

COST CONTAINMENT POLICY

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1. DEFINITIONS

- 1.1 **“Consultant”** means a 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.
- 1.2 **“Cost containment”** the measures implemented to curtail spending in terms of this policy.
- 1.3 **“Municipality”** City of Mbombela.

2. PURPOSE

2.1 The purpose of the policy is to regulate spending and to implement Cost Containment measures at the City of Mbombela.

3. OBJECTIVES OF THE POLICY

The objectives of this policy are:

- 3.1 to ensure that the resources of the municipality are used effectively, efficiently and economically;
- 3.2 to implement Cost Containment measures.

4. SCOPE OF THE POLICY

This policy will apply to all:

- 4.1 Councillors; and
- 4.2 Municipal employees.

5. LEGISLATIVE FRAMEWORK

This policy must be read in conjunction with the -

- 5.1 Municipal Finance Management Act, Circular 82, published on 7 December 2016;
- 5.2 Municipal Cost Containment Regulations, 2018; and
- 5.3 Travelling and subsistence policy.
- 5.4 Catering Policy.

6. POLICY PRINCIPLES

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

- 6.1 Use of consultants
- 6.2 Vehicles used for political office-bearers
- 6.3 Travel and subsistence
- 6.4 Domestic accommodation
- 6.5 Credit cards
- 6.6 Sponsorships, events and catering

- 6.7 Communication and Branding
- 6.8 Conferences, meetings and study tours
- 6.9 Any other related expenditure items

7. USE OF CONSULTANTS

The City will endeavour to reduce the utilisation and dependency on Consultants where practical. A cost saving in the utilisation of consultants of 30% in the 2020/2021 financial year, 50% in 2021/2022 financial year and 70% in 2022/2023 financial year is targeted. Example, if the budget for the entire City for the same item is estimated to R5 Million in 2021/2022, therefore the budget estimate for 2022/2023 will be R 3 500 000, that is 30% less than the previous budget. The same procedure will be applied in the subsequent budget taking into consideration the variation in percentages of the savings envisaged.

Where feasible, critical positions identified by various Departments utilising consultants must be filled during the same period. As part of the consultancy reduction plans, the municipality shall capacitate officials responsible in executing projects and programmes in project management and contract management to ensure that targets and deliverables are met timely, and projects are completed within scope, quality, time and costs. The training programmes will be conducted annually in the fourth quarterly of each financial year. The following measures will be implemented as well to ensure that the spending on consultants is contained:

- 7.1 The Municipal Manager may only be appoint consultants after an assessment of the needs and requirements has been conducted to support the requirement of the use of consultants.
- 7.2 The assessment referred to in 7.1 must confirm that the municipality does not have requisite skills or resources in its full time employ to perform the function that the consultant will carry out.
- 7.3 When consultants are appointed the following should be included in the Service Level Agreements:
 - 7.3.1 Consultants should be appointed on a time and cost basis that has specific start and end dates;
 - 7.3.2 Consultants should be appointed on an output-specific, specifying deliverables and the associated remuneration;
 - 7.3.3 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
 - 7.3.4 All engagements with consultants should be undertaken in accordance with the City's Supply Chain Management Policy.
- 7.4 The City will implement a consultancy reduction plan as indicated above.
- 7.5 All contracts with consultants must include a retention fee or a penalty clause for poor performance.

7.6 The specifications and performance of the service provider must be used as a monitoring tool for the work that is to be undertaken and performance must be appropriately recorded and monitored.

8. VEHICLES USED FOR POLITICAL OFFICE-BEARERS

The City will endeavour to reduce running costs on the vehicle utilised by the political office-bearers. The following *inter alia* costs, i.e. maintenance costs, fuel costs, tyre costs will be targeted without impacting on the mandates of the political office-bearers. The Office of Council and the Office of the Executive Mayor will develop plans on how to reduce spending on the two vehicles allocated and used by the Political Office Bearers.

8.1 The threshold limit for vehicle purchases relating to official use by political office-bearers may not exceed seven hundred thousand rand (R700 000) or 70% of the total annual remuneration package or the different grades, whichever is greater.

8.2 The threshold indicated in clause 8.1 above is inclusive of all accessories needed in the vehicles.

8.3 The procurement of vehicles must be undertaken, where practical, by using the National Government transversal mechanism.

8.4 If any other procurement process is used, the cost may not exceed the threshold set out in 8.1.

8.4 Before deciding on another procurement process as in 8.4, the Chief Financial Officer must provide the Municipal Council with information relating to the following criteria that must be considered:

8.4.1 Status of current vehicles

8.4.2 Affordability

8.4.3 Extent of service delivery

8.4.4 Terrain for effective usage of vehicle

8.4.5 Any other relevant policy of council

8.5 Regardless of their usage, vehicles for official use by public office bearers may only be replaced after completion of 120 000 kilometres.

