

UGU DISTRICT MUNICIPALITY

ASSETS MANAGEMENT POLICY

1. INTRODUCTION

Asset Management encompasses planning/demand management, acquisitions, use, maintenance, and disposal of assets. Ugu District Municipality should use assets to affect efficient and effective service delivery to the community within the Ugu District.

The purpose of the Asset Management Policy is to govern the management of assets owned by Ugu District Municipality (both operationally and financially) to ensure that they are managed, controlled, safeguarded, and used in an efficient and effective manner.

2. DEFINITIONS

2.1. Accounting Standards Board means the board established in terms of section 87 of the Public Finance Management Act (PFMA). The section refers to the function of the board, which is to establish standards of Generally Recognised Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa

2.2. Assets are resources controlled by an entity as the result of past events and from which future economic benefits or future service potential are expected to flow to the entity.

2.3. Asset Manager is any official who has been delegated responsibility and accountability for the control, usage, physical and financial management of the municipality's assets in accordance with the council's standards, policies, procedures, and guidelines.

2.4. Infrastructure means assets that usually display some or all of the following characteristics

- 2.4.1.** they are part of a system or network;
- 2.4.2.** they are specialised in nature and do not have alternative uses;
- 2.4.3.** they are immovable; and
- 2.4.4.** they may be subject to constraints on disposal
- 2.4.5.** Examples of infrastructure assets include road networks, sewer systems, water
- 2.4.6.** and power supply systems and communication networks

2.5. Investment properties-are defined as properties that are acquired for economic and capital gains. Examples are leased office buildings and underdeveloped land acquired for the purpose of resale in future years.

2.6. Attractive items are items of property, plant or equipment that are not significant enough for financial recognition but are attractive enough to warrant special safeguarding.

2.7. Capitalization is the recognition of expenditure as an Asset in the Financial Asset Register.

2.8. Carrying amount is the amount at which an asset is included in the balance sheet after deducting any accumulated depreciation thereon. is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses

2.9. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

2.10. Cost of acquisition is all the costs incurred in bring an item of plant, property or equipment to the required condition and location for its intended use.

2.11. Component is a part of an asset with a significantly different useful life and significant cost in relation to the rest of the main asset. Component accounting requires that each such part should be separately accounted for and is treated separately for depreciation, recognition and derecognition purposes. It is also referred to as separately depreciable parts

- 2.12. Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful life.
- 2.13. Depreciable amount** is the cost of an asset, or other amount of an asset, or other amount substituted for cost in the financial statements, less its residual value.
- 2.14. Economic Life** is either:
- 2.14.1.** the period over which an asset is expected to yield economic benefits or service potential to one or more users, or
 - 2.14.2.** the number of production or similar units expected to be obtained from the
 - 2.14.3.** asset by one or more users
- 2.15. Enhancement/Rehabilitation** is an improvement or augmentation of an existing asset (including separately depreciable parts) beyond its originally recognised service potential for example, remaining useful life, capacity, quality, and functionality
- 2.16. Fair value** is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.
- 2.17. Financial asset register** is the controlled register recording the financial and other key details for all municipal assets recognized in accordance with this policy. is a record of information on each asset that supports the effective financial and technical management of the assets, and meets statutory requirements.
- 2.18. Financially Sustainable**, in relation to the provision of a municipal service, means the provision of a municipal service in a manner aimed at ensuring that the financing of that service from internal and external sources, including budgeted income, grants and subsidies for the service, is sufficient to cover the costs of—the initial capital expenditure required for the service; operating the service; and maintaining, repairing and replacing the physical assets used in the provision of the service
- 2.19. Property, plant, and equipment** are tangible assets that: *Are held by a municipality for use in the production of goods or supply of goods or services, for rental to others, for administrative purpose, and are expected to be used during more than one period.*
- 2.20. Recoverable amount** is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal. is the higher of a cash-generating asset's or units net selling price and its value in use.
- 2.21. Recognition** is the process by which expenditure is included in the Financial Asset Register as an asset.
- 2.22. Recognition** is the process of incorporating in the statement of financial position or statement of financial performance an item that meets the definition of an element (of financial statements) and satisfies the criteria for recognition, namely:
- 2.22.1.** It is probable that any future economic benefit or service potential associated with the item will flow to or from the entity and
 - 2.22.2.** The item has a cost or value that can be measured reliably
- 2.23. Refurbishment/Maintenance** to an asset will restore or maintain the originally assessed future economic benefits or service potential that an entity can expect from an asset and is necessary for the planned life to be achieved
- 2.24. Residual value** is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal. is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life

2.25. Remaining Useful Life is the time remaining (of the total estimated useful life) until an asset ceases to provide the required service level or economic usefulness

2.26. Service Potential is a tangible capital asset's output or service capacity, normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs and useful life

2.27. Stewardship is the act of taking care of and managing property, plant or equipment on behalf of another.

2.28. Useful life is either:

2.28.1. *The estimated period of time over which the future economic benefits or future service potential embodied in an asset are expected to be consumed by the municipality, or*

2.28.2. *The estimated total service potential expressed in terms of production or similar units that is expected to be obtained from the asset by the municipality.*

3. POLICY OBJECTIVES

3.1. To ensure the effective and efficient control, utilization, safeguarding and management of Ugu District Municipality's property, plant, and equipment.

3.2. To ensure Senior managers are aware of their responsibilities in regards of infrastructure assets.

3.3. To set out the standards of physical management, recording and internal controls to ensure property, plant and equipment are safeguarded against inappropriate loss or utilisation.

3.4. To specify the process required before expenditure on property, plant and equipment occurs.

3.5. To prescribe the accounting treatment for property, plant and equipment in Ugu District Municipality including:

3.5.1. The criteria to be met before expenditure can be capitalised as an item of property, plant, and equipment,

3.5.2. The criteria for determining the initial cost of the different items of property, plant, and equipment,

3.5.3. The method of calculating depreciation for different items of property, plant, and equipment,

3.5.4. The criteria for capitalising subsequent expenditure on property, plant, and equipment,

3.5.5. The policy for scrapping and disposal of property, plant, and equipment,

3.5.6. The classification of property, plant, and equipment

4. PRESCRIPTIVE/LEGAL FRAMEWORK

4.1. This policy must comply with all relevant legislative requirements including:

4.1.1. The constitution of the republic of south Africa, 1996

4.1.2. Municipal systems act, 2000

4.1.3. Municipal Finance Management Act

4.2. This policy does not over rule the requirements to comply with other policies such as:

4.2.1. Supply Chain Management Policy

4.2.2. Asset Management Policy

4.2.3. Disposal Policy

4.2.4. Fleet Management Policy

4.2.5. Insurance Policy

4.2.6. Security Policy

4.2.7. Facilities Management Policy

4.3. This policy is informed by the four Standards of Generally Recognised Accounting Practice (GRAP), the following standards are components of fixed assets i.e.

4.3.1. Property, Plant and Equipment, GRAP 17

4.3.2. Inventories, GRAP 12

4.3.3. Investment Property, GRAP 16 and

4.3.4. Impairment of Non-cash generating assets, GRAP 21

4.4. The Chief Financial Officer will provide guidance or adjust this policy where an apparent conflict exists between this policy and other policies, legislation, or regulations

5. POLICY APPLICATION

5.1. This policy applies to all Ugu District Municipality's permanent and temporary employees: internal or external contractors (hereafter referred to as "Users" and "Third Parties") who utilise the Municipality's assets.

6. ROLES AND RESPONSIBILITIES

6.1. The Municipal Manager

6.1.1. is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

6.1.2. Shall ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;

6.1.3. Shall ensure that the municipality's assets are valued in accordance with standards of generally recognized accounting practice

6.1.4. Shall ensure that the municipality has and maintains a system of internal control of assets, including an asset register; and

6.1.5. Shall ensure that the General Managers and their departments comply with this policy

6.1.6. Shall ensure that all items of property plant and equipment are insured immediately at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.

6.1.7. Shall recommend to the Council of the Municipality, after consulting with the Chief Financial Officer, the basis of the insurance to be applied to each type of asset: either the carrying value or the replacement value of the assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the Municipality.

6.2. The Chief Financial Officer.

6.2.1. The CFO shall be the custodian of the fixed asset register of the Municipality;

6.2.2. No amendments, deletions or additions to the fixed asset register shall be made other than by the Chief Financial Officer or by an official acting under the written instruction of the Chief Financial Officer.

6.2.3. Appropriate systems system of financial management and internal control are established and carried out diligently around asset management;

6.2.4. Shall ensure that the financial and other resources of the municipality are utilized effectively, efficiently, economically, and transparently;

6.2.5. Shall ensure that any unauthorized, irregular, or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;

6.2.6. Shall provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the Fixed Asset Register.

6.2.7. Shall ensure that financial processes are established and maintained ensure the municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions.

