

XX POLICY

BORROWING POLICY
UGU DISTRICT MUNICIPALITY



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1. Purpose

The purpose of this policy is to establish a borrowing framework for the Municipality and to set out the objectives, policies, statutory requirements and guidelines for the borrowing of funds, in order to:

- 1.1. Manage interest rate and credit risk exposure;
- 1.2. Maintain debt within specified limits and ensure adequate provision for the repayment of debt;
- 1.3. ensure compliance with all Legislation and Council policy governing borrowing of funds.

2. Legislative Framework

All borrowings made by the Municipality shall be subject to the requirements of the Local Government: Municipal Finance Act, 2003 ("the MFMA") and the Municipal Regulations on Debt Disclosure ("the Disclosure Regulations") made there under and published under Government Notice R 492 in Government Gazette 29966 of 15 June 2007.

3. Definitions

Any word or expression used in this policy shall, unless the context clearly requires a different interpretation, bear the same meaning attached to it in the MFMA or the Disclosure Regulations, as the case may be; provided that if there is any conflict between a definition contained in the MFMA and a definition contained in the Disclosure Regulations, then the definition contained in the MFMA shall prevail.

4. Types of Debt

- 4.1. This policy applies to the debt incurred by the Municipality through the issue of municipal debt instruments or in any other way.
- 4.2. Without derogating from the generality of the preceding subparagraph, this policy will apply:
 - 4.2.1. To any debt, whether short -term or long term;



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4.2.2. To any debt incurred pursuant to any financing agreement, which includes any of the following agreements under which the Municipality undertakes to repay a long-term debt over a period of time:

- 4.2.2.1. Loan agreements;
- 4.2.2.2. Leases;
- 4.2.2.3. Instalment purchase contracts;
- 4.2.2.4. Hire purchase arrangements;

4.2.3. To any debt created by the issuance of municipal debt instruments, including:

- 4.2.3.1. Any note;
- 4.2.3.2. Bond; or
- 4.2.3.3. Debenture; and

4.2.4. To any contingent liability such as that created by guaranteeing a monetary liability or obligation of another.

5. Principles Guiding Borrowing Practices

The following principle shall guide the borrowing practices of the Municipality, namely:

- 5.1. Risk Management: The need to manage interest rate risk, credit risk exposure and to maintain debt within specified limits is the foremost objective of the borrowing policy. To attain this objective, diversification is required to ensure that the Chief Financial Officer prudently manages interest rate and credit risk exposure;
- 5.2. Cost of Borrowings : The borrowings should be structured to obtain the lowest possible interest rate, on the most advantageous terms and conditions, taking cognisance of borrowing risk constraints, infrastructure needs and the borrowing limits determined by Legislation;
- 5.3. Prudence: Borrowings shall be made with care, skill, prudence and diligence. To this end, officials of the Municipality are required to:
 - 5.3.1. adhere to this policy, and other procedures and guidelines;
 - 5.3.2. exercise due diligence;
 - 5.3.3. prepare all reports in a timely fashion;
 - 5.3.4. ensure strict compliance with all Legislation and Council policy.

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6. Factors to be taken into account when borrowing

- 6.1. The Municipality shall take into account the following factors when deciding whether to incur debt:
- 6.1.1. the type and extent of benefits to be obtained from the borrowing;
 - 6.1.2. the length of time the benefits will be received;
 - 6.1.3. beneficiaries of the acquisition or development financed by the debt;
 - 6.1.4. the impact of interest and redemption payments on both current and forecast income;
 - 6.1.5. the current and future capacity of the Municipality's revenue base to pay for borrowings;
 - 6.1.6. other current and projected sources of funds;
 - 6.1.7. likely movements in interest rates for variable rate borrowings;
 - 6.1.8. competing demands for funds;
 - 6.1.9. timing of money market interest rate movements and the long term rates on the interest rate curve.
- 6.2. The Municipality will, in general, seek to minimise its dependence on borrowings in order to minimise future revenue committed to debt servicing and redemption charges.

7. Sources of Borrowings

- 7.1. Subject to any particular determination of the Council of the Municipality, the Municipality may enter into financing agreements with:
- 7.1.1. Registered South African Banks;
 - 7.1.2. The Development Bank of Southern Africa;
 - 7.1.3. Vendors of goods acquired under instalment purchase contracts or hire purchase arrangements;
- 7.2. Unless the Council of the Municipality specifically determines otherwise, the Municipality shall not incur any debt by the issuance of any municipal debt instruments.

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8. Short-term Debt

8.1. The Municipality may incur short –term debt only in accordance with and in the circumstances contemplated in Section 45 of the MFMA.

8.2. In particular, the provisions of section 45 (1) of the MFMA must be noted, these requiring that the Municipality may incur short –term debt only when necessary to bridge:

- 8.2.1. Shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic anticipated income to be received within that financial year; or
- 8.2.2. Capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long-term debt commitments.

8.3. Furthermore, as required by section 45 (4) of the MFMA, the Municipality must pay off short term debt within the financial year.

9. Overdraft Facility

9.1. Overdraft facilities are regulated by Section 45(3) of the MFMA.

10. Long Term Debt

10.1. The Municipality may incur long-term debt only in accordance with and in the circumstances contemplated in Section 46 of the MFMA.

10.2. Long-term debt may be incurred only for the purposes contemplated in Section 46(1) of the MFMA, namely:

- 10.2.1. Capital expenditure on property, plant or equipment to be used for the purpose of achieving the objects of local government, as set out in Section 152 of the Constitution; or
- 10.2.2. Re-financing existing long term debt, subject to section 46(5).

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11. Council approval

Sections 45(2) and 46(2) require that short-term debt and long-term debt respectively may be incurred only if:

- 11.1. A resolution of the Council, signed by the Mayor, has approved the debt agreement;
- 11.2. The accounting officer has signed the agreement or other document which creates or acknowledges the debt.

12. Refinancing

- 12.1. Short-term debt may not be renewed or refinanced where that would have the effect of extending the short-term debt into a new financial year.
- 12.2. The Municipality may borrow in order to refinance long-term debt subject to the conditions contained in Section 46(5) of the MFMA.

13. Early repayment of loans

- 13.1. No loans will be repaid before due date unless there is a financial benefit to the Municipality.
- 13.2. The Municipality shall therefore assess the nature and extent of any benefits of early repayment before it makes any such early repayment.
- 13.3. Cognisance must be taken of any early repayment penalty clauses in the initial loan agreement, as part of the assessment.

14. Debt Repayment Period

- 14.1. As far as is practical, cognisance must be taken of the useful lives of the underlying assets to be financed by the debt for purposes of determining the duration of the debt.

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- 14.2. Should it be established that it is cost effective to borrow the funds for a duration shorter than that of the life of the asset; the Municipality should endeavour to negotiate terms for the loan agreement on a shorter duration.

15. Provision for Redemption of Loans

- 15.1. The Municipality may set up sinking funds to facilitate loan repayments, especially when the repayment is to be met by a bullet payment on the maturity date of the loan.
- 15.2. Such sinking funds may be invested directly with the Lender's Bank.
- 15.3. The maturity date and accumulated value of such investment must coincide with the maturity date and amount of the intended loan that is to be repaid.

16. Non-Repayment or Non-Servicing of Loan

- 16.1. The Municipality must honour all its loan obligations.
- 16.2. Failure to effect prompt payment may jeopardise the Municipality's credit rating and adversely affect the ability of the Municipality to raise loans in the future loans at favourable interest rates.
- 16.3. In addition to ensuring the timely payment of the loans, the Municipality must adhere to the covenants stipulated in the loan agreements, including, in particular, the following where applicable:
- 16.3.1. furnishing audited annual financial statements;
 - 16.3.2. maintaining long-term credit rating;
 - 16.3.3. reporting of material changes in financial position of the Municipality.



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17. Borrowing for Investment Prohibited

The Municipality shall not under any circumstances borrow funds for the purposes of investing them.

18. Front-Loading Prohibited

The Municipality shall ~~not under any circumstances borrow funds~~ (shall only under the following specific conditions borrow funds) for the purposes of funding grant funded projects in advance and use future grants as security for the repayment of such advances .

Comment [f1]: Added during 2015 review

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Approval from Grantor, inclusive of undertaking in writing that such approval will not, in any way, diminish the chances of the Municipality qualifying for such grant.

Resolution of Council approval

Conclusion of Agreement, to which Municipality, Grantor and relevant Treasury are Parties,

19. Security

19.1. Section 48 of the MFMA provides that the Municipality may provide security for any of its debt obligations in any of the forms referred to in Section 48(2).