8.6 Notwithstanding 8.5, a municipality may replace vehicles for official use by public office bearers before the completion of 120 000 kilometres, only in instances where the vehicle experiences serious mechanical problems and is in a poor condition, and subject to obtaining a detailed mechanical report by the vehicle manufacturer or approved dealer.

9. TRAVEL & SUBSISTENCE

The municipality will endeavour to reduce the travel and subsistence costing by 20% in the 2020/2021 financial year. The reduced total budget of 20% will form the basis for future reductions on the item. The usage of flights as a mode of transport will be of the last resort

and only be reserved for critical events. The criticality of the event will be assessed and approved by the Municipal Manager. To ensure that value for money principle is achieved, all bookings arrangements must be provided to the Supply Chain Management Unit five days prior to trip being undertaken. The following measures will be further implemented to ensure that costs are contained without hampering service delivery:

9.1 An Accounting Officer:

9.1.1 may only approve the purchase of economy class tickets for officials where the flying time for a flight is five (5) hours or less; and

9.1.2 for flights that exceed five (5) hours of flying time, may purchase business class tickets only for Accounting Officer, and persons reporting directly to Accounting Officer.

9.2 Notwithstanding 9.1, an Accounting Officer may approve the purchase of business class tickets for officials with disabilities.

9.3 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, the municipal Council is delegated to approve such official trips.

9.4 Officials of the City must:

9.4.1 Utilize the municipal fleet, where viable, before incurring costs to hire vehicles;

9.4.2 Make use of a shuttle service if the cost of such a service provider is lower than:

9.4.2.1 the cost of hiring a vehicle;

9.4.2.2 the cost of kilometres claimable by the employee; and

9.4.2.2 the cost of parking.

9.4.2.3 not hire vehicles from a category higher than Group B; and

9.4.2.4 where a different class of vehicle is required for a particular terrain or to cater for the special needs of an official, seek written approval of the Accounting Officer before hiring the vehicle.

9.5 The City will 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

The City will endeavour to reduce domestic accommodation by 10% in 2020/2021 financial year. The reduced total budget of 10% will form the basis for future reductions on the item. The municipality will further implement the following measures to ensure that costs are contained:

10.1 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.

11. CREDIT CARDS

The City will endeavour to implement strict measures in the utilisation of credit cards or debit cards / fuel cards linked to a bank account of the City. The following measures will be implemented to ensure that costs are contained:

- 11.1 No credit card or debit card linked to a bank account of the municipality will be issued to any official or public office-bearer.
- 11.2 Where officials or public office bearers incur expenditure in relation to official municipal activities, such officials and public office bearers must use their personal credit cards or cash, and will request reimbursement from the municipality in terms of the travel and subsistence policy and petty cash policy.

12. SPONSORSHIPS, EVENTS & CATERING

The City will endeavour in reducing expenditure on catering by 20% in 2020/2021 financial year. The municipality will further implement the following measures to ensure that costs are contained:

- 12.1 No catering expenses for meetings that are only attended by persons in the employment of the municipality, unless prior written approval is obtained from the Municipal Manager. The approval will only be granted on exceptional cases.
- 12.2 Catering expenses may be incurred by the Accounting Officer for the following, if they exceed five (5) hours:
 - 12.2.1 Hosting of meetings;
 - 12.2.2 Conferences;
 - 12.2.3 Workshops;
 - 12.2.4 Courses;
 - 12.2.5 Forums;
 - 12.2.6 Recruitment interviews; and
 - 12.2.7 Council proceedings
- 12.3 Entertainment allowances of officials and Political Office Bearers may not exceed two thousand rand (R2 000, 00) per person per financial year, unless on exceptional cases approved by the Municipal Manager. No virement will be allowed to replenish funds that are exhausted on the entertainment votes.
- 12.4 Expenses may 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:
 - 12.5.1 Staff year-end functions
 - 12.5.2 Staff wellness functions

12.5.3 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 on branded signage on municipal properties, buildings and other points of interests, provided it has been pre-approved by the Municipal Manager
- 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 (R2000) usage as per the petty cash policy of the municipality.
- 12.8 Expenditure may be incurred to host long service awards recognition of employees who have served the municipality for a period of ten (10) years or more years, the expenditure should not exceed the limits of the petty cash (R2000) per employee, usage as per the petty cash policy of the municipality

13. COMMUNICATION

- 13.1 Where feasible, 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 will 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.
- 13.6 Provision of diaries be limited to secretaries and electronic diaries be kept by directorates.

