

HARRY GWALA DEVELOPMENT AGENCY (PTY) LTD
[REG. No: 2011/001221/07]

POLICY: COST CONTAINMENT MEASURES

Administrative Responsibility:	Chief Executive Officer
Implementing Department / Departmental Unit	Budget and Treasury Office

POLICY DOCUMENT CONTROL

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PREAMBLE

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

1. INTERPRETATION OF THE POLICY

1.1. Except to the extent to which the context may otherwise require, this Policy shall be construed in accordance with the following provisions of this sub-paragraph:

1.1.1. Any word or expression importing any gender shall include the other gender.

1.1.2. Words importing the singular also include the plural, and *vice versa*, where the context requires.

1.1.3. The following words shall have the meanings hereby assigned to them –

“CEO” shall mean the Chief Executive Officer of the Harry Gwala Development Agency (Pty) Ltd

“Companies Act” shall mean the Companies Act, 2008 (Act No 71 of 2008), as amended from time to time.

“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 a municipality to perform its functions to achieve the objects of local government in terms of section 152 of the Constitution.

“Cost containment” means measures implemented to curtail spending;

“Council” refers to the Municipal Council of the Harry Gwala District Municipality, as defined in Section 157 (1) of the Constitution of the Republic of South Africa, Act 108 of 1996, as amended from time to time.

“HGDA” means the Harry Gwala Development Agency (Pty) Ltd, a company duly incorporated in terms of the laws of the Republic of South Africa with registration number:

2011/001221/07, in which the Harry Gwala District Municipality, as Parent Municipality, holds a sole interest.

“HGDM” means the Harry Gwala District Municipality, a Category C Municipality established in terms of Section 155(1)(c) of the Constitution of the Republic of South Africa, 1996 and in terms of Section 12(1) of the Municipal Structures Act, 32 of 2000 (as amended) and its successors in title. Includes duly authorised officials of the Municipality who have been delegated any powers, functions and duties necessary to give effect to this Policy and decide upon and administer the matters referred to herein.

“Meeting” shall mean any meeting of the board or any board sub-committees (portfolio committee) as well as any other General meeting meeting of the entity including meetings of Council, irrespective of the duration of such meeting.

“MFMA” shall mean the Municipal Finance Management Act 56 of 2003, as may be amended from time to time.

“MSA” shall mean the Municipal Systems Act 32 of 2000, as amended from time to time.

“Non-Executive Director” shall mean a non-executive director of the Agency appointed in terms of section 93E of the Municipal Systems Act, 32 of 2000.

2. COST CONTAINMENT MEASURES

- 2.1. 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.
- 2.2. 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.
- 2.3. In implementing the above, the Minister of Finance also announced cost containment measures in his budget speech on 24 February 2016 and issued a circular 97, and urged Mayors of municipalities to exercise and oversee the elimination of wasteful expenditure in government.
- 2.4. Municipalities and municipal entities are advised to ensure appropriate monitoring and reporting on such cost saving measures is instituted for ease of reporting to management and board on progress on a regular basis. The internal audit unit of municipalities must be copied with such reports.

3. TRAVEL AND SUBSISTENCE

- 3.1. 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 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 and board 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.
- 3.2. A municipality entity 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, municipal entity should apply the factors mentioned in the regulation. However, these factors are not exhaustive and the cost containment policy of the municipal entity may include other factors including safety considerations.
- 3.3. The MCCR require 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 to make use the most cost effective option so as to reduce travel costs. Board 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.
- 3.4. 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 board policies.
- 3.5. 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.
- 3.6. 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.

4. AIR TRAVEL

- 4.1. The National Treasury has negotiated for upfront discounted air fares for government employees, 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).
- 4.2. Discounts ranges 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.
- 4.3. The premise of "Best Fare on the Day" should be implemented making full use of the negotiated Government Corporate Agreements. Municipalities and municipal entities must also request quotations from other Low-Cost Carriers. Please note that all discounted rates are subject to class availability.
- 4.4. In order to make full use of the corporate discount negotiated by National Treasury, 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.
- 4.5. Corporate agreements with will be made available to TMCs that are currently contracted to the 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.
- 4.6. 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.
- 4.7. 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.

5. DOMESTIC ACCOMMODATION

- 5.1. 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 board member and cost vs benefit considerations can warrant such expenditure. The board 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, 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.

