



Reference number: RCS/C.5

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TREASURY CIRCULAR MUN NO. 10/2023

THE MAYOR, CITY OF CAPE TOWN
 THE MAYOR, WEST COAST DISTRICT MUNICIPALITY
 THE MAYOR, MATZIKAMA MUNICIPALITY
 THE MAYOR, CEDERBERG MUNICIPALITY
 THE MAYOR, BERGRIVIER MUNICIPALITY
 THE MAYOR, SALDANHA BAY MUNICIPALITY
 THE MAYOR, SWARTLAND MUNICIPALITY
 THE MAYOR, CAPE WINELANDS DISTRICT MUNICIPALITY
 THE MAYOR, WITZENBERG MUNICIPALITY
 THE MAYOR, DRAKENSTEIN MUNICIPALITY
 THE MAYOR, STELLENBOSCH MUNICIPALITY
 THE MAYOR, BREEDE VALLEY MUNICIPALITY
 THE MAYOR, LANGEBERG MUNICIPALITY
 THE MAYOR, OVERBERG DISTRICT MUNICIPALITY
 THE MAYOR, THEEWATERSKLOOF MUNICIPALITY
 THE MAYOR, OVERSTRAND MUNICIPALITY
 THE MAYOR, CAPE AGULHAS MUNICIPALITY
 THE MAYOR, SWELLENDAM MUNICIPALITY
 THE MAYOR, GARDEN ROUTE DISTRICT MUNICIPALITY
 THE MAYOR, KANNALAND MUNICIPALITY
 THE MAYOR, HESSEQUA MUNICIPALITY
 THE MAYOR, MOSSEL BAY MUNICIPALITY
 THE MAYOR, GEORGE MUNICIPALITY
 THE MAYOR, OUDTSHOORN MUNICIPALITY
 THE MAYOR, BITOU MUNICIPALITY
 THE MAYOR, KNYSNA MUNICIPALITY
 THE MAYOR, CENTRAL KAROO DISTRICT
 THE MAYOR, LAINGSBURG MUNICIPALITY
 THE MAYOR, PRINCE ALBERT MUNICIPALITY
 THE MAYOR, BEAUFORT WEST MUNICIPALITY

} For information

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REMINDER OF MUNICIPAL COST CONTAINMENT REGULATIONS REPORTING REQUIREMENTS

1. PURPOSE

The purpose of this Circular is to –

- a) express Provincial Treasury's (PT) concern with the deteriorating levels of cost containment reporting by municipalities in the Western Cape;
- b) remind municipalities of their responsibilities in terms of the Municipal Cost Containment Regulations (MCCR), 2019; and
- c) to advocate for a more strategic and innovative approach to identify potential cost saving areas.

2. BACKGROUND

Promulgated in 2019, the Municipal Cost Containment Regulations ("the Regulations") were introduced to ensure that municipal resources are utilized as effectively, efficiently, and economically as possible. To prevent resource waste, the Regulations established cost-cutting procedures to not only decrease needless expenditures and remove non-essential expenditures, but also to significantly reduce excessive and wasteful expenditures. Municipalities were required to internalize the Regulations by adopting their own cost reduction policies (where none existed) and to report on the execution of cost containment measures in their budgets and annual reports.

Significant progress has been made by Western Cape municipalities since the promulgation of the Regulations in 2019 – all 30 municipalities currently have cost containment policies in place which are reviewed as part of the annual budget process and most municipalities are timeously reporting on savings being realised.

The importance of cost containment has in recent weeks again come to the fore given the worsening of the national economic growth outlook relative to the expectations envisaged in the 2023 Budget tabled. The constrained fiscal environment prompted National Treasury to request national and provincial departments to implement stringent measures to reduce government expenditure in the 2023/24 financial year. These measures include freezing the process of hiring new employees, freezing spending on catering, conferences, workshops, and stopping the advertisement of new procurement contracts for all infrastructure projects. The measures, which are unpacked in a supporting guide (released on 18 September 2023), are over and above those outlined in the existing cost containment regulations applicable to national and provincial departments.

It is anticipated that following further consultation with organised local government, similar measures will in due course be rolled out to municipalities.

3. REPORTING REQUIREMENTS

Municipalities and municipal entities are required to use existing in-year reporting requirements, to on a quarterly and annual basis report internally and externally on cost saving measures. The Regulations contained a standard template (Excel table) to be completed. Very few municipalities however apply this instruction in practice, rather opting to submit reports separately to National and Provincial Treasury or to direct feedback to selected mailboxes or officials.

Provincial Treasury has however throughout 2022/23 observed a worrying trend whereby several municipalities stopped reporting on cost containment via either a dedicated report or within their quarterly financial performance reports. Reports that are received, are often submitted only after a request from PT to do so.