14. CONFERENCES, MEETINGS & STUDY TOURS

- 14.1 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.
- 14.2 The benchmark costs may not exceed an amount determined by National Treasury.
- 14.3 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:
- 14.3.1 The officials role and responsibilities and the anticipated benefits of the conference or event;

- 14.3.2 Whether the conference or event will address the relevant concerns of the municipality;
- 14.3.3 The appropriate number of officials to attend the conference or event, not exceeding three officials; and
- 14.3.4 Availability of funds to meet expenses related to the conference or event.
- 14.4 The amount referred to in 14.2 above excludes costs related to travel, accommodation and related expenses, but includes:
 - 14.4.1 Conference or event registration expenses; and
 - 14.4.2 Any other expense incurred in relation to the conference or event.
- 14.5 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.
- 14.6 Attendance of conferences will be limited to one (1) per annum with a maximum of two (2) delegates. A motivation must be forwarded to the Municipal Manager for approval.
- 14.7 Meetings and planning sessions that entail the use of municipal funds must, as far as practically possible, be held in-house.
- 14.8 Municipal offices and facilities must be utilized for conferences, meetings and strategic planning sessions where an appropriate venue exists within the municipal jurisdiction. A motivation must be forwarded to the Municipal Manager whereby an alternative venue is recommended that has financial implications to the municipality.
- 14.9 The municipality must take advantage of early registration discounts by granting the required approvals to attend the conference, event or study tour in advance.

15. OTHER RELATED EXPENDITURE ITEMS

- 15.1 All commodities, services and products covered by a transversal contract by 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. The City will review on monthly basis the list of commodities and inventory kept in the municipal stores.
- 15.2 City's 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 No City's Fleet, Human resources and any other kind of municipal services may be used for campaign activities as indicated in 15.2 above.
- 15.4 Fleet Management procedures including the restriction of vehicles will be implemented to ensure the effective utilisation of City's fleet. The procurement of tyres will be sourced

through the transversal contracts. All municipal heavy vehicles will be prioritised in implementing fuel management devices. All reports generated from the fuel management system will be reconciled on monthly basis by the Fleet Manager. A cost reduction of 20% is expected in 2020/2021 financial year on this item.

15.5 The City will implement, project and contract management in all contract awarded in terms of Supply Chain Management. All contracts procured by the municipality will be reviewed and renegotiated to ensure that the value for money principle is achieved. A cost reduction of 80% in all variation orders of construction services is expected in 2020/2021 financial year.

15.6 The City will implement measures to reduce spending on all contracted services by ensuring that:

15.6.1 All service delivery plant and equipment are serviced regularly and ready to work when needed.

15.6.2 City's owned plant and equipment be prioritised prior as opposed to the utilisation of outsourced plant and equipment.

15.6.3 A business case must be developed and approved by the Municipal Manager in cases whereby the hiring of plant and equipment or any outsourced municipal services is required for more than 15 consecutive days and for more than two consecutive months.

16.5.4 All water tankers contracted by the municipality to deliver portable water to the needy communities will be fitted with a tracking device and reports from the device will be utilised for payment purposes. No manual written reports will be accepted for payment.

16.5.5 All managers must implement strategies to curb the use of overtime. Departments are required to plan their daily tasks in a manner that overtime is minimised without impacting on Service Delivery. The municipality will endeavour in filling vacancy posts especially in areas where overtime strives. 20% reduction in overtime expenses is targeted for the 2020/2021 financial year.

16.5.6 All quotations must be itemised and negotiated with the service providers.

15.7 All invoices due for payments must be accompanied by a report or any portfolio of evidence

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 as set out in Chapter 15 of the MFMA.

17. DISCLOSURES OF COST CONTAINMENT MEASURES

17.1 These cost containment measures applied by the Municipality will be included in the municipal in-year budget report and the annual cost savings will 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 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 Any person must report an allegation of non-compliance to the Cost Containment Policy to the Municipal Manager.

19.2 The Municipal Manager must investigate the allegations and if frivolous, speculative or unfounded, terminate the investigations.

19.3 If the Municipal Manager determines the allegations as founded, a full investigation must be conducted by the Disciplinary Board.

19.4 After completion of a full investigation, the Disciplinary Board must compile a report on the investigations and submit a report to the Municipal Manager on:

19.4.1 Findings and recommendations; and/or

19.4.2 Whether disciplinary steps should be taken against the alleged transgressor.

19.5 The Municipal Manager must table the report with recommendations to the municipal council.

19.6 Subject to the outcome of the council decision, the Municipal Manager must implement the recommendations.

20. SHORT TITLE

20.1 This policy shall be called the Cost Containment Policy of the City of Mbombela