19.2. Such security shall be given only pursuant to a resolution of the Council, which resolution must comply with the provisions of Section 48(3), (4) and (5) of the MFMA.

20. Disclosure

20.1. Section 49 of the MFMA requires that any person involved in the borrowing of money by a municipality must, when interfacing with a prospective lender or when preparing documentation for consideration by a prospective investor Any Official involved in the securing of loans by the Municipality must, when interacting disclose all relevant information in that persons possession or within that person's knowledge that may be



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material to the decision of that lender or investor, and take reasonable care to ensure the accuracy of any information disclosed.

- 20.2. In addition the Disclosure Regulations establish detailed requirements for the disclosure of information to prospective lenders and investors. Regulations 2, 3, 4, 5. [], 15, 16 and 17 are of particular importance to the Municipality, given the nature of the borrowings which it intends to make.

21. Guarantees

The Municipality may issues guarantees only in accordance with the provisions of Section 50 of the MFMA.

22. Internal Control

The accounting officer shall ensure that mechanisms, procedures and systems are put in place to ensure that:

- 22.1. Duties are separated in order to prevent fraud, collusion and other misconduct;
- 22.2. loan agreements and contracts are kept in proper safe custody;
- 22.3. there is a clear delegation of duties relating to the borrowing process;
- 22.4. senior officials check and verify all transactions;
- 22.5. transactions and repayments are properly documented;
- 22.6. a Code of ethics and standards is established and adhered to;
- 22.7. procedures relating to the borrowing process are established.

23. National Treasury Reporting and Monitoring Requirements

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The Municipality shall promptly submit all returns and reports relating to borrowings as required by National Treasury, including reports on the Municipality's external interest paid each month, and the quarterly itemization of all of its external borrowings.

24. Other Reporting and Monitoring Requirements

24.1. The Municipality shall on a monthly basis perform the following control and reporting functions relevant to borrowings:

- 24.1.1. Reconciliation of bank accounts;
- 24.1.2. Payment requisition verification and authorization;
- 24.1.3. Completion of South African Reserve Bank returns;
- 24.1.4. Maintain schedule of payment dates and amounts;
- 24.1.5. Complete National Treasury Cash Flow returns;
- 24.1.6. Submission of particulars of borrowings as required by Section 71 of MFMA;
- 24.1.7. Perform analysis of ratios;
- 24.1.8. Scrutinise loan agreements to ensure compliance with loan covenants.

24.2. The Municipality shall on a quarterly basis perform the following control and reporting functions relevant to borrowings:

- 24.2.1. Submit National Treasury Borrowings return
- 24.2.2. Prepare debt schedules for reporting to the Executive Committee.

25. Related Policies

This policy must be read in conjunction with the following other policies of the Municipality:

- 25.1. Budget Process Policy;
- 25.2. Cash Management and Investment Policy;



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The Municipal Manager, as accounting officer of the Municipality, shall be responsible for implementing this policy, provided that he or she may delegate in writing any of his or her powers under this policy to any other official of the Municipality.

27. Commencement

This policy shall come into force on [].

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28. Records of Approval

Meeting	Date	Resolution
Top Management		
EXCO		
Revision 1		
BTS Task Team		
Top Management		
Extended Top Management		
LLF		
Corporate Services Portfolio		
EXCO		



FUNDING AND RESERVES POLICY



FUNDING AND RESERVES POLICY

UGU DISTRICT MUNICIPALITY



FUNDING AND RESERVES POLICY

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FUNDING AND RESERVES POLICY

1. DEFINITIONS

In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Act, has the same meaning as in that Act.

References will be made in the policy to particular legislation without quoting it verbatim. The users should therefore refer to the legislation for the exact text.

2. OBJECT OF THE POLICY

The objectives of this policy are to:

- 2.1 Ensure that the Medium Term Revenue/Expenditure Framework (Annual Budget) of the Municipality is appropriately funded.
- 2.2 Ensure that cash resources and reserves are maintained at the required levels to avoid unfunded liabilities.
- 2.3 To achieve financial stability in order to provide sustainable levels of service delivery to the community.

3. SCOPE AND INTENDED AUDIENCE

The funding and reserves policy aims to ensure that the Municipality has sufficient funding in order to achieve its objectives through the implementation of its operating and capital budgets.

This policy aims to set guidelines towards ensuring financial viability over both the short- and long-term which includes reserves requirements.

4. REGULATORY FRAMEWORK

The legislative framework governing funding of the Annual Budget is:

- 4.1 Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003); and,
- 4.2 Local Government: Municipal Budget and Reporting Regulation, Regulation 393, published under Government Gazette 32141, 17 April 2009.



FUNDING AND RESERVES POLICY

5. FUNDING OF THE ANNUAL BUDGET

- 5.1 An annual budget may only be funded from:
- Cash backed accumulated funds from previous years' surpluses and reserves not committed for any other purpose;
 - Realistically anticipated revenues to be collected;
 - Borrowed funds only for capital expenditure, and
 - Grants and subsidies.
- 5.2 Realistic anticipated revenue projections must take into account:
- Projected revenue for the current year based on the previous year's billing information.

6. CASH MANAGEMENT

The availability of cash is the most important requirement for financial sustainability and must be closely monitored by the CFO. In doing so the CFO must ensure a minimum cash on hand to cover 60 days operational expenditure.

Surplus cash not immediately required for operational purposes must be invested in terms of the Municipality's Cash and Investment Policy to maximize the return on cash.

7. DONATIONS, GRANTS AND SUBSIDIES.

Revenue from donations or any other grants may only be included in the budget if there is acceptable documentation that guarantees the funds such as:

- Signed service level agreement;
- Contract or written confirmation; or
- Any other legally binding document.

The conditions of the specific grant must be taken into consideration when allocated to a specific project.

Government grants and subsidies allocated to specific capital projects are provided for on the relevant department's operating budget to the extent that the conditions will be met during the financial year.



FUNDING AND RESERVES POLICY

8. THE CAPITAL REPLACEMENT RESERVE

All reserves must be "ring fenced" and "cash backed" as internal reserves within the accumulated surplus, except for provisions as allowed by GRAP.

Once the municipality has reached its maximum gearing ability, no further borrowings can be taken up. The municipality must invest in a capital replacement reserve. This reserve provides internal funding for the municipality's capital replacement and renewal programme.

Contributions to the capital replacement reserve through the operating budget will be:

- (i) Interest received on investments;
- (ii) Contributions from surplus if cash are available;
- (iii) Proceeds from sale of assets.

Comment [f1]: Added in 2015 to ensure additional funding for future capital expenditure

9. THE CAPITAL CONTRIBUTIONS

These supplement capital expenditure for the necessary expansions and upgrading of bulk infrastructure. Revenue generated from capital contributions is allocated to this reserve for each applicable service. The unspent contributions must be cash backed to ensure availability of cash when the infrastructure upgrades are required.

Comment [f2]: Should this not be added to the CRR but shown separately under that reserve to keep track of the available funds for capital expansion of water and sanitation infrastructure

[This contribution must be made through the operating budget as the income is taken as unconditional contributions]

Comment [f3]: Developers contributions are recognised as income so this contribution should be via the income statement

10. OTHER ITEMS TO BE CASH BACKED

a) Unspent conditional grant funding

Revenue received from conditional grants is recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Amounts in relation to the unspent grant funding are therefore retained in cash and are not available to fund any other items on the operating or capital budget other than that for which it was intended for.

b) Consumer Deposits

Consumer deposits are partial security for a future payment. Deposits are considered a liability as the deposit is utilised once the agreement is terminated. The funds are owed to consumers



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and can therefore not be utilised to fund the operating or capital budget. Consumer deposits should be retained in cash and be ring-fenced.

11. POLICY REVIEW

This policy will be reviewed annually to ensure that it complies with changes in applicable legislation and accounting standards.

Records of Approval

Meeting	Date	Resolution
Top Management		
EXCO		
Revision 1		
BTS Task Team		
Top Management		
Extended Top Management		
LLF		
Corporate Services Portfolio		
EXCO		



SUPPLY CHAIN MANAGEMENT POLICY

UGU DISTRICT MUNICIPALITY



SUPPLY CHAIN MANAGEMENT

LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003

Date of adoption: 23 October 2009

Council resolves in terms of section 111 of the Local Government Municipal Finance Management Act (No. 56 of 2003), to adopt the following proposal as the Supply Chain Management Policy of Ugu District Municipality.