- 5.2. 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.

6. CREDIT CARDS

- 6.1. 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 entity board members, municipal or entity officials or any other person. The issuing and use of such cards for official purposes:
- 6.1.1. 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.
 - 6.1.2. Contravenes section 167 of the MFMA which provides that any bursary, loan, advance or other benefit paid to a political bearer otherwise than in accordance with the provisions of the Remuneration of Public Office Bearers Act constitutes irregular expenditure.
 - 6.1.3. Contravene section 15 of the MFMA by incurring expenditure not authorised in an approved budget.
 - 6.1.4. Non-compliance with section 164 of the MFMA which provides that no municipality or municipal entity may make loans to officials of the municipal entity, directors or officials of the entity or members of the public.
 - 6.1.5. Non-compliance with the supply chain management regulations; and
 - 6.1.6. 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 entity 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.
 - 6.1.7. Where officials or board members incur expenses in relation to official municipal entity's activities, they can use their personal credit cards or cash, and request reimbursement from the entity in accordance with the relevant municipal entity policy and processes. Alternatively, the municipal entity should make

arrangements with the service provider that the expenditure be settled directly by the entity.

7. SPONSORSHIPS, EVENTS AND CATERING

- 7.1. 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 board meetings 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.
- 7.2. 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 entity's policies.
- 7.3. Municipal entities often incur expenditure on social events, team building exercises, year-end functions, sporting events or budget vote dinners using municipal entity funds. The regulation does not prohibit these activities but prohibits the funding of such activities using municipal entity 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.

8. COMMUNICATION

- 8.1. 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 includes public participation processes.
- 8.2. 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 possess their own equipment to assess information. These additional tools available to access information can be accommodated in the entity's policy.

9. CONFERENCES, MEETINGS AND STUDY TOURS

- 9.1. 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 entity 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.

- 9.2. The municipality entity 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.

10. OTHER RELATED EXPENDITURE ITEMS

- 10.1. 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 minimize unnecessary legal costs. Once, more we repeat that the spirit, intent and principle of the MCCR must be applied and addressed in council /board policy,

11. ENFORCEMENT OF COST CONTAINMENT MEASURES

- 11.1. 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.
- 11.2. 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 utilize existing reporting requirements, to report internally and externally on cost saving measures. This includes 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.
- 11.3. 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.

ANNEXURE A:

Table 1: Rates set for Domestic Hotel Accommodation

Table 1: Rates set for BAND 1		BAND 2	BAND
VAT	Room Only Tourism Levy 2 x soft Drinks at Dinner	Bed & Breakfast Tourism Levy VAT	Dinner, Bed and Tourism Levy VAT
Graded Hotel, Boutique Hotel, Lodge or Resort			
BAND 1		BAND 2	BAND
1 Star	R 590	R 730	R 855
2 Star	R 920	R 1 050	R 1
3 Star	R 1 120	R 1 230	R 1
4 Star	R 1 275	R 1 380	R 1
5 Star	R 2 140	R 2 250	R 2
Bed & Breakfast, Country House or Guest house			
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
4 Star	R 1 020	R 1 180	R 1
5 Star	R 1 225	R 1 385	R 1
Self-Catering*			
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		
Meals**			
BAND 1		BAND 2	BAND 3
Breakfast	R 110	R -	R -
Lunch	R 160	R 160	R 160
Dinner	R 180	R 180	R -
Total	R 4500	R 340	R 160

Accommodation costs are assumed to be inclusive of Parking and Wi-Fi (if available), and exclusive of Laundry.

*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.

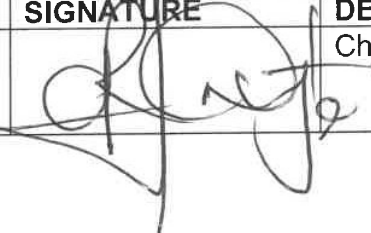
Shared Facilities consisting of one or more bedrooms and self-contained shared public areas e.g. kitchen, dining area and lounge.

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.

13. COMMENCEMENT

This policy will commence on 1 July 2024, and must be reviewed annually together with the budget related policies.

APPROVED BY:

NAME	SIGNATURE	DESIGNATION	DATE
Ms ACR Whyte		Chief Executive Officer	25 April 2024