



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

COST CONTAINMENT REGULATIONS MADE IN TERMS OF LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003

National Treasury on Friday 7 June 2019 gazetted (Gazette no 42514) cost containment Regulations that are aimed at ensuring that the resources of municipalities and municipal entities* are used effectively, efficiently and economically. Section 168(1)(b) and (p) of the Municipal Finance Management Act (MFMA) provides that the Minister may regulate financial management and internal controls and any other matter that may facilitate the enforcement and administration of the Act.

The Regulations aim to promote better governance and management of finances by municipalities. This is in line with the spirit of the MFMA and other applicable regulations, which require that managers must manage but also be held accountable. A well-managed municipality or entity should already have in place a cost containment policy as part of their budget-related policies, approved by the municipal council for the municipality or in the case a municipal entity, by its board of directors. The Regulations merely requires those municipalities or entities that do not have such a policy in place to do so, as a minimal measure to ensure good governance. The policy must provide for monitoring measures, procedures for review, and consequences for non-adherence. These must be reviewed annually and communicated on the municipal website.

The Minister of Finance first announced during the February 2016 Budget Speech and the October 2016 Medium Term Budget Policy Statement that the National Treasury would issue regulations on cost containment measures for local government. This is in line with Government's policy to implement cost saving measures across all three spheres of government to assist in re-prioritising expenditure and free up resources that can be better targeted towards service delivery.

The draft regulations were first published for public comment on 16 February 2018. Twenty-eight written comments were received, including those from the Department of COGTA, SALGA, municipalities and other stakeholders. After extensive consultation and consideration of all comments received, the final Regulations were finalised and published on 7 June 2019 in the Government Gazette, with effective date being 1 July 2019.

The cost containment measures are also intended to eliminate wastage of public resources on non-service delivery items. This will be undertaken through advocacy, strengthening the legal and policy prescripts and frameworks aimed at cost containment and ensuring the implementation thereof by municipalities and municipal entities.

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The wider implementation of the Local Government: Municipal Finance Management Act, 2003 (MFMA) in all municipalities and entities is an important element in the roll out strategy to modernise and improve financial management in local government. Linked to this strategy are the fundamental principles of effective and efficient utilisation of public resources in a transparent and accountable manner.

Despite the provisions in the MFMA and the reforms developed over the last 16 years to support the implementation of the MFMA, municipalities and municipal entities continue to spend public funds and municipal resources on non-priority items. More often than not this results in a diversion of public funds from core service delivery to other expenditures resulting in dissatisfaction by communities and delays in service delivery.

Although the Minister of Finance first announced during the February 2016 Budget Speech and the October 2016 Medium Term Budget Policy Statement that the National Treasury would issue regulations on cost containment measures for local government, the initial cost containment measures were introduced through a MFMA Circular. Additional measures were taken to ensure a transparent tendering system by ensuring that value for money is attained through the revised procurement process. Similar measures have also been introduced in national and provincial government in terms of the Public Finance Management Act 1 of 1999.

Over the last 4 to 5 years, the Auditor-General's General Report on Local Government Audit Outcomes highlighted the extent of wastage of public resources. This was also observed through various publications in the print media and other government publications. Weak governance as well as the significant increase in the number of municipalities incurring unauthorised, irregular as well as fruitless and wasteful expenditure were also highlighted as areas of concern.

Building on the MFMA Circular, the National Treasury in association with other stakeholders, had then drafted regulations that would promote the cost containment measures introduced in a number of spending areas. The non-implementation of the gazetted Regulations is aligned with the consequence management measures and officials or political office bearers may be held liable for financial misconduct or a financial offence in terms of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

Municipalities and municipal entities must disclose cost containment measures in their in-year budget reports, and annual costs savings in their annual reports. These reports must be submitted to Council for review and resolution. This measure is to enhance transparency and local accountability. These regulations therefore provide a framework that is consistent with the provisions of the MFMA and other government pronouncements.

The effective implementation of the regulations is the responsibility of the municipal council, board of directors of municipal entities, municipal accounting officer and accounting officers of municipal entities. It is also intended to ensure that municipalities and municipal entities achieve value for money in utilising public resources to deliver municipal services.



More information on the cost containment regulations is contained in the Annexure and Government Gazette that are accompanying this media statement.

*Municipal entities: for example, City Power is an entity of City of Johannesburg, and uShaka Marine is an entity of eThekweni Metro.

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