6.2.8. Shall ensure that the municipal manager is appropriated advised on the exercise of powers and duties pertaining to the financial administration of assets;

6.2.9. Shall ensure that this policy and any supporting procedures or guidelines are established, maintained, and effectively communicated

6.3. Asset Manager:

- 6.3.1. Shall ensure that complete asset registers kept, verified, and balanced regularly.
- 6.3.2. Shall ensure that all movable and immovable assets are properly bar coded and accounted for.
- 6.3.3. Shall ensure that quarterly physical verification for movable assets are conducted
- 6.3.4. Shall ensure that annual physical verification for immovable assets are conducted.
- 6.3.5. Shall ensure that adequate bar codes and equipment to exercise the function relating to asset management is available at all times.
- 6.3.6. Shall ensure that all assets are insured in accordance with the Insurance Policy.
- 6.3.7. Shall ensure that the Fixed Asset Register is balanced quarterly and annually with the general ledger and the Trial balance/financial statements.
- 6.3.8. Shall ensure that the relevant information relating to the calculation of depreciation is obtained from the departments and provided to the Budget Treasury Office department in the prescribed format.
- 6.3.9. Shall ensure that asset acquisitions are allocated to the correct asset code.
- 6.3.10. Shall ensure that, before accepting an obsolete or damaged asset, a completed asset disposal form, counter signed by the Asset Management Section, is presented.
- 6.3.11. Shall ensure that a verifiable record is kept of all obsolete, damaged, and unused asset or asset inventory items received from all the departments.
- 6.3.12. shall issue an asset control sheet which shall serve as a control register for all moveable assets of the Municipality. The responsible official shall sign the asset control sheet to confirm the receipt and custody of the list of assets in their offices.
- 6.3.13. Shall compile a list of the items to be auctioned in accordance with the Supply Chain Management (SCM) Policy.
- 6.3.14. Shall compile and circulate a list of unused movable assets to enable other departments to obtain items that are of use to them.
- 6.3.15. Shall ensure that the SCM unit is notified of any auctioning or disposing of written-off asset.

6.4. General Managers

- 6.4.1. Shall ensure that employees in their departments adhere to the approved Asset Management Policy.
- 6.4.2. Shall ensure that an assets coordinator with delegated authority has been nominated to implement and maintain physical control over assets in the department. The Asset Management Section must be notified of who the responsible person is. Although authority has been delegated the responsibility to ensure adequate physical control over each asset remains with the general manager.
- 6.4.3. Shall ensure that employees who contravenes the operational procedure or who use the municipal assets negligence and for their personal gain are disciplined accordingly.
- 6.4.4. shall be directly responsible for the physical safekeeping of any asset controlled or used by the Department in question.
- 6.4.5. In exercising this responsibility, shall adhere to any written directives issued by the Municipal Manager to the Department in question, or generally to all Departments, in regard to the control of or safekeeping of the Municipality's fixed assets.

6.5. General Manager responsible for Infrastructure Assets.

- 6.5.1. Shall ensure that a maintenance policy is approved and properly implemented.
- 6.5.2. Shall develop a maintenance plan for the infrastructure assets for their section.
- 6.5.3. Shall ensure that their departments had implemented operational procedures.
- 6.5.4. Shall ensure that assets are properly maintained in accordance with the maintenance policy.
- 6.5.5. Shall ensure that the assets of the council are not used for private gain.
- 6.5.6. Shall ensure that all their movable assets as reflected on the Fixed Asset Register and are bar coded where possible.
- 6.5.7. Shall ensure that the Asset Management Section is notified of any changes in the status of the assets under the department's control.

- 6.5.8. Shall certify in writing that they have assessed and identified impairment losses on all assets at year end.
 - 6.5.9. Shall ensure that all obsolete and damaged asset items, accompanied by the relevant asset form and attached disposal forms, are handed in to the Asset Management Section without delay.
 - 6.5.10. Shall ensure that the correct cost element and description are being used before authorizing any requisitions.
 - 6.5.11. Shall assist during the annual physical verification of infrastructure assets including the land and building.
 - 6.5.12. Shall develop an infrastructure assets management plan for their department such as Water supply, Sanitation, Solid waste, and other Properties.
 - 6.5.13. Shall unbundled or componentized and assign estimated useful life to each component of all completed projects during the financial year and submit the componentized list to the Asset Management Unit for updating the asset register.
 - 6.5.14. Shall sign and date declarations stating that the list of componentized assets for their departments is complete & accurate except for the discrepancies as reported to Asset Management Unit.
- 6.6. All Municipal Personnel**
- 6.6.1. Shall ensure that assets assigned to them are utilized effectively, efficiently, economically, and transparently
 - 6.6.2. Shall ensure that the assets of the municipal are not used for private gain
 - 6.6.3. Shall notify the assets coordinators and assets management section of all obsolete, damaged, and stolen assets, without delay.
 - 6.6.4. Shall make available the assets under their possession for verification by the assets management unit quarterly and annually.
 - 6.6.5. Shall ensure that all assets under their possession are properly bar-coded.
 - 6.6.6. Shall ensure that on termination of service they returned the assets to their supervisors and complete a termination assets clearance form.
 - 6.6.7. Shall notify the asset coordinators and assets management unit of the movement and transfer of assets assigned to them by completing an assets transfer form.
 - 6.6.8. Shall ensure that they comply with the operational procedures.

7. POLICY PRINCIPLES: ASSET MANAGEMENT PART

7.1. Pre-Acquisition Planning:

- 7.1.1. Before a capital project is included in the budget for approval, the senior manager of the relevant department must demonstrate that they have considered:
- 7.1.2. The projected cost over all the financial years until the project is operational;
- 7.1.3. The future operational costs and revenue on the project, including tax and tariff implications;
- 7.1.4. The financial sustainability of the project over its life including revenue generation and
- 7.1.5. The physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal, and rehabilitation;
- 7.1.6. The inclusion of this capital project in the integrated development plan and future budgets;
- 7.1.7. The chief financial officer is accountable to ensure the senior manager of the relevant department receives all reasonable assistance, guidance, and explanation to enable them to achieve their planning requirements.

7.2. Approval to Acquire Property Plant and Equipment:

- 7.2.1. Money can only be spent on a capital project if:
 - 7.2.1.1. The money has been appropriated in the capital budget,
 - 7.2.1.2. The project, including the total cost, has been approved by the council,

- 7.2.1.3. The CFO confirms that funding is available for that specific project, and
- 7.2.1.4. Any contract that will impose financial obligations beyond two years after the budget year must be appropriately disclosed.
- 7.2.1.5. Acquisition of the Assets will then follow the normal process of the Supply Chain
- 7.2.1.6. Management Policy and Procedures

7.3. Funding of capital projects

Within the municipality's on-going financial, legislative, or administrative capacity, the chief financial officer will establish and maintain the funding strategies that optimise the municipality's ability to achieve its Strategic objectives as stated in the integrated development plan.

7.4. Disposal of property plant and equipment

- 7.4.1. The municipality may dispose of an asset in line with the Asset Disposal Policy

7.5. Establishment and Management of the Financial Asset Register

- 7.5.1. The Chief Financial Officer will establish and maintain the Asset Register containing key financial data on each item of Property, Plant or Equipment that satisfies the criterion for recognition. Asset Manager are responsible for establishing and maintaining any additional register or database required to demonstrate their physical management of their assets.
- 7.5.2. The Asset Manager is responsible to ensure that sufficient controls exist to substantiate the quantity, value, location and condition all assets in the registers.

7.6. Contents of the Financial Asset Register

- 7.6.1. The fixed asset register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of Generally Recognised Accounting Practice (GRAP) and any other accounting requirements which may be prescribed.
- 7.6.2. The fixed asset register shall reflect at least the following information:
 - 7.6.2.1. A brief but identifiable description of each asset
 - 7.6.2.2. classification of each asset
 - 7.6.2.3. the date on which the asset was acquired for use
 - 7.6.2.4. the location of the asset
 - 7.6.2.5. the departments within which the assets will be utilized
 - 7.6.2.6. the responsible person for this asset
 - 7.6.2.7. the title deed number, in the case of fixed property
 - 7.6.2.8. the stand number, in the case of fixed property
 - 7.6.2.9. a unique identification number
 - 7.6.2.10. the original cost or fair value if no costs are available
 - 7.6.2.11. the (last) effective date of revaluation of the fixed assets subject to revaluation
 - 7.6.2.12. the revalued value of such fixed assets
 - 7.6.2.13. the valuer who did the (last) revaluation
 - 7.6.2.14. accumulated depreciation to date
 - 7.6.2.15. the carrying value of the asset
 - 7.6.2.16. whether this is a cash or non-cash generating asset
 - 7.6.2.17. the method and, where applicable, the rate of depreciation
 - 7.6.2.18. impairment losses
 - 7.6.2.19. impairment recovery
 - 7.6.2.20. the source of financing

- 7.6.2.21. whether the asset is required to perform basic municipal services;
- 7.6.2.22. the date on which the asset is disposed of
- 7.6.2.23. the disposal proceeds
- 7.6.2.24. the date on which the asset is retired from active use, and held for disposal
- 7.6.2.25. the residual value of each asset
- 7.6.2.26. measurement model

7.6.3. An asset shall be capitalised, that is, recorded in the fixed assets register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as Work-In-Progress until it is available for use, where after it shall be appropriately capitalised as an asset.

7.6.4. An asset shall remain in the fixed assets register for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing off such an asset.

7.7. Physical Verification of all assets

- 7.7.1. The Asset Management Section shall conduct a physical verification quarterly for movable assets and annually for immovable assets.
- 7.7.2. The cooperation of all Municipal personnel shall be required in accomplishing the physical Verification task in attempt to minimize the time demanded of them.
- 7.7.3. The designated officials in the different Departments within municipality must execute the functions listed below:
 - 7.7.3.1. Ensure that the bar code number and location number are reflected on the asset movement form by the relevant official on the receipt of the asset. Where applicable, the serial number or registration number should be included
 - 7.7.3.2. Complete the asset movement form when transfers occur and forward the completed original form to Asset Management Section.
 - 7.7.3.3. Ensure that a completed asset disposal form is submitted when an asset item is disposed of after the necessary approval has been obtained.