Municipalities are requested to institutionalise in-year cost containment reporting by including the completed template in the quarterly performance reports prepared in line with section 52(d) of the Local Government: Municipal Finance Management Act (Act 56 of 2003 "the MFMA"). As these reports are submitted quarterly to National and Provincial Treasury, no further submissions are required.

It is recommended that municipalities include this operating procedure in their cost containment policies. Similarly, municipalities should include the annual template in the annual report as prepared in accordance with section 127 of the MFMA.

4. FROM COMPLIANCE TO CONFORMANCE: STRATEGIC APPROACH TO COST CONTAINMENT

Reporting challenges aside, PT has observed a wide range of innovative cost containment practices being implemented by municipalities. This reflects a notable shift in the way cost containment has conventionally been perceived. Where it was at first seen as purely a process of cost elimination to relieve budget pressures associated with the constrained fiscal environment, municipalities are starting to acknowledge cost containment as a dynamic and reflective process that aims to achieve greater operational efficiencies in the medium to long term.

These innovations, as noted by PT through the various in-year monitoring processes and consideration of municipal cost containment reports, can broadly be grouped according to 8 broad categories namely, *Elimination, Adaption, Bundling, Automation, Optimisation, Substitution, Repurposing* and *Deferment*.

These categories were briefly referred to in PT MFMA Circular No. 5 of 2023 (23 March 2023) but are unpacked in greater detail below.

- **Elimination:** Relates closest to the conventional cost containment approach whereby all non-essential and nice-to-have expenses are reduced. This includes investigating and removing duplicate or redundant functions, selling off obsolete assets or land, reducing advertising costs, entertainment allowances, cancelling newspaper or publication subscription services etc.
- **Adaption:** COVID-19 has brought about a fundamental shift in the conventional workplace dynamics. Several municipalities have identified cost saving opportunities associated with the new-way-of-work. These include, but are not limited to, flexible operating hours that reduces the need for overtime; having online engagements to reduce travel and subsistence; hybrid working arrangements to limit utility costs and rental costs; advocating for a paperless environment to reduce printing and paper costs; facilitating public participation through digital outlets. Adaption efforts also include the use of renewable energy technologies within municipal buildings. Agreeing for workers to work on a shift system, rather than claiming overtime for tasks that must be done after hours on a routine or predictable basis (including because of loadshedding, which is expected to continue for the foreseeable future).
- **Bundling:** Combining services to reduce costs. Typical example would be to make use of a single service provider for certain important business functions (such as insurance) that would allow the municipality to negotiate preferential rates. Where possible, municipalities should embrace the spirit of intergovernmental cooperation to forge strategic partnerships by considering potential shared services models.

- **Automation:** Significant efficiency gains can be made by automating certain business processes. Municipalities should however weigh these benefits against the risks associated with automation such as, the high capital startup costs, job redundancies, data integrity, and increased training costs.
- **Optimisation:** Identifying and reviewing case, project, and process workflows to remove bottlenecks, and promote system integration. Closely associated with the automation and combination functions. Gains from optimisation and automation can also be realized through attrition of staff if efficiency gains can be used to reduce the need to replace staff when they leave the municipality.
- **Substitution:** Refers to exploring more cost-effective alternative goods and services. Municipalities must review their supply chain management processes to ensure the procurement of goods and services in line with the Five Pillars of Procurement. Municipalities must always strive to obtain maximum value for money whilst not compromising on its service level standards.
- **Repurposing:** Transforming, adapting, or redeploying certain strategic assets at the end of its original life cycle to fulfil another purpose. This will reduce the need for complete replacement of existing tools, technologies and even processes. This could also include extending warranties on vehicles and ICT equipment (as opposed to buying new equipment and licenses).
- **Deferment:** Strictly applies to non-essential goods and services only. Municipalities should under no-circumstances defer financial obligations or repairs and maintenance. Examples include holding off on non-mandatory training and refurbishment or upgrading of administrative and community facilities.

Municipalities are urged to consider these focus areas when exploring innovative cost containment measures.

5. WAY FORWARD

Provincial Treasury is aware of the concerns expressed by municipalities that the cost containment regulations take a uniform approach i.e., that it does not consider the size of a municipality's budget or staffing component; that some of the requirements are impractical; and, that cost reduction could arguably be achieved through less rigid mechanisms. National Treasury is aware of these concerns and is currently busy with a process to review the Regulations. In the interim, municipalities should consider the travel and subsistence rates communicated in PFMA SCM Instruction No. 07 of 2022/23.

Municipalities are reminded that failure to comply with the terms of the Regulations will constitute financial misconduct as defined in sections 171 and 172 of the MFMA. The failure to timeously submit the in-year and annual returns as required by the Regulations will furthermore amount to non-compliance with section 74 of the MFMA (General Reporting Obligations).

Please consult MFMA Circulars 82 (2016) and 97 (2019) for further guidance.

MS J GANTANA
ACTING HEAD OF PROVINCIAL TREASURY