Administration.
- (c) as prescribed by the body regulating the profession of the Consultant.



- 7.9 Tender documents for the appointment of Consultant must include a clause that the remuneration rates will be subject to negotiation, not exceeding the applicable rates mentioned in 7.8 above
- 7.10 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.
- 7.11 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 or 70% of the total annual remuneration package for the municipality, 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 amount or percentage in 8.1 shall be inclusive of Vat, extras, security features and mark-up for the Service Provider (if applicable).
- 8.3 The provisions of 8.1 and 8.2 above shall apply to vehicles purchased for on behalf Speaker of the Municipal Council and the Mayor as the only political bearers for whom the Municipality purchase vehicles.
- 8.4 The vehicles for political-office bearers may only be replaced after 120 000 km has been reached.
- 8.5 Notwithstanding 8.4) above, a Municipality may replace a vehicle or 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.
- 8.6 The procurement of vehicles must be undertaken using the National Government Transversal mechanism.





- 8.7 Before deciding to procure a vehicle as contemplated in 8.4 above, 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 8.1 read with 8.2 above;
  - (c) extent of service delivery backlogs;
  - (d) terrain for effective usage of the vehicle; and
  - (e) any other policy of Council.
- 8.8 If the rental referred to in 8.7 is preferred, the Accounting Officer must review the costs incurred regularly to ensure that value for money is obtained
- 8.9 An Accounting Officer must ensure that there is a policy that addresses the use of municipal vehicles for official purposes and same is strictly adhered to.

## **9. TRAVEL & SUBSISTENCE**

- 9.1 (1) The 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 9.1 or 9.2 above, 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 International travel to meetings or events will only be approved if it is considered critical to attend the meeting or event, and only the officials that are directly involved with the subject matter will be allowed to attend the meeting or event.
- 9.5 An Accounting Officer, or the Mayor in the case of the Accounting Officer, may approve accommodation costs that exceed an amount as determined from time to time by 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 a Municipality or 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 use the negotiated rates for flights and accommodation as communicated by National Treasury, from time to time, or any other cheaper flight or accommodation that is available.

## **10. DOMESTIC ACCOMMODATION**

- 10.1 An Accounting Officer must ensure that costs incurred for domestic accommodation and meals are in accordance with the maximum allowable rates for domestic accommodation and meals, as communicated by National

Treasury, from time to time, and the travel and subsistence policy of the Municipality. Any irregularity or over spending by the Municipality official must be investigated and the Municipality be reimbursed.

- 10.2 Overnight accommodation may only be booked where the return trip exceeds 500 kilometers, unless otherwise motivated for a distance less than 500 Kilometers.

## **11. CREDIT CARDS**

- 11.1 An 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 public office-bearer.
- 11.2 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 or , and request reimbursement in accordance with the travelling subsistence policy and the petty cash policy

## **12. SPONSORSHIPS, EVENTS & CATERING**

- 12.1 The Municipality may not incur catering expenses for meetings that are only attended by persons in the employ of the Municipality, unless prior written approval is obtained from the Accounting Officer.
- 12.2 Catering expenses may be incurred by the Accounting Officer for the following, if they exceed five (5) hours:-
- (i) Hosting of meetings;
  - (ii) Conferences;
  - (iii) Workshops;
  - (iv) Courses;
  - (v) Forums;
  - (vi) Recruitment interviews; and
  - (vii) Council proceedings



- 12.3 Entertainment allowances of qualifying officials may not exceed two thousand rand (R2 000, 00) per person per financial year, unless otherwise approved by the Accounting Officer.
- 12.4 Expenses must not be incurred on alcoholic beverages.
- 12.5 Social functions, team building exercises, year-end functions, sporting events, budget speech dinners and other functions that have a social element must not be financed from the municipal budget or by any supplier or sponsor such as but not limited to:
- Staff year-end functions
  - Staff wellness functions
  - Attendance of sporting events by municipal officials
- 12.6 Expenditure may not be incurred on corporate branded items like clothing or goods for personal use of officials, other than uniforms, office supplies and tools of trade, unless the costs thereto are recovered from the affected officials.
- 12.7 Expenditure may be incurred to host farewell functions in recognition of officials who retire after serving the Municipality for ten (10) or more years, or retire on grounds of ill health, the expenditure should not exceed the limits of the petty cash usage as per the petty cash policy of the Municipality.