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CHAPTER 2

SUPPLY CHAIN MANAGEMENT SYSTEM

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Definitions

- 1. In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Act has the same meaning as in the Act, and –

“competitive bidding process” means a competitive bidding process referred to in paragraph 12 (1) (d) of this Policy;

“competitive bid” means a bid in terms of a competitive bidding process;



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“final award”, in relation to bids or quotations submitted for a contract, means the final decision on which bid or quote to accept;

“formal written price quotation” means quotations referred to in paragraph 12 (1) (c) of this Policy;

“in the service of the state” means to be –

- (a) a member of –
 - (i) any municipal council;
 - (ii) any provincial legislature; or
 - (iii) the National Assembly or the National Council of Provinces;
- (b) a member of the board of directors of any municipal entity;
- (c) an official of any municipality or municipal entity;
- (d) an employee of any national or provincial department, national or provincial public entity or constitutional institution within the meaning of the Public Finance Management Act, 1999 (Act No.1 of 1999);
- (e) a member of the accounting authority of any national or provincial public entity; or
- (f) an employee of Parliament or a provincial legislature;

“long term contract” means a contract with a duration period exceeding one year;

“list of accredited prospective providers” means the list of accredited prospective providers which the **municipality** must keep in terms of paragraph 14 of this policy;

“other applicable legislation” means any other legislation applicable to municipal supply chain management, including –

- (a) the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000);
- (b) the Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003); and
- (c) the Construction Industry Development Board Act, 2000 (Act No.38 of 2000);



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“Treasury guidelines” means any guidelines on supply chain management issued by the Minister in terms of section 168 of the Act;

“the Act” means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

“the Regulations” means the Local Government: Municipal Finance Management Act, 2003, Municipal Supply Chain Management Regulations published by Government Notice 868 of 2005;

“written or verbal quotations” means quotations referred to in paragraph 12(1)(b) of this Policy.

“municipality” means the Ugu District Municipality.



SUPPLY CHAIN MANAGEMENT

CHAPTER 1 IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT POLICY

Supply chain management policy

2. (1) All officials and other role players in the supply chain management system of the municipality must implement this Policy in a way that –

- (a) gives effect to –
 - (i) section 217 of the Constitution; and
 - (ii) Part 1 of Chapter 11 and other applicable provisions of the Act;
- (b) is fair, equitable, transparent, competitive and cost effective;
- (c) complies with –
 - (i) the Regulations; and
 - (ii) any minimum norms and standards that may be prescribed in terms of section 168 of the Act;
- (d) is consistent with other applicable legislation;
- (e) does not undermine the objective for uniformity in supply chain management systems between organs of state in all spheres; and
- (f) is consistent with national economic policy concerning the promotion of investments and doing business with the public sector.

(2) This Policy applies when the municipality –

- (a) procures goods or services;
- (b) disposes of goods no longer needed;
- (c) selects contractors to provide assistance in the provision of municipal services otherwise than in circumstances where Chapter 8 of the Municipal Systems Act applies; or
- (d) selects external mechanisms referred to in section 80 (1) (b) of the Municipal Systems Act for the provision of municipal services in circumstances contemplated in section 83 of that Act.

(3) This Policy, except where provided otherwise, does not apply in respect of the procurement of goods and services contemplated in section 110(2) of the Act, including –

- (a) water from the Department of Water Affairs or a public entity, another municipality or a municipal entity; and



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- (b) electricity from Eskom or another public entity, another municipality or a municipal entity.

Amendment of the supply chain management policy

3. (1) The municipal manager must –
- (a) at least annually review the implementation of this Policy; and
 - (b) when the municipal manager considers it necessary, submit proposals for the amendment of this Policy to the council.

(2) If the municipal manager submits proposed amendments to the council that differs from the model policy issued by the National Treasury, the accounting officer must –

- (a) ensure that such proposed amendments comply with the Regulations; and
- (b) report any deviation from the model policy to the National Treasury and the relevant provincial treasury.

(3) When amending this supply chain management policy the need for uniformity in supply chain practices, procedures and forms between organs of state in all spheres, particularly to promote accessibility of supply chain management systems for small businesses must be taken into account.

Delegation of supply chain management powers and duties

4. (1) The council hereby delegates all powers and duties to the municipal manager which are necessary to enable the municipal manager –
- (a) to discharge the supply chain management responsibilities conferred on accounting officers in terms of –
 - (i) Chapter 8 or 10 of the Act; and
 - (ii) this Policy;
 - (b) to maximise administrative and operational efficiency in the implementation of this Policy;



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- (c) to enforce reasonable cost-effective measures for the prevention of fraud, corruption, favouritism and unfair and irregular practices in the implementation of this Policy; and
- (d) to comply with his or her responsibilities in terms of section 115 and other applicable provisions of the Act.

(2) Sections 79 and 106 of the Act apply to the sub-delegation of powers and duties delegated to an accounting officer in terms of sub-paragraph (1).

(3) The municipal manager may not sub-delegate any supply chain management powers or duties to a person who is not an official of municipality or to a committee which is not exclusively composed of officials of the municipality.

(4) This paragraph may not be read as permitting an official to whom the power to make final awards has been delegated, to make a final award in a competitive bidding process otherwise than through the committee system provided for in paragraph 26 of this Policy.

Sub-delegations

5. (1) The municipal manager may in terms of section 79 or 106 of the Act sub-delegate any supply chain management powers and duties, including those delegated to the accounting officer in terms of this Policy, but any such subdelegation must be consistent with sub-paragraph (2) of this paragraph and paragraph 4 of this Policy.

- (2) The power to make a final award –
 - (a) above R10 million (VAT included) may not be sub-delegated by the municipal manager;
 - (b) above R2 million (VAT included), but not exceeding R10 million (VAT included), may be sub-delegated but only to –



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- (i) Chief Financial Officer;
 - (ii) General Manager: Water Services; or
 - (iii) General Manager: Corporate Services;
- (c) not exceeding R2 million (VAT included) may be sub-delegated but only to –
- (i) Chief Financial Officer;
 - (ii) Other General Managers; or
 - (iii) the bid adjudication committee.

(3) An official or bid adjudication committee to which the power to make final awards has been sub-delegated in accordance with subparagraph (2) must within five days of the end of each month submit to the municipal manager a written report containing particulars of each final award made by such official or committee during that month, including–

- (a) the amount of the award;
- (b) the name of the person to whom the award was made; and
- (c) the reason why the award was made to that person.

(4) Sub-paragraph (3) of this paragraph does not apply to procurements out of petty cash.

(5) This paragraph may not be interpreted as permitting an official to whom the power to make final awards has been sub-delegated, to make a final award in a competitive bidding process otherwise than through the committee system provided for in paragraph 26 of this Policy.



SUPPLY CHAIN MANAGEMENT

(6) No supply chain management decision-making powers may be delegated to an advisor or consultant.

Oversight role of council

6. (1) The council reserves its right to maintain oversight over the implementation of this Policy.

(2) For the purposes of such oversight the municipal manager must –

(a) (i) within 30 days of the end of each financial year, submit a report on the implementation of this policy, to the council of Ugu District Municipality; and

(ii) whenever there are serious and material problems in the implementation of this policy, immediately submit a report to the council.

(3) The municipal manager must, within 10 days of the end of each quarter, submit a report on the implementation of the supply chain management policy to the mayor.

(4) The reports must be made public in accordance with section 21A of the Municipal Systems Act.

Supply chain management unit

7. (1) A supply chain management unit is hereby established to implement this Policy.



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(2) The supply chain management unit operates under the direct supervision of the chief financial officer or an official to whom this duty has been delegated in terms of section 82 of the Act.

Training of supply chain management officials

8. The training of officials involved in implementing this Policy should be in accordance with any Treasury guidelines on supply chain management training.



CHAPTER 2

SUPPLY CHAIN MANAGEMENT SYSTEM

Format of supply chain management system

9. This Policy provides systems for –
- (i) demand management;
 - (ii) acquisition management;
 - (iii) logistics management;
 - (iv) disposal management;
 - (v) risk management; and
 - (vi) performance management.

Part 1: Demand management

System of demand management

10. (1) The municipal manager must establish and implement an appropriate demand management system in order to ensure that the resources required by Ugu District Municipality support its operational commitments and its strategic goals outlined in the Integrated Development Plan.

- (2) The demand management system must –
- (a) include timely planning and management processes to ensure that all goods and services required by the municipality are quantified, budgeted for and timely and effectively delivered at the right locations and at the critical delivery dates, and are of the appropriate quality and quantity at a fair cost;
 - (b) take into account any benefits of economies of scale that may be derived in the case of acquisitions of a repetitive nature; and
 - (c) provide for the compilation of the required specifications to ensure that its needs are met.
 - (d) To undertake appropriate industry analysis and research to ensure that innovations and technological benefits are maximized.



