



Enquiries: Mr. F. Cassimjee
Date: 14 February 2022

**TO: MUNICIPAL MANAGERS
CHIEF FINANCIAL OFFICERS
KWAZULU-NATAL MUNICIPALITIES**

PROVINCIAL TREASURY CIRCULAR PT/MF 08 OF 2021/22

**PREPARING AND SUBMITTING THE QUARTERLY COST CONTAINMENT REPORT
(ANNEXURE D) TO PROVINCIAL AND NATIONAL TREASURY**

1. Purpose

The purpose of this circular is to:

- a) Remind all the municipalities of the submission requirements with regards to the outstanding Cost containment policies to the National and Provincial Treasuries;
- b) To assist municipalities on the completion of the quarterly Cost containment reports (Annexure D) in a bid to submit reliable information; and
- c) Provide municipalities with timelines for submitting the Annexure D to the National and Provincial Treasuries.

2. Background

The Municipal Cost Containment Regulations (MCCR) of 2019 were promulgated on 07 June 2019 and became effective from 01 July 2019. The objective of the MCCR is to ensure that the resources of a municipality and municipal entity are used effectively, efficiently and economically by implementing cost containment measures.

The implementation of the MCCR is the responsibility of the municipal Council, Board of directors of municipal entities, and Accounting officers, in keeping with the principles underpinning the Municipal Finance Management Act, Act No. 56 of 2003 (MFMA).

3. Submission of Cost containment policies

In terms of Regulation 4(1) of the MCCR, *each municipality or municipal entity must develop or revise and implement a Cost containment policy which must -*

- (a) *in the case of a municipality, be adopted by the municipal Council, and in the case of a municipal entity, by the Board of directors as part of its budget related policies;*
- (b) *define a municipality or municipal entity's objectives for the use of consultants; and*
- (c) *be consistent with the Act [MFMA] and these Regulations [MCCR].*

Furthermore, Regulation 4(2) of the MCCR states that *the Cost containment policy of a municipality or a municipal entity contemplated in sub-regulation (1) must -*

- (a) *be in writing;*
- (b) *give effect to these Regulations;*
- (c) *be reviewed annually, as may be appropriate;*
- (d) *be communicated on the municipality's or municipal entity's website; and*
- (e) *set out -*
 - (i) *monitoring measures for ensuring implementation of the policy;*
 - (ii) *procedures for the annual review of the policy; and*
 - (iii) *consequences for non-adherence to the measures contained therein.*

Provincial Treasury has noted with concern that some municipalities have not submitted the copies of their Cost containment policies to the National and Provincial Treasuries despite numerous reminders and requests to the municipalities to submit. Municipalities are therefore once again reminded to submit their approved Cost containment policies to the National and Provincial Treasuries.

4. Preparation of Cost containment reports (Annexure D)

Regulation 15 of the MCCR states that:

- 1) *the disclosure of cost containment measures applied by the municipality and municipal entity must be included in the municipal in-year budget reports and annual costs savings disclosed in the annual report.*
- 2) *the measures implemented and aggregate amount saved per quarter, together with the regular reports on reprioritisation of cost savings and on the implementation of the cost containment measures must be submitted to the Municipal Council for review and resolution.*

To ensure that the municipalities comply with the MCCR, National Treasury issued MFMA Circular No. 97 on Cost containment measures to guide the municipalities on how to apply the cost containment measures. MFMA Circular No. 97 requires that Annexure D (Total Cost Savings Disclosure in the In-Year and Annual Report) be used as template for quarterly reporting.

Provincial Treasury noted with concern that some municipalities have not submitted their Cost containment reports since the MCCR came into effect from 01 July of 2019 to date thereby contravening Regulation 15(3) of MCCR as stated above, despite the numerous reminders and support by National Treasury and Provincial Treasury.

For the municipalities that have been submitting their reports, the following are common errors reflected in the reports submitted by some of these municipalities:

- Some municipalities are submitting the Cost containment reports that are not in the prescribed Annexure D template;
- The reported information by many municipalities is questionable as municipalities are merely reporting actual performance to date against their budgets and not saving as a result of implementation of MCCR; and
- Some municipalities are submitting hand written reports that are not legible.

In order to rectify the errors as stated above, the municipalities are required to use the following process in completing Annexure D template as reflected in MFMA Circular No. 97 in a bid to submit the credible and reliable information:

- In the Budget column, the municipalities must include the targeted **Annual Budget estimates** guided by their Cost containment policy;

- Municipalities are not only limited to the items reflected in Annexure D of the MFMA Circular No. 97 but can populated any further line items whereby cost saving is intended to be achieved by utilising the attached Excel worksheet templates;
- Municipalities **must reflect strictly the achieved savings in each quarter** in the Quarters 1 to 4 columns;
- For each saving achieved in a particular quarter, the achieved saving amount must be added to the total amount under the Savings column. This way, the **Savings column is expected to accumulate based on the total amounts of all the previous quarters to date**. After populating the savings for the fourth (4) quarter at the end of the financial year, the **Savings column must reflect the accumulated total amount that is equal to the sum of all quarters**;
- The Annual report savings template referred to as *Cost Containment Annual Report* must be incorporated into the Annual report of the municipality and as such, will be completed only once. This means that the Cost containment annual report does **NOT** necessarily have to be submitted quarterly together with Cost containment report;
- Municipalities must also ensure that the information in the Total expenditure column under the Cost containment annual report is accurate to the extent that the saving amounts for each item correspond to accumulated quarterly savings of each related item in Annexure D; and
- In order to reflect the correct or reliable amount being reported, municipalities must ensure that the amounts are rounded off to the nearest thousand.

5. Submission of Cost containment reports (Annexure D)

Regulation 15(1) of the MCCR requires that Annexure D be included in the In-Year reporting whilst Regulation 15(2) of the MCCR requires that the implementation of the Cost containment measures be submitted to the municipal Council for review and resolution. Section 52(d) of the MFMA states that the mayor of a municipality must within 30 days of the end of each quarter, submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality. Therefore, Annexure D must be tabled in Council together with the Section 52(d) report which is tabled by the mayor within 30 days of the end of each quarter.

Regulation 15(3) requires that the Annexure D be submitted to the National Treasury and the relevant Provincial Treasury within seven (7) calendar days after the report is submitted to municipal Council.

6. Conclusion

The Municipal Managers are therefore advised to review the MFMA Section 52(d) report and take into account the contents of this Circular. Municipal Managers are also required ensure that this Circular is tabled in Council.

Yours sincerely



Ms. N. Shezi

Acting Head of Department: KZN Provincial Treasury

CC **Mayors**
Administrators
Mr. J. Hattingh - National Treasury
Mr. T.V. Pillay - National Treasury