7.8. Classification, aggregations & components

7.8.1. Classification of Assets

- 7.8.1.1. Assets that meet the definition and the recognition criteria shall be capitalized in the fixed assets register and be classified as follows
- 7.8.1.2. Property Plant and equipment if its meet the definition of property plant and equipment as per GRAP 17,
- 7.8.1.3. Intangibles assets if its meet the definition of an intangible assets as GRAP 102,
- 7.8.1.4. Investment properties if it's the definition of the investment properties as per GRAP 16

7.8.2. Major Component

- 7.8.2.1. The Asset Manager may, with agreement of the Chief Financial Officer, treat specified major Components of an item of property plant or equipment as a separate asset for the purposes of this Policy.
- 7.8.2.2. These major components may be defined by its physical parameters or its financial parameters.
- 7.8.2.3. In agreeing to these treatments, the CFO must be satisfied that these components:
 - 7.8.2.3.1. *Have significantly a different useful life or usage pattern to the main asset,*

- 7.8.2.3.2. *Align with the asset management plans,*
- 7.8.2.3.3. *The benefits justify the costs of separate identification,*
- 7.8.2.3.4. *It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality,*
- 7.8.2.3.5. *The cost of the asset to the municipality can be measured reliably,*
- 7.8.2.3.6. *The municipality has gained control over the asset,*
- 7.8.2.3.7. *The asset is expected to be used during more than one financial year.*
- 7.8.2.4. Once a major component is recognized as a separate asset, it may be acquired, depreciated, and disposed of as if it were a separate asset.
- 7.8.2.5. All other replacements, renewals of refurbishments of components will be expensed.

8. POLICY PRINCIPLES: ACCOUNTING POLICY PART:

8.1. Recognition of Assets

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- 8.1.1. it is probable that future economic benefits or service potential associated with the item will flow to the entity, and
- 8.1.2. the cost or fair value of the item can be measured reliably

8.2. Measurement at recognition.

- 8.2.1. An item of assets that qualifies for recognition as an asset shall be measured at its cost.
- 8.2.2. Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

8.3. Elements of cost

The cost of an item of property, plant and equipment comprises:

- 8.3.1. its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- 8.3.2. Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- 8.3.3. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
- 8.3.4. Examples of directly attributable costs are:
 - 8.3.4.1. Costs of employee benefits (as defined in the Standard of Generally Recognised Accounting Practice on *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant, and equipment,
 - 8.3.4.2. costs of site preparation,
 - 8.3.4.3. initial delivery and handling costs,
 - 8.3.4.4. installation and assembly costs,
 - 8.3.4.5. costs of testing whether the asset is functioning properly, after deducting net proceeds from selling any items produced while bringing the asset to that location and condition
 - 8.3.4.6. Professional fees.

8.4. Measurement after recognition

After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses

- 8.4.1. Each part of an item of property, plant, and equipment with a cost that insignificant in relation to the total cost of the item shall be depreciated separately
- 8.4.2. The depreciation charge for each period shall be recognised in surplus or deficit unless it is included in the carrying amount of another asset.

- 8.4.3. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.
- 8.4.4. Depreciation of an asset ceases when the asset is derecognised.
- 8.4.5. Therefore, depreciation does not cease when the asset become idle or is retired from active use held for disposal unless the asset is fully depreciated.
- 8.4.6. The depreciable amount of an asset is determined after deducting its residual value.
- 8.4.7. The residual value for infrastructure assets, Heritage assets, community assets and intangible assets shall be zero at initial measurement.

8.5. Initial determination useful life

- 8.5.1. The asset management unit needs to determine the useful life of a particular item or class property, plant and equipment through the development of a strategic asset management plan that forecasts the expected useful life that asset. This should be developed as part of the Pre-Acquisition Planning that would consider the following factors:
 - 8.5.1.1.1. The operational, maintenance, renewal and disposal program that will optimize the expected long term costs of owning that asset,
 - 8.5.1.1.2. economic obsolescence because it is too expensive to maintain,
 - 8.5.1.1.3. functional obsolescence because it no longer meets the municipalities needs,
 - 8.5.1.1.4. technological obsolescence,
 - 8.5.1.1.5. social obsolescence due to changing demographics, and
 - 8.5.1.1.6. Legal obsolescence due to statutory constraints

8.6. Rate of depreciation

- 8.6.1. The Chief Financial Officer shall assign a useful operating life to each depreciable asset recorded on the Municipality's fixed asset register. In determining such a useful life the Chief Financial Officer shall adhere to the useful lives of assets set out in this Policy document. ***Refer to Annexure A: Useful Lives***
- 8.6.2. In the case of an asset which is not listed in useful lives of assets, the Chief Financial Officer shall determine a useful operating life, if necessary in consultation with the Head of Department who shall control or use the asset in question, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

8.7. Review of useful life, depreciation method and the residual value

- 8.7.1. The useful life, depreciation method and the residual value applied to an asset shall be reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method, useful life and residual value shall be changed to reflect the changed pattern.
- 8.7.2. Such a change shall be accounted for as a change in an accounting estimate in accordance with Standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates, and Errors

8.8. Review of depreciation method

- 8.8.1. The depreciation method applied to an asset shall be reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with Standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates, and Errors.

8.9. Alternative methods of depreciation in specific instances

- 8.9.1. The Chief Financial Officer may employ the sum-of-units method of depreciation in the case of assets which are physically wasted in providing economic benefits or delivering services.
- 8.9.2. The Chief Financial Officer shall only employ this method of depreciation if the Head of Department controlling or using the asset in question gives a written undertaking to the Municipal Manager to provide:
 - 8.9.2.1. estimates of statistical information required by the Chief Financial Officer to prepare estimates of depreciation expenses for each financial year; and
 - 8.9.2.2. actual statistical information, for each financial year.
- 8.9.3. The Head of Department concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the Chief Financial Officer.
- 8.9.4. Where the Chief Financial Officer decides to employ the sum-of-units method of depreciation, and the requirements set out in the preceding paragraph have been adhered to, the Chief Financial Officer shall inform the Council of the Municipality of the decision in question.

8.10. *Subsequent expenditure on property plant and equipment*

- 8.10.1. Assets are often modified during their life. There are two main types of modification:
 - 8.10.1.1. **Enhancements / Rehabilitation:**
 - 8.10.1.1.1. This is where work is carried out on the asset that increases its service potential. Enhancements normally increase the service potential of the asset, and or may extend an asset's useful life and result in an increase in value.
 - 8.10.1.1.2. These expenses are not part of the life cycle of the asset. These costs normally become necessary during the life of an asset due to a change in use of the asset or technological advances.
 - 8.10.1.1.3. Disbursements of this nature relating to an asset, which has already been recognized in the financial statements, should be added to the carrying amount of that asset. The value of the asset is thus increased when it is probable that future economic benefits or service potential will flow to the Council over the remaining life of the asset.
 - 8.10.1.1.4. To be classified as capital spending, the expenditure must lead to at least one of the following economic effects:
 - 8.10.1.1.4.1. Modification of an item or plant to extend its useful life, including an increase in its capacity;
 - 8.10.1.1.4.2. Upgrading machine parts to achieve a substantial improvement in the quality of output;
 - 8.10.1.1.4.2.1. Adoption of new production processes enabling a substantial reduction in previously assessed operating costs;
 - 8.10.1.1.4.2.2. Extensions or modifications to improve functionality such as installing computer cabling or increasing the speed of a lift;
 - 8.10.1.1.4.3. Improve the performance of the asset
 - 8.10.1.1.5. Expenditure related to repairs or maintenance of property, plant and equipment are made to restore or maintain the future economic benefits or service potential that a municipality can expect from the asset.
 - 8.10.1.1.6. Refurbishment of works does not extend functionality or the life of the asset, but are necessary for the planned life to be achieved. In such cases, the value

of the asset is not affected, and the costs of the refurbishment are regarded as operating expense in the statement of financial performance.

8.10.1.2. *Maintenance / Refurbishments*

8.10.1.2.1. Expenditure related to repairs or maintenance of property, plant and equipment are made to restore or maintain the future economic benefits or service potential that a municipality can expect from the asset.

8.10.1.2.2. Refurbishment of works does not extend functionality or the life of the asset, but are necessary for the planned life to be achieved. In such cases, the value of the asset is not affected, and the costs of the refurbishment are regarded as operating expense in the statement of financial performance.

8.11. IMPAIRMENT OF ASSETS

8.11.1. The Municipality shall assess at each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Municipality shall estimate the recoverable service amount of the asset

8.11.2. Irrespective of whether there is any indication of impairment, the Municipality shall also test an intangible asset with an indefinite life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount.

8.11.3. In assessing whether there is any indication that an asset may be impaired the Municipality shall consider as a minimum the following indications:

8.11.4. External indicators

8.11.4.1. Cessation or near cessation of the demand or need for services provided by the asset

8.11.4.2. Significant long term changes with an adverse effect on the on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment which the Municipality operates.

8.11.5. Internal indicators

8.11.5.1. Evidence is available of physical damage of an asset

8.11.5.2. Significant long term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future in the extent to which or manner in which the asset is used or expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs or plans to disposes of an asset before the previously expected date

8.11.5.3. A decision to halt the construction of the asset before it is complete or in a usable condition

8.11.5.4. Evidence is available from internal reporting that indicates that the service performance of an asset is or will be significantly worse than expected

8.11.6. The Chief Financial Officer shall amend the useful operating life assigned to any asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.