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Part 2: Acquisition management

System of acquisition management

11. (1) The municipal manager must implement the system of acquisition management set out in this Part in order to ensure –

- (a) that goods and services are procured by the municipality in accordance with authorised processes only;
- (b) that expenditure on goods and services is incurred in terms of an approved budget in terms of section 15 of the Act;
- (c) that the threshold values for the different procurement processes are complied with;
- (d) that bid documentation, evaluation and adjudication criteria, and general conditions of a contract, are in accordance with any applicable legislation; and
- (e) that any Treasury guidelines on acquisition management are properly taken into account.

(2) When procuring goods or services contemplated in section 110(2) of the Act, the municipal manager must make public the fact that such goods or services are procured otherwise than through the municipality's supply chain management system, including -

- (a) water from the Department of Water Affairs or a public entity, another municipality or a municipal entity; and
- (b) electricity from Eskom or another public entity, another municipality or a municipal entity.

Range of procurement processes

12. (1) Goods and services may only be procured by way of –

- (a) petty cash purchases, up to a transaction value of R2,000 (VAT included);
- (b) written quotations for procurement transactions valued over R2,000 up to R29,999 (VAT included);
- (c) formal written price quotations for procurement transactions valued over R30,000 up to R200 000 (VAT included); and



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- (d) a competitive bidding process for–
 - (i) procurement above a transaction value of R200 000 (VAT included); and
 - (ii) the procurement of long term contracts.

- (2) The municipal manager may, in writing–
 - (a) lower, but not increase, the different threshold values specified in subparagraph (1); or
 - (b) direct that –
 - (i) written or verbal quotations be obtained for any specific procurement transaction value lower than R2,000;
 - (ii) formal written price quotations be obtained for any specific procurement of a transaction value lower than R30,000; or
 - (iii) a competitive bidding process be followed for any specific procurement of a transaction value lower than R200 000.

- (3) Goods or services may not deliberately be split into parts or items of a lesser value merely to avoid complying with the requirements of the policy. When determining transaction values, a requirement for goods or services consisting of different parts or items must as far as possible be treated and dealt with as a single transaction.



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General preconditions for consideration of written quotations or bids

13. A written quotation or bid may not be considered unless the provider who submitted the quotation or bid –

- (a) has furnished –
 - (i) full name;
 - (ii) identification number or company or other registration number; and
 - (iii) tax reference number and VAT registration number, if any;
- (b) has submitted a tax clearance from the South African Revenue Services that the provider's tax matters are in order; and
- (c) has indicated –
 - (i) whether he or she is in the service of the state, or has been in the service of the state in the previous twelve months;
 - (ii) if the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous twelve months; or
 - (iii) whether a spouse, child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in subparagraph (ii) is in the service of the state, or has been in the service of the state in the previous twelve months.

Lists of accredited prospective providers

- 14.** (1) The municipal manager must –
- (a) keep a list of accredited prospective providers of goods and services that must be used for the procurement requirements through written or verbal quotations and formal written price quotations; and
 - (b) at least once a year through newspapers commonly circulating locally, the website and any other appropriate ways, invite prospective providers of goods or services to apply for evaluation and listing as accredited prospective providers;
 - (c) specify the listing criteria for accredited prospective providers; and

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- (d) disallow the listing of any prospective provider whose name appears on the National Treasury's database as a person prohibited from doing business with the public sector.

(2) The list must be updated at least quarterly to include any additional prospective providers and any new commodities or types of services. Prospective providers must be allowed to submit applications for listing at any time.

- (3) The list must be compiled per commodity and per type of service.

Petty cash purchases

15. The conditions for procurement of goods by means of petty cash referred to in paragraph 12 (1) (a) of this Policy, are as follows –

- (a) The Chief Financial Officer may, in writing, delegate the responsibility to monitor Petty Cash purchases to the Accountant: Revenue/Income Officer.
- (b) Goods and services may only be procured by way of petty cash, up to a transaction value of R2,000 (VAT included).
- (c) A maximum of five petty cash purchases per month will be allowed for each department.
- (d) Total petty cash may not exceed R20,000.00 for each calendar month for the whole municipality.
- (e) Petty cash may only be used for the following types of expenditure: refreshments, catering, gifts, wheel puncture repairs, and other small items.
- (f) a monthly reconciliation report from the Accountant expenditure must be submitted to the Chief Financial Officer, including –
 - (i) the total amount of petty cash purchases for that month; and
 - (ii) receipts and appropriate documents for each purchase.



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Written or verbal quotations

16. The conditions for the procurement of goods or services through written or verbal quotations are as follows:

- (a) Quotations must be obtained from at least three different providers preferably from, but not limited to, providers whose names appear on the list of accredited prospective providers of the municipality, provided that if quotations are obtained from providers who are not listed, such providers must meet the listing criteria set out in paragraph 14(1)(b) and (c) of this Policy;
- (b) to the extent feasible, providers must be requested to submit such quotations in writing;
- (c) if it is not possible to obtain at least three quotations, the reasons must be recorded and reported quarterly to the municipal manager or another official designated by the municipal manager;
- (d) the municipal manager must record the names of the potential providers requested to provide such quotations with their quoted prices;
- (e) if a quotation was submitted verbally, the order may be placed only against written confirmation by the selected provider;
- (f) and /or to apply Risk Management Policy, Delegation of Powers Authority, SCM Policy, Delegation of Powers MFMA, Petty Cash as well as Budgeting Policy.

Formal written quotations

17. (1) The conditions for the procurement of goods or services through formal written price quotations are as follows:

- (a) quotations above R2,000.00 must be obtained in writing from at least three different providers whose names appear on the list of accredited prospective providers of the municipality;
- (b) quotations may be obtained from providers who are not listed, provided that such providers meet the listing criteria set out in paragraph 14(1)(b) and (c) of this Policy;



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- (c) if it is not possible to obtain at least three quotations, the reasons must be recorded and approved by the chief financial officer or an official designated by the chief financial officer,
- (d) the municipal manager must record the names of the potential providers and their written quotations, and

(2) A designated official referred to in subparagraph (1) (c) must within three days of the end of each month report to the chief financial officer on any approvals given during that month by that official in terms of that subparagraph.

Procedures for procuring goods or services through written or verbal quotations and formal written price quotations

18. The procedure for the procurement of goods or services through written or verbal quotations or formal written price quotations, is as follows:

- (a) when using the list of accredited prospective providers the accounting officer must promote ongoing competition amongst providers by inviting providers to submit quotations on a rotation basis;
- (b) all requirements in excess of R30 000 (VAT included) that are to be procured by means of formal written price quotations must, in addition to the requirements of paragraph 17, be scored on price and targeted goals points designed in terms of the Preferential Procurement Points Framework Act (PPPFA) and its regulations and Broad Base Black Economic Empowerment 2003 and be advertised for at least seven days on the website and an official notice board of Ugu District Municipality;
- (c) offers received must be evaluated on a comparative basis taking into account unconditional discounts;
- (d) the municipal manager or chief financial officer must on a monthly basis be notified in writing of all written or verbal quotations and formal written price quotations accepted by an official acting in terms of a subdelegation;
- (e) offers below R30 000 (VAT included) must be awarded based on compliance to specifications and conditions of contract, ability and capability to deliver the goods and services and lowest price;



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- (f) acceptable offers, which are subject to the preference points system (Preferential Procurement Points Framework Act (PPPFA) and its regulations PPPFA and associated regulations), must be awarded to the bidder who scored the highest points;
- (g) for proper record keeping and audit purposes, the following documentation must be kept by Finance and department procuring goods or services;
 - (i) the authorised purchase requisition produced by the department requiring goods and services.
 - (ii) formal written price quotations
 - (iii) the order authorised by the Chief Financial Officer.
 - (iv) formal signed delivery note submitted by the successful supplier.
 - (v) formal invoice or certificate of work performed submitted by the successful supplier.
 - (vi) goods received voucher, as prepared by expenditure: creditors section.
 - (vii) the cheque voucher prepared by the Accountant: Expenditure and authorised by the Chief Financial Officer.
 - (viii) the authorised payment cheque.
 - (ix) Any minutes of a bid resolution by the Bid Adjudication or Awarding Committee.
 - (x) Proof of authorised direct payment (cash focus) processed for each transaction

Competitive bids

19. (1) Goods or services above a transaction value of R200 000 (VAT included) and long term contracts may only be procured through a competitive bidding process, subject to paragraph 11(2) of this Policy.