### **13. COMMUNICATION**

- 13.1 All municipal related events must, as far as possible, be advertised on the municipal website, instead of advertising in magazines or newspapers.
- 13.2 Publications such as internal newsletters must be designed internally and be published quarterly in an electronic media format and on the municipal website/intranet.
- 13.3 Newspapers and other related publications for the use of officials must be discontinued on the expiry of existing contracts or supply orders.
- 13.4 The acquisition of mobile communication services must be done by using the transversal term contracts that have been arranged by the National Treasury.
- 13.5 Allowances for officials for private calls is limited to R50.00 per official per month. Any amount in excess should be recovered from the official.



13.6 Provision of diaries be limited to secretaries and electronic diaries be kept by directorates.

#### **14. CONFERENCES, MEETINGS & STUDY TOURS**

14.1 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.

14.2 Appropriate benchmark costs must be considered prior to granting approval for an official to attend a conference or event within and outside the borders of South Africa.

14.3 The benchmark costs may not exceed an amount determined by National Treasury.

14.4 When considering applications from officials to conferences or events within and outside the borders of South Africa, the Accounting Officer must take the following into account:

- (i) The officials role and responsibilities and the anticipated benefits of the conference or event;
- (ii) Whether the conference or event will address the relevant concerns of the Municipality;
- (iii) The appropriate number of officials to attend the conference or event, not exceeding three officials; and
- (iv) The availability of funds to meet expenses related to the conference or event.

14.5 The amount referred to in 14.3 above excludes costs related to travel, accommodation and related expenses, but includes:

- (i) Conference or event registration expenses; and
- (ii) Any other expense incurred in relation to the conference or event.

14.6 When considering the cost for conferences or events the following items must be excluded, laptops, tablets and other similar tokens that are built into the price of such conferences or events.



- 14.7 Attendance of conferences will be limited to one (1) per annum with a maximum of two (2) delegates.
- 14.8 Meetings and planning sessions that entail the use of municipal funds must, as far as practically possible, be held in-house.
- 14.9 Municipal offices and facilities must be utilized for conferences, meetings and strategic planning sessions where an appropriate venue exists within the municipal jurisdiction.
- 14.10 The Municipality must take advantage of early registration discounts by granting the required approvals to attend the conference, event or study tour, in advance.
- 14.11 An Accounting Officer must grant an approval for all officials and in the case of political-office bearers and the accounting officer, the Mayor, as contemplated by 14.3.

## **15. OTHER RELATED EXPENDITURE ITEMS**

- 15.1 All commodities, services and products covered by a transversal contract by the National Treasury must be procured through that transversal contract before approaching the market, in order to benefit from savings and lower prices or rates that have already been negotiated.
- 15.2 Municipal resources may not be used to fund elections, campaign activities, including the provision of food, clothing and other inducements as part of, or during the election periods.
- 15.3 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.
- 15.4 A Municipality must avoid expenditure on elaborate and expensive office furniture.
- 15.5 A 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.



- 15.6 A 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.
- 15.7 A Municipality must ensure that due process is followed when suspending or dismissing officials to avoid unnecessary litigation costs.

## **16. ENFORCEMENT PROCEDURES**

- 16.1 Failure to implement or comply with this policy may result in any official of the Municipality or political office bearer that has authorized or incurred any expenditure contrary to those stipulated herein being held liable for financial misconduct or a financial offence in the case of a political office bearer as set out in Chapter 15 of the MFMA read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014.

## **17. DISCLOSURES OF COST CONTAINMENT MEASURES**

- 17.1 Cost containment measures applied by the Municipality must be included in the municipal in-year budget report and annual cost savings must be disclosed in the annual report.
- 17.2 The measures implemented and aggregate amounts saved per quarter, together with the regular reports on reprioritization of cost savings, 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.
- 17.3 Such reports must be copied to the National Treasury and relevant provincial treasuries within seven calendar days after the report is submitted to Municipal Council.

## **18. IMPLEMENTATION & REVIEW PROCESS**



18.1 This policy will be reviewed at least annually or when required by way of a Council resolution, or when an update is issued by National Treasury.

## **19. CONSEQUENCES FOR NON-ADHERENCE TO THE COST CONTAINMENT MEASURES**

19.1 If the Accounting Officer receives an allegation and/or becomes aware of a conduct that amounts to non-adherence with this policy, he must institute a full investigation through the financial misconduct board.

19.2 After completion of a full investigation, the financial misconduct board must compile a report on the investigations and submit a report to the Accounting Officer on:

- Findings and recommendations; and/or
- Whether disciplinary steps should be taken against the alleged transgressor.

19.3 The Accounting Officer must table the report with recommendations to the Municipal Council.

19.4 Subject to the outcome of the Council decision the Accounting Officer must implement the recommendations.

## **20. SHORT TITLE**

20.1 This policy shall be called the Cost Containment Policy of the Molemole Local Municipality.

