

**“MP 305”**



**AUSTERITY MEASURES**

## **Purpose**

To provide a report to the Executive Mayor which seeks to indicate mechanisms and procedures that the municipality must put in place which will assist in the financial administration of the municipality's limited resources.

## **Background**

In line with MFMA circular 55 & 70 the municipality is urged to step up its efforts to combat waste, inefficiency and pay special attention to cost containing measures and controlling unnecessary spending on nice-to-have items and non-essential activities. This should be done in conjunction with the cabinet resolution of the 23th October 2013 that cost containment measures must be implemented to eliminate waste, reprioritise spending and ensure savings on six focus areas namely, consultancy fees, no credit cards, travel and related costs, advertising, catering and events costs as well as costs for accommodation.

## **Discussion**

Austerity measures are strict control that are put in place were the Municipality is experiencing financial distress. This controls are put in place in order to ensure that expenditures are curbed and reduced. This will allow the Municipality to operate in an efficient and economic manner. The controls will further assist in ensuring that the Municipality is financially sustainable. The measures also looks at the other revenue enhancement areas.

In an effort to improve the cash flow challenges faced by the municipality as well as ensuring that the municipality is financially viable, austerity measures needs to be put in place. This will ensure that there is sufficient cash flow to cover operations, to ensure that prior to expenditure incurred, funds are available both in the budget and the bank.

- 3) Priorities the payment of Eskom account
- 4) Ensure that no expenditures are incurred in vain
- 5) Ensure that savings are realized whenever possible / explore cheaper option of achieving same objective
- 6) Explore any alternative funding

## **Employee related Cost**

The employee related cost have increased by R 22 million in order to fund technical or critical positions that are vacant. Furthermore it should be noted that the filling of vacant positions also attracts other cost associated with filling of those which includes but not limited to advertising cost, office equipment and office space. While priorities will still be given to position that have in impact on service delivery, preference will also be given to positons that will reduce overtime and are able to generate additional revenue or will reduce the cost of contracted service. The current Municipal structure should also be reviewed in order to ensure the following:

1. The structure is still relevant
2. The structure is responsive to service delivery
3. Identify any gaps or areas of over staffing

The overtime worked by employees must be limited to 40 hours per month which is in line with the collective agreements.

A programme for meetings should be developed as most divisional managers are absent from their stations due to the number of meetings that has to be attended to on a weekly basis. This compromises the administration of the Municipality as this leaves a vacuum and as a result supervisors have to take executive decisions. Divisional managers are functional managers implying that they should get their hands dirty. HOD's are strategic implying long term planning.

## **Other Materials and Repairs and Maintenance**

Though the level of inventory has decreased a provision is made to have inventory in hand. A provision for inventory amounting to R 5 million has been made in order to reduce interruption that might arise as a result of delays in procuring materials in instance where there's a breakdown.

Though the operating budget has been reduced immensely but no sufficient provision has been made for repairs and maintenance of the municipal assets.

In terms of NT circular 66 and 70 repairs and maintenance as a percentage of PPE (carrying value) should be at 8%. Though the repairs & maintenance should contribute 8% the Though the repairs & maintenance is steadily growing R 15 million in the 2011-12 audit outcome to R 31 million in the 2015-6 budget .

We tend to do quick fixes which in the long run is more expensive than properly taking care of the problem. Example: Burst pipes are repaired with cascade clamps instead of replacing a length of pipe. The network is so old that the pipe will just rupture next to the clamp. This implies multiple returns to the same problem.

The main reason for reduction in the repair and maintenance is the current cash flow problem at the Municipality in terms of which expenditure inclusive of repairs and maintenance has been reduced in line with realistically expected revenue streams. This is not sustainable in the medium to long term and the Municipality needs to address this as matter of urgency.

## **Contracted Services**

Contracts should be reviewed to ensure that there's value for money and where found lacking contracts need to be terminated or advertised to appoint new service providers. In general Municipalities are required to phase out consultants as far as possible. Furthermore as part of phasing out consultants the municipality should embark on an exercise for skills audit to identify where there are skills gaps and shortages in order to ensure that adequate and relevant capacity is provided to employees. The process of preparing job descriptions, delegations register and procedure manuals is completed as in most cases consultants are used in areas where no specific person is assigned to carry out the specific duties. There is an estimated savings of R 15 million that could be realized from contracted services.

Contracted services can be an effective, efficient and economical means of rendering services as this allows for a concentration of skills, professionalism & expertise but the process should be managed closely to ensure this practice is not perpetuated indefinitely and become costly.

## **Other General Expenses**

Other operating costs such as advertising, delegations, telephone costs, fuel, hire of equipment amongst other expenditures should be reduced to a bare minimum. This could yield an immediate saving on expenditure estimated to be R 20 million.

Other expenditures guided by circular 58 which amongst other things requires the following expenditures to be eliminated:

- 1) Excessive sponsorship of sporting events
- 2) Excessive subsistence & Travelling
- 3) Excessive use of contracted service for routine departmental tasks
- 4) Excessive repairs and maintenance

Vehicles and plant are used for unofficial trips etc. You cannot use a fire truck to travel to the main building to collect payslips. There are enough staff receiving allowances to use their private vehicles.

There is a trend that requisitions are "loaded" because getting a manager's signature is seen as troublesome. Example: If a pre-paid meter has to be replaced not one is drawn but usually 20. Two days later another electrician will also draw 20 pre-paid meters. Either departments are building their own stores or we are supplying for private work. This is not limited to a single section, cleaning materials and stationary is also a major issue. In fact every time a school term starts stationary requests spike. Managers are reminded that inventory is a current asset. In other words CASH. Stores items can be sold quickly and therefore proper care should be taken that you know where the requested items are to be used.

It will take approximately 24 months for the municipality to be in a financial stable position. For the municipality to stabilize the financial situation it will require commitment, dedication from both officials, councilors as well as the communities at large.