(2) No requirement for goods or services above an estimated transaction value of R200 000 (VAT included), may deliberately be split into parts or items of

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lesser value merely for the sake of procuring the goods or services otherwise than through a competitive bidding process.

Process for competitive bidding

20. The procedures for the following stages of a competitive bidding process are as follows:

- (a) Compilation of bidding documentation as detailed in paragraph 21;
- (b) Public invitation of bids as detailed in paragraph 22;
- (c) Site meetings or briefing sessions as detailed in paragraph 22;
- (d) Handling of bids submitted in response to public invitation as detailed in paragraph 23;
- (e) Evaluation of bids as detailed in paragraph 28;
- (f) Award of contracts as detailed in paragraph 29;
- (g) Administration of contracts
 - (i) After approval of a bid, the accounting officer and the bidder must enter into a written agreement.
- (h) Proper record keeping
 - (i) Original / legal copies of written contracts agreements should be kept in a secure place for reference purposes.

Bid documentation for competitive bids

21. The criteria with which bid documentation for a competitive bidding process must –

- (a) take into account –
 - (i) the general conditions of contract and any special conditions of contract, if specified;
 - (ii) any Treasury guidelines on bid documentation; and
 - (iii) the requirements of the Construction Industry Development Board (CIDB), in the case of a bid relating to construction, upgrading or refurbishment of buildings or infrastructure;

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- (b) include the preference points system to be used, goals as contemplated in the Preferential Procurement Regulations and evaluation and adjudication criteria, including any criteria required by other applicable legislation;
- (c) compel bidders to declare any conflict of interest they may have in the transaction for which the bid is submitted;
- (d) if the value of the transaction is expected to exceed R10 million (VAT included), require bidders to furnish–
 - (i) if the bidder is required by law to prepare annual financial statements for auditing, their audited annual financial statements –
 - (aa) for the past three years; or
 - (bb) since their establishment if established during the past three years;
 - (ii) a certificate signed by the bidder certifying that the bidder has no undisputed commitments for municipal services towards a municipality or other service provider in respect of which payment is overdue for more than 30 days;
 - (iii) particulars of any contracts awarded to the bidder by an organ of state during the past five years, including particulars of any material non-compliance or dispute concerning the execution of such contract;
 - (iv) a statement indicating whether any portion of the goods or services are expected to be sourced from outside the Republic, and, if so, what portion and whether any portion of payment from Ugu District Municipality is expected to be transferred out of the Republic; and
- (e) Stipulate that disputes must be settled by means of mutual consultation, mediation (with or without legal representation), or, when unsuccessful, in a South African court of law.

Public invitation for competitive bids

- 22.** (1) The procedure for the invitation of competitive bids, is as follows:
- (a) Any invitation to prospective providers to submit bids must be by means of a public advertisement in newspapers commonly circulating locally, the website



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of the municipality or any other appropriate ways (which may include an advertisement in the Government Tender Bulletin); and

- (b) The information contained in a public advertisement, must include –
 - (i) the closure date for the submission of bids, which may not be less than 30 days in the case of transactions over R10 million (VAT included), or which are of a long term nature, or 14 days in any other case, from the date on which the advertisement is placed in a newspaper, subject to sub-paragraph (2) of this policy;
 - (ii) a statement that bids may only be submitted on the bid documentation provided by Ugu District Municipality; and
 - (iii) date, time and venue of any proposed site meetings or briefing sessions.;
 - (iv) statement stating that no late bid proposal will be accepted.

(2) The municipal manager may determine a closure date for the submission of bids which is less than the 30 or 14 days requirement, but only if such shorter period can be justified on the grounds of urgency or emergency or any exceptional case where it is impractical or impossible to follow the official procurement process.

- (3) Bids submitted must be sealed.
- (4) Where bids are requested in electronic format, such bids must be supplemented by sealed hard copies.

Procedure for handling, opening and recording of bids

23. The procedures for the handling, opening and recording of bids, are as follows:

- (a) Bids–
 - (i) must be opened only in public;
 - (ii) must be opened at the same time and as soon as possible after the period for the submission of bids has expired; and



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- (iii) received after the closing time should not be considered and returned unopened immediately.
- (b) Any bidder or member of the public has the right to request that the names of the bidders who submitted bids in time must be read out and, if practical, also each bidder's total bidding price;
- (c) No information, except the provisions in subparagraph (b), relating to the bid should be disclosed to bidders or other persons until the successful bidder is notified of the award; and
- (d) The municipal manager must –
 - (i) record in a register all bids received in time;
 - (ii) make the register available for public inspection; and
 - (iii) publish the entries in the register and the bid results on the website.

Negotiations with preferred bidders

24. (1) The municipal manger may negotiate the final terms of a contract with bidders identified through a competitive bidding process as preferred bidders, provided that such negotiation –

- (a) does not allow any preferred bidder a second or unfair opportunity;
- (b) is not to the detriment of any other bidder; and
- (c) does not lead to a higher price than the bid as submitted.

(2) Minutes of such negotiations must be kept for record purposes.

Two-stage bidding process

25. (1) A two-stage bidding process is allowed for –

- (a) large, complex projects;
- (b) projects where it may be undesirable to prepare complete detailed technical specifications; or
- (c) long term projects with a duration period exceeding three years.

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(2) In the first stage technical proposals on conceptual design or performance specifications should be invited, subject to technical as well as commercial clarifications and adjustments.

(3) In the second stage final technical proposals and priced bids should be invited.

Committee system for competitive bids

26. (1) A committee system for competitive bids is hereby established, consisting of the following committees for each procurement or cluster of procurements as the accounting officer may determine:

- (a) a bid specification committee;
- (b) a bid evaluation committee; and
- (c) a bid adjudication committee;

(2) The municipal manager appoints the members of each committee, taking into account section 117 of the Act; and

(3) A neutral or independent observer, appointed by the municipal manager, must attend or oversee a committee when this is appropriate for ensuring fairness and promoting transparency.

- (4) The committee system must be consistent with –
- (a) paragraph 27, 28 and 29 of this Policy; and
 - (b) any other applicable legislation.

(5) The municipal manager may apply the committee system to formal written price quotations.

Bid specification committees

27. (1) A bid specification committee must compile the specifications for each procurement of goods or services by the municipality.



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(2) Specifications –

- (a) must be drafted in an unbiased manner to allow all potential suppliers to offer their goods or services;
- (b) must take account of any accepted standards such as those issued by Standards South Africa, the International Standards Organisation, or an authority accredited or recognised by the South African National Accreditation System with which the equipment or material or workmanship should comply;
- (c) must, where possible, be described in terms of performance required rather than in terms of descriptive characteristics for design;
- (d) may not create trade barriers in contract requirements in the forms of specifications, plans, drawings, designs, testing and test methods, packaging, marking or labeling of conformity certification;
- (e) may not make reference to any particular trade mark, name, patent, design, type, specific origin or producer unless there is no other sufficiently precise or intelligible way of describing the characteristics of the work, in which case such reference must be accompanied by the word "equivalent";
- (f) must indicate each specific goal for which points may be awarded in terms of the points system set out in the Preferential Procurement Regulations 2001; and
- (g) must be approved by the municipal manager prior to publication of the invitation for bids in terms of paragraph 22 of this Policy.

(3) A bid specification committee must be composed of:

- (a) two officials of the municipality who must serve as standing members; one from the Supply Chain Management Unit who will chair and the other from Technical Services.
- (b) an official to be co-opted from the end user department preferably a manager and a knowledgeable official responsible for the function involved;



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- (c) co-opted external specialised expert.
- (d) must be appointed in writing for a period of 12 months which is in line with the financial year end of the municipality, subject to the annual reviewal of this policy;
- (e) the quorum must be equal to 50% of the number of permanent (as opposed to co-opted) committee members, plus one member.

(4) No person, advisor or corporate entity involved with the bid specification committee, or director of such a corporate entity, may bid for any resulting contracts.

Bid evaluation committees

28. (1) A bid evaluation committee must –
- (a) evaluate bids in accordance with –
 - (i) the specifications for a specific procurement; and
 - (ii) the points system set out in terms of paragraph 27(2)(f).
 - (b) evaluate each bidder's ability to execute the contract;
 - (c) check in respect of the recommended bidder whether municipal rates and taxes and municipal service charges are not in arrears, and;
 - (d) submit to the adjudication committee a report and recommendations regarding the award of the bid or any other related matter.
- (2) A bid evaluation committee must as far as possible be composed of -



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- (a) two officials of the municipality who must serve as standing members; one from the Supply Chain Management Unit who will Chair and the other from Technical Services.
- (b) an official to be co-opted from end user department preferably a manager and a knowledgeable official responsible for the function involved ;
- (c) co- opted external specialised expert;
- (d) must be appointed for a period of 12 months which is in line with the financial year end of the municipality, subject to the annual reviewal of this policy
- (e) the quorum must be equal to 50% of the number of permanent (as opposed to co-opted) committee members, plus one member.