8.11.7. If the value of property plant and equipment has been diminished to such an extent that it has no or a negligible further useful operating life or value such asset shall be fully depreciated in the financial year in which such diminution in value occurs.

8.11.8. Similarly, if an item of property, plant and equipment has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the asset has physically ceased to exist, it shall be written off the fixed asset register.

8.11.9. Every General Manager shall ensure that any incident of loss, theft, destruction, or material impairment of any asset controlled or used by the Department in question is promptly reported in writing to the Chief Financial Officer, to the Internal Auditor, and – in cases of suspected theft or malicious damage – also to the South African Police Service.

8.11.10. In all the foregoing instances, the additional depreciation expenses shall be debited to the Department or Vote controlling or using the asset in question.

8.12. *Derecognition Of Assets*

8.12.1. 23.1 The carrying amount of an item of property plant and equipment shall be derecognised:

8.12.1.1. a) On disposal, or

8.12.1.2. b) When no future economic benefits or service potential are expected from its use or disposal

8.12.2. The gain or loss arising from the derecognition of an item of property plant and equipment shall be included in surplus or deficit when the item is derecognised

8.12.3. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds if any and the carrying amount of an item.

8.12.4. Every Head of Department shall report in writing to the Manager: Assets all assets controlled or used by the Department concerned which such Head of Department wishes to alienate by public auction. The Manager: Assets shall thereafter consolidate the requests received from the various Departments, and shall promptly report such consolidated information to the Disposal Committee of the Municipality, refer to Disposal Policy.

8.12.5. Once the item of property, plant, and equipment is disposed, the Chief Financial Officer shall delete the relevant records from the fixed asset register.

8.12.6. Transfer of assets to other Municipalities, Municipal Entities (whether or not under the Municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty.

8.13. *Other write-offs of assets*

8.13.1. The item of property, plant, and equipment even though fully depreciated shall be written off only on the recommendation of the Head of Department controlling or using the asset concerned, and with the approval of the Council of the Municipality.

8.13.2. Every General Manager shall report to The Manager: Assets any items of property, plant, and equipment which such General Manager wishes to have written off, stating in full the reason for such recommendation. The Manager: Assets shall consolidate all such reports, and shall promptly submit a recommendation to the disposal committee on the assets to be written off.

8.13.3. The only reasons for writing off property, plant and equipment other than the alienation of such assets, shall be the loss, theft, and destruction or material impairment of the asset in question.

- 8.13.4.** In every instance where a not fully depreciated asset is written off, the Chief Financial Officer shall immediately debit to such Department or Vote, as additional depreciation expenses, the full carrying value of the asset concerned

9. Financial Disclosure

- 9.1.** The financial statements shall disclose, for each class of property, plant, and equipment recognised in the financial statements:
- 9.1.1.** the measurement bases used for determining the gross carrying amount,
 - 9.1.2.** the depreciation methods used,
 - 9.1.3.** the useful lives or the depreciation rates used,
 - 9.1.4.** the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period, and
 - 9.1.5.** a reconciliation of the carrying amount at the beginning and end of the period showing:
 - 9.1.5.1.** additions,
 - 9.1.5.2.** disposals,
 - 9.1.5.3.** acquisitions through business combinations,
 - 9.1.5.4.** increases or decreases resulting from revaluations and from impairment losses recognised or reversed directly in net assets under the Standard of GRAP on Impairment of Assets, impairment losses recognised in surplus or deficit in accordance with the Standard of GRAP on Impairment of Assets,
 - 9.1.5.5.** impairment losses reversed in surplus or deficit in accordance with the Standard of GRAP on Impairment of Assets,
 - 9.1.5.6.** depreciation,
- 9.2.** The financial statements shall also disclose for each class of property, plant, and equipment recognised in the financial statements:
- 9.2.1.** the existence and amounts of restrictions on title and property, plant and equipment pledged as securities for liabilities,
 - 9.2.2.** the amount of expenditures recognised in the carrying amount of an item of property, plant, and equipment in the course of its construction,
 - 9.2.3.** the amount of contractual commitments for the acquisition of property, plant, and equipment, and
 - 9.2.4.** If it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.
 - 9.2.5.** If items of property, plant and equipment are stated at revalue amounts, the following shall be disclosed:
 - 9.2.5.1.** the effective date of the revaluation,
 - 9.2.5.2.** whether an independent valour was involved,
 - 9.2.5.3.** the methods and significant assumptions applied in estimating the items' fair values,
 - 9.2.5.4.** the extent to which the items' fair values were determined directly by
 - 9.2.5.4.1.** reference to observable prices in an active market or recent market
 - 9.2.5.4.2.** transactions on arm's length terms or were estimated using other
 - 9.2.5.4.3.** valuation techniques,
 - 9.2.5.4.4.** for each revalue class of property, plant, and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model, and
 - 9.2.5.4.5.** The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners of net assets.
 - 9.2.6.** Financial statements shall also disclose the following for each class of property, plant, and equipment:

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- 9.2.6.1.** The carrying amount of temporarily idle property, plant, and equipment,
- 9.2.6.2.** The gross carrying amount of any fully depreciated property, plant and equipment that is still in use, and
- 9.2.6.3.** The carrying amount of property, plant and equipment retired from active use and held for disposal.

9.2.7. The financial statement shall disclose the following for each class of intangible assets, distinguishing between the internally generated intangible assets and other intangibles assets:

- 9.2.7.1.** Whether the useful lives are indefinite or finite and, if finite, the useful
- 9.2.7.2.** Lives or the amortisation rates used.
- 9.2.7.3.** The amortisation methods used for intangible assets with finite useful lives.
- 9.2.7.4.** The gross carrying amount and any accumulated amortisation
- 9.2.7.5.** (Aggregated with accumulated impairment losses) at the beginning and end of the period.
- 9.2.7.6.** The line item(s) of the statement of financial performance in which any amortisation of intangible assets is included.
- 9.2.7.7.** A reconciliation of the carrying amount at the beginning and end of the period showing:
 - 9.2.7.7.1.** additions, indicating separately those from internal development and those acquired separately;
 - 9.2.7.7.2.** disposals;
 - 9.2.7.7.3.** assets classified as held for sale or included in a disposal group classified as held for sale in accordance with the Standard of GRAP on Non-Current Assets Held for Sale and Discontinued Operations;
 - 9.2.7.7.4.** increases or decreases during the period resulting from revaluations under paragraphs .78, .88 and .89 and from impairment losses recognised or reversed directly in net assets in accordance (if any) with the Standards of GRAP on Impairment of Assets;
 - 9.2.7.7.5.** impairment losses recognised in surplus or deficit during the period in accordance (if any) with the Standards of GRAP on Impairment of Assets;
 - 9.2.7.7.6.** impairment losses reversed in surplus or deficit during the period in accordance (if any) with the Standards of GRAP on Impairment of Assets);
 - 9.2.7.7.7.** any amortisation recognised during the period; net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and
 - 9.2.7.7.8.** Other changes in the carrying amount during the period.

10. MONITORING AND EVALUATION

- 10.1.** This Policy shall be monitored and evaluated by the General Manager: Budget Treasury Office and regular monitoring reports submitted to the Management Committee Meeting, Finance Portfolio Committee, Executive Committee, and Full Council Meetings.

11. COMMENCEMENT OF THE POLICY

- 11.1.** This Policy shall come into effect on the date of the adoption by the Ugu District Municipality Council.

12. AMENDMENT AND/OR ABOLITION

- 12.1.** This policy may be amended or repealed by the Municipality through a Council Resolution.

13. COMPLIANCE AND ENFORCEMENT

- 13.1.** Violation or non-compliance with this policy will give a just cause for disciplinary steps to be taken.

14. POLICY REVIEW

- 14.1.** This Policy will be reviewed annually to ensure applicability and relevance.

15. APPEAL PROCESS/ GRIEVANCE PROCEDURE

- 15.1.** The policy must also state what will happen if one of the users thereof is not satisfied or there is a violation with the implementation process.

16. RECORDS OF APPROVAL

ANNEXURE A: ASSET USEFUL LIVES**1. INFRASTRUCTURE ASSETS**

The following is the list of infrastructure assets, with the estimated useful life in years indicated in brackets in each case.

