

BUDGET AND TREASURY OFFICE: MUNICIPAL COST CONTAINMENT MEASURES

5/1

PURPOSE

The purpose of this report is to provide feedback to the Section 80 Committee on the Municipal Cost Containment Measures (MCCR).

INTRODUCTION

In July 2019 the National Treasury communicated MFMA Circular No. 97 where it was indicated that the Local Government: Municipal Cost Containment Regulations (MCCR), were promulgated on 7 June 2019, and came into effect on 1 July 2019. The circular confirms and clarifies the process followed to promulgate the MCCR, provides more information to municipalities and municipal entities to assist with implementation.

Sections 62(1)(a) and 95(a) of the Municipal Finance Management Act No. 56 of 2003 (MFMA) stipulates that the accounting officer of a municipality or municipal entity 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 key principles being promoted are that elected councils and accounting officers are required to institute appropriate measures to ensure that the limited resources and public funds are prudently utilised to ensure value for money is achieved. This will necessitate council policies to be aligned with the spirit and intent of the regulations, promoting the concept of cost vs benefits at all levels in the municipality and municipal entities, and to ensure that such savings can be better utilised towards improvements in service delivery.

The circular will assist municipalities and municipal entities to implement cost containment measures in an effort to address the impact of the country's economic challenges and to promote growth, address unemployment and equality, amongst others, consistent with the MCCR.

BACKGROUND

In 2019, the WRDM Council approved the Cost Containment Policy as part of the budget related policies. The objective of the Cost Containment Policy is to ensure that the resources of the municipality are used effectively, efficiently and economically.

The WRDM is currently experiencing financial difficulties as the expenditures (creditors) is extremely high.

Below is a table indicating the financial performance:

West Rand District Municipality - Financial performance Summary

Description	2019/2020	2020/2021	Budget information	
	R thousands	Audited Outcome 2020/2021	Original Budget 2021/2022	YTD Actual 2021/2022
<u>Financial Performance</u>				
Total Revenue	298,326	250,323	258,894	189,413
Total expenditure	(274,576)	(266,094)	(255,854)	(121,856)
Surplus/ (Deficit)	23,750	(15,771)	3,040	67,557
<u>Financial analysis</u>				
Grant funding	271,487	240,107	247,794	185,168
Percentage of grants	97%	96%	96%	98%
Employee related cost	(181,591)	(195,838)	(196,249)	(98,398)
Contracted services	(17,946)	(5,532)	(8,961)	(6,406)
Percentage of Employee related cost	67%	76%	75%	79%
Percentage of Contracted services	7%	2%	4%	5%
Unfunded mandates	67%	67%	67%	67%

***CLARIFICATION OF SPECIFIC PROVISIONS WITHIN THE MCCR
(Annexure A)***

Use of Consultants

The MCCR do not prohibit the use of consultants, but require municipalities to assess the need thereof against the available internal capacity of the specific services.

As at 31 December 2021 the following consultants have been appointed:

Company Name	Description	Budget Amount
Max Prof	VAT consultants	R322,541

Expenditure for VAT consultants amounted to R46,521 for the quarter ended 31 December 2021 and year to date expenditure amounts to R136,344 which represents 42% of the original budgeted amount.

Other outsourced services the municipality has budgeted for include the use of consultants to verify the municipal assets and determine the conditional assessment of the municipality's property, plant and equipment. The municipality reviewed the scope of asset verification and has limited that the only conditional assessment must be undertaken by consultants who are experts in this field while the scope of physical verification will be carried internally.

To minimise the cost of the use of consultants for conditional assessment the municipality is presently considering in building internal capacity to perform the function internally which will result in a cost saving equal to more or less the budgeted amount.

Vehicles used for political office –bearers

In previous financial years the municipality used lease contracts for fleet purposes of which it was decided that the lease of vehicles should be substituted by the outright purchase of municipal vehicles through a National Treasury Transversal contract. The contract includes vehicles for the Executive Mayor priced for R487 450 and for the Speaker purchased for R290 956.

Travel and Subsistence

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.

Due to the impact of COVID-19 epidemic, such travels have been limited. Therefore, no subsistence was paid.

Air Travel and Domestic Accommodation

Due to the fact that South Africa has been experiencing the Covid-19 epidemic, such travels and conferences have been limited. Therefore no travel and accommodation was paid.

Credit Cards

The Circular stipulates that the use of petrol cards or garage cards for municipal vehicles is permitted, it must be utilised in accordance with an appropriate policy and related procedures to avoid misuse thereof. Cost containment measures should be applied in managing and planning trips.

Fuel expenditure for the quarter ended 31 December 2021 amounted to R195,000 and the year to date expenditure amounted to R365,050 representing 46% of the allocated budget for the 2021/2022 financial year.

The WRDM obtained fuel cards from the bankers (Messrs. FNB), and incurs average amount of R70 000 compared to R140 000 incurred previously through Afirent fleet management petrol cards. The municipality is presently implementing the fleet management policy to avoid misuse thereof.

Sponsorships, events and catering

No expenditure occurred.

Communication

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

Expenditure for advertisement of staff recruitment and tenders for the quarter ended 31 December 2021 amounted to R27,741 and the year to date advertising cost amounts to R73,834 representing 25% of the original budget amount allocation.

RECOMMENDATIONS THAT:

1. Cognizance be taken of the report regarding the Cost Containment Measures.