Bid adjudication committees

29. (1) A bid adjudication committee must –

- (a) consider the report and recommendations of the bid evaluation committee; and
- (b) either –
 - (i) depending on its delegations, make a final award or a recommendation to the municipal manager to make the final award; or
 - (ii) make another recommendation to the municipal manager how to proceed with the relevant procurement.

(2) A bid adjudication committee must consist of at least four senior managers of the municipality which must include –



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- (a) Chief financial Officer
- (b) Manager: Corporate Services
- (c) Executive Manager: Technical Services
- (d) Manager: Human Resources /or any senior manager
- (e) co-opted external specialised expert.
- (f) the quorum must be equal to 50% of the number of permanent (as opposed to co-opted) committee members, plus one member.

(3) The municipal manager must appoint the chairperson of the committee. If the chairperson is absent from a meeting, the members of the committee who are present must elect one of them to preside at the meeting.

(4) Neither a member of a bid evaluation committee, nor an advisor or person assisting the evaluation committee, may be a member of a bid adjudication committee.

(5) (a) If the bid adjudication committee decides to award a bid other than the one recommended by the bid evaluation committee, the bid adjudication committee must prior to awarding the bid –

- (i) check in respect of the preferred bidder whether that bidder's municipal rates and taxes and municipal service charges are not in arrears, and;
- (ii) notify the municipal manager.

(b) The municipal manager may –

- (i) after due consideration of the reasons for the deviation, ratify or reject the decision of the bid adjudication committee referred to in paragraph (a); and



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- (ii) if the decision of the bid adjudication committee is rejected, refer the decision of the adjudication committee back to that committee for reconsideration.

(6) The municipal manager may at any stage of a bidding process, refer any recommendation made by the evaluation committee or the adjudication committee back to that committee for reconsideration of the recommendation.

(7) The municipal manager must comply with section 114 of the Act within 10 working days

Procurement of banking services

30. (1) A contract for banking services –

- (a) must be procured through competitive bids;
- (b) must be consistent with section 7 or 85 of the Act; and
- (c) may not be for a period of more than five years at a time.

(2) The process for procuring a contract for banking services must commence at least nine months before the end of an existing contract.

(3) The closure date for the submission of bids may not be less than 60 days from the date on which the advertisement is placed in a newspaper in terms of paragraph 22(1). Bids must be restricted to banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990).



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Procurement of IT related goods or services

31. (1) The municipal manager may request the State Information Technology Agency (SITA) to assist with the acquisition of IT related goods or services through a competitive bidding process.

(2) Both parties must enter into a written agreement to regulate the services rendered by, and the payments to be made to, SITA.

(3) The accounting officer must notify SITA together with a motivation of the IT needs if –

- (a) the transaction value of IT related goods or services required in any financial year will exceed R50 million (VAT included); or
- (b) the transaction value of a contract to be procured whether for one or more years exceeds R50 million (VAT included).

(4) If SITA comments on the submission and the municipality disagrees with such comments, the comments and the reasons for rejecting or not following such comments must be submitted to the council, the National Treasury, the relevant provincial treasury and the Auditor General.

Procurement of goods and services under contracts secured by other organs of state

32. (1) The municipal manager may procure goods or services under a contract secured by another organ of state, but only if –

- (a) the contract has been secured by that other organ of state by means of a competitive bidding process applicable to that organ of state;
- (b) there is no reason to believe that such contract was not validly procured;
- (c) there are demonstrable discounts or benefits to do so; and
- (d) that other organ of state and the provider have consented to such procurement in writing.

(2) Subparagraphs (1)(c) and (d) do not apply if –



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- (a) a municipal entity procures goods or services through a contract secured by its parent municipality; or
- (b) a municipality procures goods or services through a contract secured by a municipal entity of which it is the parent municipality.

Procurement of goods necessitating special safety arrangements

33. (1) The acquisition and storage of goods in bulk (other than water), which necessitate special safety arrangements, including gasses and fuel, should be avoided where ever possible.

(2) Where the storage of goods in bulk is justified, such justification must be based on sound reasons, including the total cost of ownership, cost advantages and environmental impact and must be approved by the accounting officer.

Proudly SA Campaign

34. Ugu District Municipality supports the Proudly SA Campaign to the extent that, all things being equal, preference is given to procuring local goods and services from:

- Firstly – suppliers and businesses within the municipality or district;
- Secondly – suppliers and businesses within the relevant province;
- Thirdly – suppliers and businesses within the Republic.

Appointment of consultants

35. (1) The municipal manager may procure consulting services provided that any Treasury guidelines in respect of consulting services are taken into account when such procurements are made.



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- (2) Consultancy services must be procured through competitive bids if
 - (a) the value of the contract exceeds R200 000 (VAT included); or
 - (b) the duration period of the contract exceeds one year.

- (3) In addition to any requirements prescribed by this policy for competitive bids, bidders must furnish particulars of –
 - (a) all consultancy services provided to an organ of state in the last five years; and
 - (b) any similar consultancy services provided to an organ of state in the last five years.

- (4) The municipal manager must ensure that copyright in any document produced, and the patent rights or ownership in any plant, machinery, thing, system or process designed or devised, by a consultant in the course of the consultancy service is vested in the municipality.

Deviation from, and ratification of minor breaches of, procurement processes

- 36.** (1) The municipal manager may –
- (a) dispense with the official procurement processes established by this Policy and to procure any required goods or services through any convenient process, which may include direct negotiations, but only –
 - (i) in an emergency;
 - (ii) if such goods or services are produced or available from a single provider only;
 - (iii) for the acquisition of special works of art or historical objects where specifications are difficult to compile;
 - (iv) acquisition of animals for zoos and/or nature and game reserves; or
 - (v) in any other exceptional case where it is impractical or impossible to follow the official procurement processes; and
 - (b) ratify any minor breaches of the procurement processes by an official or committee acting in terms of delegated powers or duties which are purely of a technical nature.



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(2) The municipal manager must record the reasons for any deviations in terms of subparagraphs (1)(a) and (b) of this policy and report them to the next meeting of the council and include as a note to the annual financial statements.

(3) Subparagraph (2) does not apply to the procurement of goods and services contemplated in paragraph 11(2) of this policy.

Unsolicited bids

37. (1) In accordance with section 113 of the Act there is no obligation to consider unsolicited bids received outside a normal bidding process.

(2) The municipal manager may decide in terms of section 113(2) of the Act to consider an unsolicited bid, only if –

- (a) the product or service offered in terms of the bid is a demonstrably or proven unique innovative concept;
- (b) the product or service will be exceptionally beneficial to, or have exceptional cost advantages;
- (c) the person who made the bid is the sole provider of the product or service; and
- (d) the reasons for not going through the normal bidding processes are found to be sound by the accounting officer.

(3) If the municipal manager decides to consider an unsolicited bid that complies with subparagraph (2) of this policy, the decision must be made public in accordance with section 21A of the Municipal Systems Act, together with –

- (a) reasons as to why the bid should not be open to other competitors;
- (b) an explanation of the potential benefits if the unsolicited bid were accepted; and
- (c) an invitation to the public or other potential suppliers to submit their comments within 30 days of the notice.



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(4) The municipal manager must submit all written comments received pursuant to subparagraph (3), including any responses from the unsolicited bidder, to the National Treasury and the relevant provincial treasury for comment.

(5) The adjudication committee must consider the unsolicited bid and may award the bid or make a recommendation to the accounting officer, depending on its delegations.

(6) A meeting of the adjudication committee to consider an unsolicited bid must be open to the public.

(7) When considering the matter, the adjudication committee must take into account –

- (a) any comments submitted by the public; and
- (b) any written comments and recommendations of the National Treasury or the relevant provincial treasury.

(8) If any recommendations of the National Treasury or provincial treasury are rejected or not followed, the municipal manager must submit to the Auditor General, the relevant provincial treasury and the National Treasury the reasons for rejecting or not following those recommendations.

(9) Such submission must be made within seven days after the decision on the award of the unsolicited bid is taken, but no contract committing Ugu District Municipality to the bid may be entered into or signed within 30 days of the submission.