1.1. WATER

- | | |
|------------------------------------------------------------------------------------------------------|------|
| 1.1.1. Mains | (20) |
| 1.1.2. Supply and reticulation networks | (20) |
| 1.1.3. Reservoirs and storage tanks | (20) |
| 1.1.4. Meters | (15) |
| 1.1.5. Rights (that is, the right to draw water from a particular source belonging to another party) | (20) |

1.2. SEWERAGE

- | | |
|----------------------------------|------|
| 1.2.1. Sewer mains | (20) |
| 1.2.2. Outfall sewers | (20) |
| 1.2.3. Sewage purification works | (20) |
| 1.2.4. Sewerage pumps | (15) |
| 1.2.5. Sludge machines | (15) |

1.3. PEDESTRIAN MALLS

- | | |
|-----------------|------|
| 1.3.1. Footways | (20) |
| 1.3.2. Kerbing | (20) |
| 1.3.3. Paving | (20) |

1.4. SECURITY MEASURES

- | | |
|-------------------------------|-----|
| 1.4.1. Access control systems | (5) |
| 1.4.2. Security systems | (5) |
| 1.4.3. Security fencing | (3) |

2. INVESTMENT ASSETS

2.1. It is not possible to provide an exhaustive list of investment assets, as the actual list will depend very much on the local circumstances of each municipality. However, the following will be among the most frequently encountered:

- | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 2.1.1. Office parks (which have been developed by the municipality itself or jointly between the municipality and one or more other parties) | (30) |
| 2.1.2. Shopping centres (again developed along similar lines) | (30) |
| 2.1.3. Housing developments (that is, developments financed and managed by the municipality itself, with the sole purpose of selling or letting such houses for profit) | (30) |

3. BUILDINGS

3.1. The following is a list of buildings assets, again showing the estimated useful life in years in brackets:

- | | |
|------------------|------|
| 3.1.1. Abattoirs | (30) |
|------------------|------|

3.1.2. Asphalt plant	(30)
3.1.3. Cable stations	(30)
3.1.4. Caravan parks	(30)
3.1.5. Compacting stations	(30)
3.1.6. Hostels used to accommodate the public or tourists	(30)
3.1.7. Hostels for municipal employees	(30)
3.1.8. Housing schemes	(30)
3.1.9. Kilns	(30)
3.1.10. Laboratories	(30)
3.1.11. Fresh produce and other markets	(30)
3.1.12. Nurseries	(30)
3.1.13. Office buildings	(30)
3.1.14. Old age homes	(30)
3.1.15. Quarries	(30)
3.1.16. Tip sites	(30)
3.1.17. Training centres	(30)
3.1.18. Transport facilities	(30)
3.1.19. Workshops and depots	(30)

4. **OTHER ASSETS**

4.1. The following is a list of other assets, again showing the estimated useful life in years in brackets:

4.1.1. **OFFICE EQUIPMENT**

4.1.1.1. Computer hardware	(5)
4.1.1.2. Computer software	(3-5)
4.1.1.3. Office machines	(3-5)
4.1.1.4. Air conditioners	(5-7)

4.1.2. **FURNITURE AND FITTINGS**

4.1.2.1. Chairs	(7-10)
4.1.2.2. Tables and desks	(7-10)
4.1.2.3. Cabinets and cupboards	(7-10)
4.1.2.4. Bins and containers Household refuse bins	(5)
4.1.2.5. Bulk refuse containers	(10)
4.1.2.6. Emergency equipment Fire hoses	(5)
4.1.2.7. Other fire-fighting equipment	(15)
4.1.2.8. Emergency lights	(5)

4.1.3. **MOTOR VEHICLES**

4.1.3.1. Ambulances	(5-10)
4.1.3.2. Fire engines	(20)
4.1.3.3. Buses	(15)
4.1.3.4. Trucks and light delivery vehicles	(5-7)
4.1.3.5. Ordinary motor vehicles	(5-7)
4.1.3.6. Motor cycles	(3)

4.1.4. **PLANT AND EQUIPMENT**

4.1.4.1. Graders	(10-15)
4.1.4.2. Tractors	(10-15)
4.1.4.3. Mechanical horses	(10-15)
4.1.4.4. Farm equipment	(5)
4.1.4.5. Lawn mowers	(2)
4.1.4.6. Compressors	(5)
4.1.4.7. Laboratory equipment	(5)
4.1.4.8. Radio equipment	(5)
4.1.4.9. Firearms	(5)

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4.1.4.10. Telecommunication equipment	(5)
4.1.4.11. Cable cars	(15)
4.1.4.12. Irrigation systems	(15)
4.1.4.13. Cremators	(15)
4.1.4.14. Lathes	(15)
4.1.4.15. Filling equipment	(15)
4.1.4.16. Conveyors	(15)
4.1.4.17. Feeders	(15)
4.1.4.18. Tippers	(15)
4.1.4.19. Pulverising mills	(15)
 4.1.5. <u>OTHER</u>	
4.1.5.1. Aircraft	(15)
4.1.5.2. Watercraft	(15)

UGU DISTRICT MUNICIPALITY

ASSETS DISPOSAL POLICY

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15. INTRODUCTION

- 15.1. The purpose of the Asset Disposal Policy is to provide a framework for the disposal of the municipality's assets that are not needed to provide the minimum level of basic municipal services and that are surplus to the municipality's requirements.
- 15.2. Section 14 of the Municipal Finance Management Act (Act No. 56, 2003) states: "A municipality may not transfer ownership as a result of a sale or other transaction, or otherwise permanently dispose of any capital asset needed to provide a minimum level of basic municipal services.
- 15.3. A municipality may transfer ownership or otherwise dispose of an asset, other than an asset mentioned above, only after the disposal committee meeting:
 - 15.3.1. Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
 - 15.3.2. Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

16. DEFINITIONS

- 2.1. **Asset** means any resource controlled by the municipality, from which the municipality expects to derive economic benefits or use for service delivery to the general public over a period extending beyond one financial year.
- 2.2. **Basic municipal service** means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment.
- 2.3. **Carrying amount** is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
- 2.4. **Council** means the Municipal Council of the Ugu District Municipality, its legal successors in title.
- 2.5. **Disposal** means the alienation of an asset no longer needed by the municipality by means of a sale, a lease or a donation.
- 2.6. **Fair value** of an asset is the amount obtainable from the sale of the asset in an arm's length transaction between willing parties less the selling costs.
- 2.7. **Proceeds** are the sales value, trade-in value or proceeds received from insurance if the asset was damaged or stolen.
- 2.8. **Profit on disposal**: when an asset is disposed for an amount higher than its carrying amount at the date of disposal.
- 2.9. **Loss on disposal**: when an asset is disposed for an amount lower than its carrying amount at the date of disposal.

2.10. Obsolete or redundant assets will mean and include :

- 2.10.1. assets which are not envisaged by the municipality to be required for the delivery of municipal Services;
- 2.10.2. assets which have become uneconomical to repair, maintain, or operate excluding assets of symbolic importance or cultural significance;
- 2.10.3. assets that have a negative impact on service delivery of the municipality, the environment, or the community,
- 2.10.4. assets that no longer support a directorate's service objective due to a change in type of service being delivered or the delivery method
- 2.10.5. assets where the use has become uneconomical to continue due to the limited availability of spares or the cost of replacement parts exceed the reasonable value of the item.
- 2.10.6. assets where the technology has been outdated and which can no longer be used for the purpose originally intended.

17. POLICY OBJECTIVES

- 17.1. The objectives of the Asset Disposal Policy are to:
 - 17.1.1. Ensure that only assets that do not provide the minimum level of basic municipal services are disposed of.
 - 17.1.2. Ensure that assets are not disposed when the disposal of the asset or the terms of the disposal of the asset could disadvantage the municipality or community financially or otherwise.
 - 17.1.3. Ensure that all disposals are, in terms of section 14 (5) of the Municipal Finance Management Act (Act No. 56, 2003), fair, equitable transparent, competitive, and consistent with the Supply Chain Management Policy of the municipality.

18. PRESCRIPTIVE/LEGAL FRAMEWORK

- 18.1. This policy must comply with all relevant legislative requirements including:
 - 18.1.1. The constitution of the republic of south Africa, 1996
 - 18.1.2. Municipal systems act, 2000
 - 18.1.3. Municipal Finance Management Act
- 18.2. This policy does not over rule the requirements to comply with other policies such as:
 - 18.2.1. Supply Chain Management Policy
 - 18.2.2. Asset Management Policy
 - 18.2.3. Fleet Management Policy
 - 18.2.4. Insurance Policy
 - 18.2.5. Security Policy
 - 18.2.6. Facilities Management Policy

19. POLICY APPLICATION

- 19.1. This policy applies to all Ugu District Municipality's permanent and temporary employees: internal or external contractors who utilise the municipality's assets.

20. POLICY PRINCIPLES

20.1. PLANNING FOR AND IDENTIFICATION OF ASSETS TO BE DISPOSED

- 20.1.1. The assets unit within the Budget Treasury Office (in consultation with the user departments) are responsible for the strategic planning for the disposal of **surplus, redundant, or obsolete assets** that hinders the municipality from delivering services efficiently and effectively
- 20.1.2. Planning for disposals must be conducted by the assets unit within the Budget Treasury Office on an annual basis and revised on quarterly basis. The planning should involve a detailed assessment of assets identified as **surplus, redundant, or obsolete** by the assets unit within the Budget Treasury Office.
- 20.1.3. Planning for disposals of **surplus, redundant, or obsolete** by the assets unit within the Budget Treasury Office the means ensures that disruption to their service delivery is minimised and the returns from the assets is maximised by selecting the appropriate time in the assets life cycle to dispose.

20.2. ASSESSING ASSETS FOR DISPOSALS

- 20.2.1. The Disposal Committee is responsible for assessing the disposals proposed by the assets unit within the Budget Treasury Office. The Disposal Committee shall also consider the following factors:
 - 20.2.1.1. Whether there are net disposal benefits, either in financial or other forms.
 - 20.2.1.2. Whether there are secondary service obligations associated with the asset which dictates its retention.
 - 20.2.1.3. Whether a disposal can be carried out without adverse impacts on the physical environment.
- 20.2.2. In assessing the benefits of disposal, the advantages and disadvantages for the whole municipality must be considered.
- 20.2.3. Assets that have been identified as surplus may need to be retained due to heritage, social, environmental considerations, or any other requirements.
- 20.2.4. The symbolic importance and the cultural significance of assets should also be considered when assessing the disposal of the asset.
- 20.2.5. The Disposal Committee should consider the advantages of engaging experts where necessary.
- 20.2.6. When disposing of the asset, consideration must be given to the costs of continued ownership. Examples of cost of continued ownership include:
 - 20.2.6.1. Insurance
 - 20.2.6.2. Maintenance
 - 20.2.6.3. Storage costs
 - 20.2.6.4. Operating costs

20.2.6.5. Staffing costs

20.2.7. Disposals need not always be for a financial gain. Other opportunities and gains should also be taken into consideration, for example:

20.2.7.1. Swapping one asset for another

20.2.7.2. Construction of a facility for the municipality in return for the asset.

20.3. RECOMMEND ASSETS FOR DISPOSAL

20.3.1. Disposal Committee shall be responsible to meet as and when necessary to assess and consider disposal lists/items submitted by proposed by the assets unit within the Budget Treasury Office.