Combating of abuse of supply chain management system

38. (1) The municipal manager must–

- (a) take all reasonable steps to prevent abuse of the supply chain management system;



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- (b) investigate any allegations against an official or other role player of fraud, corruption, favouritism, unfair or irregular practices or failure to comply with this Policy, and when justified –
 - (i) take appropriate steps against such official or other role player; or
 - (ii) report any alleged criminal conduct to the South African Police Service;
- (c) check the National Treasury's database prior to awarding any contract to ensure that no recommended bidder, or any of its directors, is listed as a person prohibited from doing business with the public sector;
- (d) reject any bid from a bidder–
 - (i) if any municipal rates and taxes or municipal service charges owed by that bidder or any of its directors to the municipality, or to any other municipality or municipal entity, are in arrears for more than three months; or
 - (ii) who during the last five years has failed to perform satisfactorily on a previous contract with the municipality or any other organ of state after written notice was given to that bidder that performance was unsatisfactory;
- (e) reject a recommendation for the award of a contract if the recommended bidder, or any of its directors, has committed a corrupt or fraudulent act in competing for the particular contract;
- (f) cancel a contract awarded to a person if –
 - (i) the person committed any corrupt or fraudulent act during the bidding process or the execution of the contract; or
 - (ii) an official or other role player committed any corrupt or fraudulent act during the bidding process or the execution of the contract that benefited that person; and
- (g) reject the bid of any bidder if that bidder or any of its directors –
 - (i) has abused the supply chain management system of the municipality or has committed any improper conduct in relation to such system;
 - (ii) has been convicted for fraud or corruption during the past five years;



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- (iii) has willfully neglected, reneged on or failed to comply with any government, municipal or other public sector contract during the past five years; or
- (iv) has been listed in the Register for Tender Defaulters in terms of section 29 of the Prevention and Combating of Corrupt Activities Act (No 12 of 2004).

(2) The municipal manager must inform the National Treasury and relevant provincial treasury in writing of any actions taken in terms of subparagraphs (1)(b)(ii), (e) or (f) of this policy.

Part 3: Logistics, Disposal, Risk and Performance Management

Logistics management

39. The municipal manager must establish and implement an effective system of logistics management, which must include -

- (a) the monitoring of spending patterns on types or classes of goods and services incorporating, where practical, the coding of items to ensure that each item has a unique number;
- (b) the setting of inventory levels that includes minimum and maximum levels and lead times wherever goods are placed in stock;
- (c) the placing of manual or electronic orders for all acquisitions other than those from petty cash;
- (d) before payment is approved, certification by the responsible officer that the goods and services are received or rendered on time and is in accordance with the order, the general conditions of contract and specifications where applicable and that the price charged is as quoted in terms of a contract;
- (e) appropriate standards of internal control and warehouse management to ensure that goods placed in stores are secure and only used for the purpose for which they were purchased;



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- (f) regular checking to ensure that all assets including official vehicles are properly managed, appropriately maintained and only used for official purposes; and
- (g) monitoring and review of the supply vendor performance to ensure compliance with specifications and contract conditions for particular goods or services.

Disposal management

40. (1) The criteria for the disposal or letting of assets, including unserviceable, redundant or obsolete assets, subject to sections 14 and 90 of the Act, are as follows:

(i) An obsolescence plan must be determined for each asset to ensure that when the asset can no longer be maintained or used for its original purpose, that there is a plan to replace it.

(ii) A renewal plan must be determined for assets that have reached the end of its useful life.

(iii) Asset disposal decisions must be made within an integrated, service and financial planning framework.

(2) Assets may be disposed of by –

- (i) transferring the asset to another organ of state in terms of a provision of the Act enabling the transfer of assets;
- (ii) transferring the asset to another organ of state at market related value or, when appropriate, free of charge;
- (iii) selling the asset; or
- (iv) destroying the asset.



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(3) Ugu District Municipality must establish a disposal strategy to determine the best mechanism of disposal for each asset and the municipal manager must ensure that –

- (a) immovable property is sold only at market related prices except when the public interest or the plight of the poor demands otherwise;
- (b) movable assets are sold either by way of written price quotations, a competitive bidding process, auction or at market related prices, whichever is the most advantageous;
- (c) firearms are not sold or donated to any person or institution within or outside the Republic unless approved by the National Conventional Arms Control Committee;
- (d) immovable property is let at market related rates except when the public interest or the plight of the poor demands otherwise;
- (e) all fees, charges, rates, tariffs, scales of fees or other charges relating to the letting of immovable property are annually reviewed;
- (f) where assets are traded in for other assets, the highest possible trade-in price is negotiated; and
- (g) in the case of the free disposal of computer equipment, the provincial department of education is first approached to indicate within 30 days whether any of the local schools are interested in the equipment.

Risk management

41. (1) The criteria for the identification, consideration and avoidance of potential risks in the supply chain management system, are as follows:

- (a) risk management aspect must be allocated to the Chief Financial Officer, the SCM practitioners, the internal audit function and the Audit Committee, each of which shall ultimately be accountable to the Municipal Manager or the Council for the discharge of their



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responsibilities.

(2) Risk management must include –

- (a) the identification of risks on a case-by-case basis;
- (b) the allocation of risks to the party best suited to manage such risks;
- (c) acceptance of the cost of the risk where the cost of transferring the risk is greater than that of retaining it;
- (d) the management of risks in a pro-active manner and the provision of adequate cover for residual risks; and
- (e) the assignment of relative risks to the contracting parties through clear and unambiguous contract documentation.

Performance management

42. The accounting officer must establish and implement an internal monitoring system in order to determine, on the basis of a retrospective analysis, whether the authorised supply chain management processes were followed and whether the objectives of this Policy were achieved.

Part 4: Other matters

Prohibition on awards to persons whose tax matters are not in order

43. (1) No award above R15 000 may be made in terms of this Policy to a person whose tax matters have not been declared by the South African Revenue Service to be in order.

(2) Before making an award to a person the municipal manager must first check with SARS whether that person's tax matters are in order.



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(3) If SARS does not respond within 7 days such person's tax matters may for purposes of subparagraph (1) be presumed to be in order.

Prohibition on awards to persons in the service of the state

44. Irrespective of the procurement process followed, no award may be made to a person in terms of this Policy –

- (a) who is in the service of the state;
- (b) if that person is not a natural person, of which any director, manager, principal shareholder or stakeholder is a person in the service of the state; or
- (c) a person who is an advisor or consultant contracted with Ugu District Municipality.

Awards to close family members of persons in the service of the state

45. The municipal manager must ensure that the notes to the annual financial statements disclose particulars of any award of more than R2,000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve months, including –

- (a) the name of that person;
- (b) the capacity in which that person is in the service of the state; and
- (c) the amount of the award.

Ethical standards

46. (1) A code of ethical standards as set out in the *“National Treasury’s code of conduct for supply chain management practitioners and other role players involved in supply chain management”* is hereby established for officials and other role players in the supply chain management system of the municipality in order to promote-

- (a) mutual trust and respect; and



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- (b) an environment where business can be conducted with integrity and in a fair and reasonable manner.

(2) A breach of the code of ethics must be dealt with as follows -

- (a) in the case of an employee, in terms of the disciplinary procedures of the municipality envisaged in section 67(1)(h) of the Municipal Systems Act;
- (b) in the case a role player who is not an employee, through other appropriate means in recognition of the severity of the breach.
- (c) In all cases, financial misconduct must be dealt with in terms of chapter 15 of the Act.

Inducements, rewards, gifts and favours to municipalities, officials and other role players

47. (1) No person who is a provider or prospective provider of goods or services, or a recipient or prospective recipient of goods disposed or to be disposed of may either directly or through a representative or intermediary promise, offer or grant –

- (a) any inducement or reward to Ugu District Municipality for or in connection with the award of a contract; or
- (b) any reward, gift, favour or hospitality to –
 - (i) any official; or
 - (ii) any other role player involved in the implementation of this Policy.

(2) The municipal manager must promptly report any alleged contravention of subparagraph (1) to the National Treasury for considering whether the offending person, and any representative or intermediary through which such person is alleged to have acted, should be listed in the National Treasury's database of persons prohibited from doing business with the public sector.

- (3) Subparagraph (1) does not apply to gifts less than R350 in value.



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Sponsorships

48. The municipal manager must promptly disclose to the National Treasury and the relevant provincial treasury any sponsorship promised, offered or granted, whether directly or through a representative or intermediary, by any person who is –

- (a) a provider or prospective provider of goods or services; or
- (b) a recipient or prospective recipient of goods disposed or to be disposed.

Objections and complaints

49. Persons aggrieved by decisions or actions taken in the implementation of this supply chain management system, may lodge within 14 days of the decision or action –

- (a) if the objection or complaint is against the procurement process, submit a written objection or complaint against the decision or action to the accounting officer of the municipality who shall, in turn, within 24 hours refer the written objection or complaint to the independent and impartial person referred to in paragraph 50 for resolution or
- (b) if such complaint or objection is against the award of a bid, lodge a written appeal with the Municipal Bid Appeals Tribunal in accordance with the provisions of paragraph 50A.

Resolution of objections and complaints against procurement process

50. (1) The accounting officer must appoint an independent and impartial person, not directly involved in the supply chain management processes to assist in the resolution of objections and complaints between the municipality and any other person regarding -

- (a) the implementation of the procurement process in terms of the supply chain management system; or
- (b) any matter arising from the implementation of the procurement process in terms of the supply chain management system.



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(2) The accounting officer, or another official designated by the accounting officer, is responsible for assisting the appointed person to perform his or her functions effectively.

(3) The person appointed must –

- (a) strive to resolve promptly all objections and complaints received; and
- (b) submit monthly reports to the accounting officer on all such objections and complaints received, attended to or resolved.

(4) If the independent and impartial person referred to in paragraph 50.1, is of the view that a matter which should be dealt with in terms of paragraph 50A, he or she shall forthwith refer the matter to the Municipal Bid Tribunals and that Tribunal shall then hear and determine the matter in accordance with the provisions of paragraph 50A.

(5) An objection or complaint may be referred to the KwaZulu-Natal Provincial Treasury if:

- (a) the objection or complaint is not resolved within 60 days; or
- (b) no response is forthcoming within 60 days.

(6) If the Provincial Treasury does not or cannot resolve the matter, the objection or complaint may be referred to the National Treasury for resolution.

50A. Municipal Bid Appeals Tribunal

(1) The council shall establish a Municipal Bid Appeals Tribunal for its area of jurisdiction to hear and determine an appeal against the award of a bid.



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(2) The accounting officer of the municipality, in consultation with the Provincial Treasury, shall appoint the Chairperson, Deputy Chairperson and Members of the Municipal Bid Appeals Tribunal.

(3) The powers, duties and functions of the Municipal Bid Appeals Tribunal, and matters incidental thereto, are set out in the Rules which are appended to this Supply Chain Management Policy and marked Appendix A.

(4) The administrative and secretarial work involved in the performance of the duties and functions of the Municipal Bid Appeals Tribunal shall be performed by officers of the Provincial Treasury as set out in the Rules referred to in paragraph 50A.3.

(5) There shall be no further appeal against a decision of the Municipal Bid Appeals Tribunal.

Contracts providing for compensation based on turnover

51. If a service provider acts on behalf of Ugu District Municipality to provide any service or act as a collector of fees, service charges or taxes and the compensation payable to the service provider is fixed as an agreed percentage of turnover for the service or the amount collected, the contract between the service provider and the Ugu District Municipality must stipulate –

- (a) a cap on the compensation payable to the service provider; and
- (b) that such compensation must be performance based.

CALCULATION OF THE PREFERENT POINT SYSTEM

52. The 80/20 or 90/10 Preference Point System

Preference point systems



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(a) The 80/20 preference point system is applicable to bids* with a Rand value equal to, or above R30 000 and up to a Rand value of R1 million (all applicable taxes included). Institutions may apply the 80/20 preference point system to price quotations with a value less than R30 000 if and when appropriate.

(b) The 90/10 preference point system is applicable to bids with a Rand value above R1 million (all applicable taxes included).

Calculation of points for price

The PPPFA prescribes that the lowest acceptable bid will score 80 or 90 points for price. Bidders that quoted higher prices will score lower points for price on a pro-rata basis.

The formulae to be utilised in calculating points scored for price are as follows:

80/20 Preference point system [(for acquisition of services, works or goods up to a Rand value of R1million) (all applicable taxes included)]

$$P_s = 80(1 - \frac{P_t - P_{min}}{P_{min}})$$

Where

P_s = Points scored for comparative price of bid or offer under consideration

P_t = Comparative price of bid or offer under consideration

P_{min} = Comparative price of lowest acceptable bid or offer.

Preference point system [(for acquisition of services, works or goods with a Rand value above R1million) (all applicable taxes included)]

$$P_s = 90(1 - \frac{P_t - P_{min}}{P_{min}})$$

Where

P_s = Points scored for comparative price of bid or offer under consideration

P_t = Comparative price of bid or offer under consideration



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P_{min} = Comparative price of lowest acceptable bid or offer.

Points scored must be rounded off to the nearest 2 decimal places.

Calculation of points for B-BBEE status level of contributor

Points must be awarded to a bidder for attaining the B-BBEE status level of contribution in accordance with the table below:

B-BBEE Status Level of Contributor	Number of points (90/10 system)	Number of points (80/20 system)
1	10	20
2	9	18
3	8	16
4	5	12
5	4	8
6	3	6
7	2	4
8	1	2
Non-compliant contributor	0	0

A bid must not be disqualified from the bidding process if the bidder does not submit a certificate substantiating the B-BBEE status level of contribution or is a non-compliant contributor. Such a bidder will score zero (0) out of a maximum of 10 or 20 points respectively for B-BBEE

Calculation of total points scored for price and B-BBEE status level of contribution

The points scored for price must be added to the points scored for B-BBEE status level of contribution to obtain the bidder's total points scored out of 100.

EVALUATION OF BIDS THAT SCORED EQUAL POINTS

In the event that two or more bids have scored equal total points, the successful bid must be the one that scored the highest points for B-BBEE.



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If two or more bids have equal points, including equal preference points for BBEE, the successful bid must be the one scoring the highest score for functionality, if functionality is part of the evaluation process.

In the event that two or more bids are equal in all respects, the award must be decided by the drawing of lots.

CANCELLATION AND RE-INVITATION OF BIDS

- (a) In the application of the 80/20 preference point system, if **all** bids received exceed R1 000 000, the bid must be cancelled. If one or more of the acceptable bid(s) received are within the R1 000 000 threshold, all bids received must be evaluated on the 80/20 preference point system.
- (b) In the application of the 90/10 preference point system, if **all** bids received are equal to or below R1 000 000, the bid must be cancelled. If one or more of the acceptable bid(s) received are above the R1 000 000 threshold, all bids received must be evaluated on the 90/10 preference point system.
- (c) If a bid was cancelled in terms of paragraph (a) or (b), the correct preference point system must be stipulated in the bid documents of the re-invited bid.

An AO may, prior to the award of a bid, cancel the bid if:

- (a) Due to changed circumstances, there is no longer a need for the services, works or goods requested. [AOs / AAs must ensure that only goods, services or works that are required to fulfill the needs of the institution are procured]; or
- (b) Funds are no longer available to cover the total envisaged expenditure. [AO has to ensure that the budgetary provisions exist]; or
- (c) No acceptable bids are received. [If all bids received are rejected, the institution must review the reasons justifying the rejection and consider making revisions to the specific conditions of contract, design and specifications, scope of the contract, or a combination of these, before inviting new bids].



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AWARD OF CONTRACTS

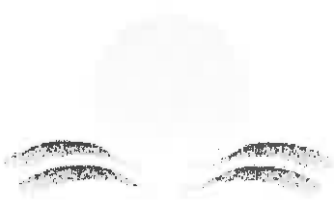
- (a) A contract must be awarded to the bidder who scored the highest total number of points in terms of the preference point systems.
- (b) In exceptional circumstances a contract may, on reasonable and justifiable grounds, be awarded to a bidder that did not score the highest number of points. The reasons for such a decision must be approved and recorded for audit purposes and must be defensible in a court of law.

Commencement

This Policy takes effect on [/ /]

Meeting	Date	Resolution
Top Management		
EXCO		
Revision 1		
Management Committee		
Extended Management Committee		
LLF		
Corporate Services Portfolio		
EXCO		



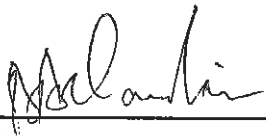


Ugu District Municipality

Quality Certificate

I **Dhanpalan Devaraj Naidoo, Municipal Manager of Ugu District Municipality** hereby certify that the Adjustment Budget 2015/2016 and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and regulations made under the Act, and that the Adjustments Budget and supporting documentation are consistent with the Integrated Development Plan of the municipality

Name: Dhanpalan D. Naidoo
MUNICIPAL MANAGER

Signature: 

Date: 24/02/2016