20.3.2. Disposal Committee shall make recommendation for disposal, inclusive of disposal method, to Council for approval.

20.4. OBTAIN APPROVAL FOR DISPOSAL

20.4.1. The recommended by the Disposal Committee shall be presented to Council

20.4.2. Council upon consideration of the recommendation shall approve the disposal of the assets in the manner as recommended.

20.4.3. The final approval of the disposal shall be conducted at a meeting in terms of the Municipal Finance Management Act (Act No. 56, 2003) and decisions taken shall be documented for future reference by the assets unit within the Budget Treasury Office.

20.5. METHODS TO DISPOSE OF THE ASSET

20.5.1. Disposal of an asset should be performed in a manner which satisfies the following objectives:

20.5.1.1.1. The disposal, where being effected, through a sale, should take place on an equitable basis. There should be an equal opportunity for all to purchase the asset. The best possible return for the municipality must be achieved.

20.5.1.1.2. Any adverse environmental impacts should be avoided.

20.5.2. The following methods of disposal could be used to achieve the objectives mentioned above:

20.5.2.1. AUCTION

20.5.2.1.1. The benefits of an auction are as follows:

20.5.2.1.1.1. Process is more straightforward.

20.5.2.1.1.2. Process is open to public scrutiny.

20.5.2.1.1.3. In some circumstances an auction may generate a higher price

20.5.2.2. DIRECT NEGOTIATIONS

20.5.2.2.1. Disposal of assets by direct negotiations with one possible interested party should be the exception rather than the rule.

20.5.2.2.2. When the sale by auction has failed due to lack of demand or unacceptable offers being received; and it has been established that further efforts to dispose of the asset by

auction are unlikely to succeed, direct possible negotiations with one possible interested party shall be allowed.

20.5.2.3. DONATION

20.5.2.3.1. The following types of organisations shall be considered for municipal assets to be donated to:

20.5.2.3.1.1. Registered welfare or Charitable Organisations

20.5.2.3.1.2. Schools catering for learners who are handicapped, or disabled, or are learners with special needs.

20.5.2.3.1.3. Schools within the jurisdiction of the District, as identified by the Office of the Mayor

20.5.2.3.2. Donation of municipal assets shall be applicable to the following assets:

20.5.2.3.2.1. Obsolete furniture and redundant equipment

20.5.2.3.2.2. Computer equipment

20.5.2.3.2.3. Motor vehicles

20.5.2.4. THEFT/LOSS/DAMAGE

20.5.2.4.1. Involuntary disposal of an assets may take place such as theft, loss or damage.

20.5.2.4.2. All stolen/lost/damaged asset shall be regarded as disposed and shall be reported to the disposal committee for consideration.

20.5.2.4.3. In the event of a stolen/lost/damaged asset, the affected staff member should, in accordance with the insurance policy, report the incident to the insurance unit within the assets unit.

20.5.2.4.4. Any insurance pay-outs pertaining to the stolen/lost/damaged shall be treated as proceeds

20.5.2.5. DESTRUCTION

20.5.2.5.1. Assets which cannot be disposed in any other method as stated above may be destroyed in any environmentally friendly method.

20.5.2.6. TRANSFER TO ANOTHER ORGAN OF STATE

20.5.2.6.1. An asset may be transferred to another state organ as a result of newly established municipal boundaries as per the Municipal Demarcation Act 27 of 1998. The demarcation process can result in assets of the municipality no longer being within the newly set boundaries of the municipality thus necessitating transfer.

20.5.2.6.2. A decision endorsed by council may be taken to transfer an asset to another organ of state to assist it in executing its duty to deliver services to the public.

20.5.2.7. OTHER METHOD OF DISPOSAL

20.5.2.7.1. Any other proposed method of disposal shall be communicated to the assets unit in the Budget Treasury

Office for submission to the disposal committee for approval.

20.6. ACCOUNTING FOR THE DISPOSED ASSET

- 20.6.1.** When an asset is disposed of the cost of the asset and the accumulated depreciation recorded in the statement of financial position need to be reversed to the statement of financial performance a profit and loss on disposal of asset account. This will result in a debit in the statement of financial performance equal to the asset's carrying value.
- 20.6.2.** The total proceeds to be received from the disposal of the asset need to be credited to the profit and loss on disposal of asset account. The account will now reflect a debit or credit amount in the statement of financial performance equal to the profit and loss on disposal equal to the result of the calculation.
- 20.6.3.** Note that depreciation will need to be calculated up to the date of disposal. If the disposal date is during a financial year, the depreciation needs to be calculated on a pro rata basis based on completed months of ownership or use. No depreciation is calculated for the asset after the disposal date.
- 20.6.4.** At the disposal date the asset being disposed of needs to be derecognised from the fixed asset register of the municipality.
- 20.6.5.** Other accounting and disclosure matters discussed in the Asset Management Policy Document of the municipality also need to be adhered to.

20.7. CALCULATION OF THE PROFIT AND LOSS ON DISPOSAL

- 20.7.1.** Profits and losses on the sale of property, plant and equipment are calculated as follows, and are disclosed in total in the financial statements:
 - 20.7.1.1.** **PROCEEDS** less **CARRYING VALUE** equals **PROFIT** (If proceeds greater than carrying value), or **LOSS** (If proceeds less than carrying value)

21. ROLES AND RESPONSIBILITIES

21.1. ACCOUNTING OFFICER

- 21.1.1.** Shall ensure that the municipality has and maintains a system of internal control of assets regarding the disposal of municipal assets; and
- 21.1.2.** Shall ensure that the General Managers and their departments comply with this policy
- 21.1.3.** Shall ensure that all items of property plant and equipment are insured immediately at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.

21.2. GENERAL MANAGER (DEPARTMENTS)

- 21.2.1.** Shall ensure that employees in their departments adhere to the approved Asset Disposal Policy.
- 21.2.2.** Shall ensure that the asset manager is notified of all assets needing disposal in writing.
- 21.2.3.** Shall ensure that employees who contravenes the operational procedure or who use the municipal assets negligence and for their personal gain are disciplined accordingly.
- 21.2.4.** shall be directly responsible for the physical safekeeping of any asset controlled or used by the Department in question.
- 21.2.5.** In exercising this responsibility, shall adhere to any written directives issued by the Municipal Manager to the Department in question, or generally to all Departments, regarding the disposal of the Municipality's assets.

21.3. ASSET MANAGER

- 21.3.1.** Shall ensure that quarterly physical verification for movable assets are conducted where assets in need of disposal identified.
- 21.3.2.** Shall ensure that annual physical verification for immovable assets are conducted where assets in need of disposal identified.
- 21.3.3.** Shall liaise with user departments constantly regarding assets that needs to be disposed.
- 21.3.4.** Shall ensure that the disposal committee is notified in writing of all the assets that needs to be considered for disposal
- 21.3.5.** Shall be responsible for facilitating the disposal of the assets upon approval by council.

21.4. DISPOSAL COMMITTEE

- 21.4.1.** The primary duties of the Committee include but are not limited to the following: -
 - 21.4.1.1.** Assessing the disposals proposed by assets unit in the Budget Treasury Office. The Assets Disposal Committee shall consider the following factors in conducting its assessments:
 - 21.4.1.2.** Whether the capital asset may be required for the municipality's own use at a later stage.
 - 21.4.1.3.** Whether there are net disposal benefits, either in financial or other form.
 - 21.4.1.4.** Whether there is secondary service obligations associated with the asset which dictates its retention.
 - 21.4.1.5.** Whether a disposal can be carried out without adverse impacts on the physical environment.
 - 21.4.1.6.** Whether any conditions/ limitations are attached to the asset and the consequences of non-compliance with those conditions.
 - 21.4.1.7.** Consideration of the fair market value of the asset and the economic and community value.
- 21.4.2.** Objectively evaluate the assets submitted for disposals and weigh disposal alternatives as per disposal procedure.
- 21.4.3.** Review of the municipality's asset disposal process by
 - 21.4.3.1.** Monitoring asset disposal decisions to verify compliance with procedures;
 - 21.4.3.2.** Monitoring the implementation of asset disposal decisions

- 21.4.3.3.** Making recommendations to Policy Review Committee on amendments to Asset Management and Asset Disposal Committee.

21.5. ALL MUNICIPAL PERSONNEL:

- 21.5.1.** Shall ensure that assets assigned to them are utilized effectively, efficiently, economically, and transparently
- 21.5.2.** Shall notify the assets coordinators and assets management section of all obsolete, damaged, and stolen assets, without delay.
- 21.5.3.** Shall make available the assets under their possession for verification by the assets management unit quarterly and annually.
- 21.5.4.** Shall ensure that they comply with the operational procedures.

22. MONITORING AND EVALUATION

- 22.1.** This Policy shall be monitored and evaluated by the General Manager: Budget Treasury Office and regular monitoring reports submitted to the Management Committee Meeting, Finance Portfolio Committee, Executive Committee, and Full Council Meetings

23. COMMENCEMENT OF THE POLICY

- 23.1.** This Policy shall come into effect on the date of the adoption by the Ugu District Municipality Council.

24. AMENDMENT AND/OR ABOLITION

- 24.1.** This policy may be amended or repealed by the Municipality through a Council Resolution.

25. COMPLIANCE AND ENFORCEMENT

- 25.1.** Violation or non-compliance with this policy will give a just cause for disciplinary steps to be taken.

26. POLICY REVIEW

- 26.1.** This Policy will be reviewed annually to ensure applicability and relevance.

27. RECORDS OF APPROVAL

Meeting	Date	Resolution
Policy Review Committee	26 April 2017	Recommendation to MANCO
Finance Portfolio Committee		Recommended to EXCO
EXCO		Recommended to Council
Council		ADOPTED



Ugu District Municipality

INSURANCE POLICY

1. PREAMBLE

Whereas it is required of the accounting officer to take all reasonable steps to ensure that the Council has and implements crucial policies for effective financial and risk management.

And whereas the safeguarding of assets and the protection of Council against liabilities is very important and forms part of a proper assets management system as prescribed by Section 63 and needs annual revision in terms of Section 24(2) (c) (v) of the Municipal Finance Management Act 56 of 2003. Now therefore the Municipal Council of the Ugu District Municipality adopts the following Policy for Insurance Management.

2. PURPOSE

2.1 This document indicates the policy of Ugu District Municipality for insuring of municipal assets, and for insuring the municipality, its employees and Councillors against public liability claims and other losses.

3. BACKGROUND

3.1 Since 2004, when the Municipal Finance Management Act No 56 of 2003 (MFMA) was promulgated municipalities have been required to align the planning, management, reporting and auditing of their finances in accordance with the strict requirements of the MFMA and related legislation.

3.2 In terms of section 63 (1) of the Municipal Finance Management Act, the Municipal Manager is responsible for the safeguarding of municipal assets

3.3 It is the responsibility of the Accounting Officer or his/her delegates to ensure that all municipal assets are safeguarded against all risks that will result in loss. The Accounting Officer must take all reasonable steps to ensure that Ugu District Municipality has and implements budget related policies for effective financial and risk management.

3.4 Asset Management is one function in ensuring effective financial management. Section 63 of the Municipal Finance Management Act, Act 56 of 2003, places the responsibility of asset management on the Accounting Officer.

4. DEFINITIONS

4.1 Assets are resources controlled by an entity as the result of past events and from which future economic benefits or future service potential are expected to flow to the entity.

4.2 Asset Manager is any official who has been delegated responsibility and

accountability for the control, usage, physical and financial management of the municipality's assets in accordance with the council's standards, policies, procedures, and guidelines

4.3 Accident is an event or occurrence which is unforeseen and unintended. Accidental is an important concept of risk for insurance. The more unlikely the accident or the occurrence, the less expensive it is to insure.

4.4 Insurance Excess Amount is insurance in which the underwriter's liability does not arise until the loss exceeds a stated amount and then only on the excess above that amount

4.5 Book value or carrying value is the net worth of an asset that is recorded on the balance sheet. Book value is calculated by subtracting any accumulated depreciation from an asset's purchase price or historical cost

4.6 Insurability is acceptability to the company of an applicant for insurance

4.7 Insurance is an arrangement under which individuals, businesses, and other organizations or entities, in exchange for payment of a premium, are guaranteed compensation for losses resulting from certain perils under specified conditions.

4.8 Insured is A person or organization covered by an insurance policy.

4.9 Insurer is the party to the insurance contract who promises to pay losses or benefits. Also, any corporation engaged primarily in the business of furnishing insurance to the public

4.10 Insurance broker is an independent person or company that is not employed by an insurance company, that finds the best policy for someone who wants insurance

5. POLICY OBJECTIVE

5.1 The objectives of this policy are to set out a legislative framework in order to comply with asset management requirements, especially regarding the safe guarding and risk management thereof; Ensuring that the general public's rights and obligations when lodging a public liability claim is spelled-out; and Set out the role and responsibilities of Councillors and officials regarding safeguarding of assets and insurance processes.

5.2 In general, the object of this policy is to ensure sound and sustainable financial management within Ugu District Municipality.

6. PRESCRIPTIVE/LEGAL FRAMEWORK

6.1 This policy must comply with all relevant legislative requirements including:

6.1.1 The Constitution of the Republic of South Africa, 1996

6.1.2 Municipal Systems Act, 2000

6.1.3 Municipal Finance Management Act

7. POLICY APPLICATION

7.1 This policy applies to all Ugu District Municipality's permanent and temporary employees: internal or external contractors who utilise the Municipality's assets and are affected by the use of the municipality's assets.

8. RESPONSIBILITY FOR INSURANCE

4.1. APPOINTMENT OF INSURANCE BROKERS

4.1.1. There will be a call for bids to appoint a service provider to provide short term insurance services at least once every three years. The appointment of an insurance broker must be performed via the normal supply chain management processes and regulations of the Municipality.

4.1.2. Should circumstances change during the year, amendments, additions or deletions should be made to the Finance portfolio with the Insurance Company/Insurance Broker.

9. ASSETS TO BE INSURED

When considering the insurance of assets all movable and immovable assets should be considered. All assets to be insured should be comprehensively insured against perils such as theft, malicious damage, fire, storm, water damage etc. as well as community action, riots and public disorder.

9.1 It is the responsibility of the Assets Management Unit to ensure that all assets are disclosed at correct "book value" at reporting periods.

9.2 The insurance section within the Asset Management Unit will use such book values as replacement values, unless a different replacement value is determined by the insurer and the municipality.

9.3 Assets are to be insured at replacement value. Should it be considered necessary, a valuer should be used to arrive at a replacement value for each asset.

9.4 The following assets and risks should, after consideration of risk, be insured: -

9.4.1 Movable Assets such as Vehicles, plant and equipment, computer equipment, office equipment, cash in transit,

9.4.2 Immoveable assets such as Buildings (as well as contents)

9.4.3 Infrastructure assets such as pump stations, treatment works, reservoirs etc

9.4.4 Liability: Public, Employer and Employees

9.5 The decision whether to insure an asset or not should be at the discretion of the Municipal Manager in consultation with the Chief Financial Officer.

10. ADDITIONS DURING THE YEAR

- 10.1** When new vehicles are purchased, buildings or structures erected or expanded which has an influence on the Finance portfolio of Council; each Department involved should send the information of new assets to be insured within 48 hours after the plant/property/equipment is recognised as an asset of the municipality.
- 10.2** New vehicles cannot be utilized during the period when the asset is acquired and an insurance confirmation is pending.

11. RECOVERY OF LOSS

- 11.1** Insurance Committee should be established in terms of to investigate losses. The Insurance Committee shall not institute or carryout duties of a disciplinary committee buy should only advise on the outcomes of its investigations.
- 11.2** The decision of the committee should be escalated to Human Resources department for disciplinary action and recovery of the loss where applicable.
- 11.3** The decision of the insurance committee shall determine the party liable for the payment of excess:
- 11.3.1** If an employee has been found to be liable for the loss/damage, the **excess and value** of the property loss/damage shall be recoverable from the said employee
- 11.3.2** If the third party is liable for the loss/damage, the **excess and value** of the property loss/damage shall be recoverable from the said third party
- 11.3.3** In any other circumstances, the Municipality shall be liable to pay the excess to ensure that the insurance broker settles the value of the property loss/damage
- 11.3.4** If an employee has been found to be liable for a claim being repudiated by the insurance company due to non-submission or late submission of required information, the **excess and value** of the property loss/damage shall be recoverable from the said employee

12. INSURANCE CLAIM PROCEDURES

- 12.1** The Municipal Manager or his/her delegate, shall develop such processes to ensure that insurance claims are submitted timeously, and in a format required by the Insurance Company/Insurance Broker
- 12.2** Head of departments must ensure that these processes are implemented

13. POLICY ON PERSONAL EFFECTS

- 13.1** It is expected that employees, in their own interests, will ensure that any valuable items of jewellery (including wrist watches) worn on duty, and/or personal equipment are adequately insured against loss or theft on their personal policies.
- 13.2** The carrying of unreasonably large amounts of cash, credit cards or other

easily stolen and rapidly convertible items should be avoided during working hours as far as is practicable.

13.3 No compensation will be paid for loss or damage to the following items:

- 13.3.1** Private cellular phone
- 13.3.2** Private Vehicle
- 13.3.3** Private Laptop
- 13.3.4** Any other private asset

14. PAYMENT OF EXCESSES BY EMPLOYEES

- 14.1** Where in the opinion of the General Manager and the Municipal Manager an employee's negligence led to the damage to, or loss of, an asset the excess and the value of the said property payable may be claimed from the employee concerned in terms of the Disciplinary Procedures.

15. MONITORING AND OVERSIGHT

- 15.1** The insurance clerk shall on request supply a claim register to the user departments
- 15.2** The Manager: Assets shall submit a claims report to the MANCO and Portfolio Committee on Finance and other leadership or oversight structures as and when directed to do so.

16. COMMENCEMENT OF THE POLICY

- 16.1** This Policy shall come into effect on the date of the adoption by the Ugu District Municipality Council.

17. POLICY IMPLEMENTATION

- 17.1** The Municipal Manager, in consultation with the CFO and General Managers will give effect to this policy.

18. POLICY AMENDMENT

- 18.1** This policy may be amended or repealed by the Municipality through a Council Resolution.

19. COMPLIANCE AND ENFORCEMENT

- 19.1** Violation or non-compliance with this policy will give a just cause for disciplinary steps to be taken.

20. POLICY REVIEW

- 20.1** This Policy will be reviewed annually to ensure applicability and relevance.

UGU DISTRICT MUNICIPALITY
("the Municipality")



BORROWING POLICY

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1. Definitions

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

"Disclosure statements" means a statement issued or to be issued by:

- a municipality which intends to incur debt by issuing municipal debt instruments; and
- a person who intends to incur debt by issuing securities backed by municipal debt.

"Financing agreement" means any loan agreement, lease, instalment, purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time.

"Lender" means a person who provides debt finance to the Municipality.

"Long term debt" means debt repayable by the Municipality over a period exceeding one (1) year.

"Municipal debt" means:

- (a) A monetary liability or obligation on a municipality by:
 - a financing agreement, note, debenture, bond or overdraft; and
 - the issuance of municipal debt instruments.
- (b) A contingent liability such as that created by guaranteeing a monetary liability or obligation of another.

"Municipality" means Ugu District Municipality

"Security" means any mechanism intended to secure the interest of a lender or investor and includes any of the mechanisms mentioned.

"Short term debt" means debt that is repayable over a period not exceeding one (1) year.

2. 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:

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

3. 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 GN R 492 in Government Gazette 29966 of 15 June 2007.

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;
 - 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.

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;
 - 7.1.4. Any other institution approved by the Council from time to time.
- 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.

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).

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.
- 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.

17. Borrowing for Investment Prohibited

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

18. Security

- 18.1. 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).
- 18.2. 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.

19. Disclosure

- 19.1. 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 material to the decision of that lender or investor, and take reasonable care to ensure the accuracy of any information disclosed.
- 19.2. 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.

20. Guarantees

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

21. Internal Control

The Accounting Officer shall ensure that mechanisms, procedures and systems are put in place to ensure that:

- 21.1. Duties are separated in order to prevent fraud, collusion and other misconduct;
- 21.2. loan agreements and contracts are kept in proper safe custody;
- 21.3. there is a clear delegation of duties relating to the borrowing process;
- 21.4. senior officials check and verify all transactions;
- 21.5. transactions and repayments are properly documented;
- 21.6. a Code of ethics and standards is established and adhered to;
- 21.7. procedures relating to the borrowing process are established.

22. National Treasury Reporting and Monitoring Requirements

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.

23. Other Reporting and Monitoring Requirements

- 23.1. The Municipality shall on a monthly basis perform the following control and reporting functions relevant to borrowings:
 - 23.1.1. Reconciliation of bank accounts;
 - 23.1.2. Payment requisition verification and authorization;
 - 23.1.3. Completion of South African Reserve Bank returns;
 - 23.1.4. Maintain schedule of payment dates and amounts;
 - 23.1.5. Complete National Treasury Cash Flow returns;
 - 23.1.6. Submission of particulars of borrowings as required by Section 71 of MFMA;
 - 23.1.7. Perform analysis of ratios;
 - 23.1.8. Scrutinise loan agreements to ensure compliance with loan covenants.

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

23.2.1. Submit National Treasury Borrowings return

23.2.2. Prepare debt schedules for reporting to the Executive Committee.

24. Related Policies

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

24.1. Budget Process Policy;

24.2. Cash Management and Investment Policy;

24.3. Virement Policy.

25. Municipal Manager to Implement Policy

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.

26. Effective Date

The Policy shall come to effect upon approval by Council.

27. Policy Adoption

This revised Policy replaces the current Policy; it has been considered and approved by the **COUNCIL OF UGU DISTRICT MUNICIPALITY** as follows:

Resolution No:.....

Approval Date:.....

Appendix A

DISCLOSURE REGULATIONS

UGU DISTRICT MUNICIPALITY

“The Municipality”



FUNDING AND RESERVES POLICY

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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.

"Accounting Officer" means the Municipal Manager of Ugu District Municipality

"Chief Financial Officer" means the Chief Financial Officer of Ugu District Municipality

"Council" means the Council of Ugu District Municipality

"MFMA" means the Municipal Financial Management Act, 2003 (Act No 56 of 2003)

"Municipality" means Ugu District Municipality

"GRAP" means Generally Recognised Accounting Practices standards.

2. OBJECTIVES OF THE POLICY

The objectives of this Policy are to:

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

3. SCOPE AND INTENDED AUDIENCE

- 3.1 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.
- 3.2 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:

- a. Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003);
and,

- b. Local Government: Municipal Budget and Reporting Regulation, Regulation 393, published under Government Gazette 32141, 17 April 2009.

5. FUNDING OF THE ANNUAL BUDGET

5.1 An annual budget may only be funded from:

- a. Cash backed accumulated funds from previous years' surpluses and reserves not committed for any other purpose;
- b. Realistically anticipated revenues to be collected;
- c. Borrowed funds only for capital expenditure, and
- d. Grants and subsidies.

5.2 Realistic anticipated revenue projections must take into account:

- a. Projected revenue for the current year based on the previous year's billing information.
- b. Actual revenue collected in previous financial years.

6. OPERATING BUDGET

6.1 The operating budget provides funding to departments for their medium term expenditure as planned. The Municipality categorises services rendered to the community according to its revenue generating capabilities in line with the tariffs policy

- a) Trading services – services that generate surpluses that can be used for cross subsidisation to fund other services.
- b) Economic services – services that break even with no surpluses.
- c) Rates and general services – services that are funded by surpluses generated by trading services, and/or other revenues generated such as, interest received, grants and subsidies etc.

6.2 The operating budget is funded from the following main sources of revenue:

- a) Surpluses generated from service charges.
- b) Government grants and subsidies.
- c) Other revenue, interest received etc.
- d) Cash backed accumulated surpluses from previous years not committed for any other purposes.

6.3 The following guiding principles apply when compiling the operating budget:

- a) The annual budget must be balanced and funded.

- b) Growth parameters must be realistic taking into account the current economic conditions.
- c) Tariff adjustments must be realistic, taking into consideration the general inflation, affordability, bulk increases and the demand according to the approved Integrated Development Plan (IDP).
- d) Revenue from government grants and subsidies must be in line with allocations gazette in the Division of Revenue Act and provincial gazettes.
- e) Revenue from public contributions, donations or any other grants may only be included in the budget if there are acceptable documentation that guarantees the funds such as:
 - (i) Signed service level agreement;
 - (ii) Contract or written confirmation; or
 - (iii) Any other legally binding document.
- f) Projected revenue from service charges must be realistic based on current and past trends with expected growth considering the current economic conditions. The following factors must be considered for each service when applicable:
 - i. Metered services namely water:
 - aa) The consumption trends for the previous financial years;
 - bb) Envisaged water restrictions when applicable; and
 - cc) Actual revenue collected in previous financial years.
 - ii. Sewerage services:
 - aa) The actual number stands/consumer points receiving the service and the consumption trends per category; and
 - bb) Actual revenue collected in previous financial years.
- g) Rebates, exemptions or reductions for service charges are budgeted either as revenue foregone or as expenditure most often (grant) as per directive in MFMA Budget Circular 51 depending on the conditions thereof.
- h) Other projected income is charged in terms of the approved sundry\ tariffs and fines considering the past trends and expected growth for each category.

- i) Provision for revenue that will not be collected is made against the expenditure item bad debt and based on actual collection levels for the previous financial year and the projected annual non-payment rate.
- j) Interest received from actual long-term and or short-term investments are based on the amount reasonably expected to be earned on cash amounts available during the year according to the expected interest rate trends. The actual amount allocated for interest on investments is contributed to the Capital Replacement Reserve.
- k) Transfers from the accumulated surplus to fund operating expenditure will only be allowed for specific once-off projects and with no recurring operating expenditure resulting there from.
- l) Transfers from the accumulated surplus to offset the increased depreciation charges as a result of the implementation of GRAP 17 will be phased out over a number of years.
- m) A detailed salary budget is compiled on an annual basis. All funded positions are budgeted for in total and new and/or funded vacant positions are budgeted for six months only of the total package considering the recruitment process. As a guiding principle the salary budget should not exceed the parameter (percentage) of the aggregate operating budget component of the annual or adjustments budget, the parameters as may be contained in the budget circular issued by National Treasury from time to time.
- n) (Depreciation charges are fully budgeted for according to the asset register and to limit the impact of the implementation of GRAP 17 a transfer from the accumulated surplus is made) However the annual cash flow requirement for the repayment of borrowings must fully be taken into consideration with the setting of tariffs.
- o) To ensure the health of municipal assets, sufficient provision must be made for the maintenance of existing and infrastructure assets based on affordable levels, resulting that maintenance budgets are normally lower than the recommended levels. Therefore the mere reduction of maintenance budgets to balance annual budgets must carefully be considered. As a guiding principle repair and maintenance should constitute between 5 and 8% of the carrying value of the property, plant and equipment and should annually be increased incrementally until the required targets are achieved.
- p) Individual expenditure line items are to be revised each year when compiling the budget to ensure proper control over expenditure. Increases for these line items must be linked

to the average inflation rate and macro-economic indicators unless a signed agreement or contract stipulates otherwise.

7. CAPITAL BUDGET

7.1 The capital budget provides funding for the Municipality's capital programme based on the needs and objectives as identified by the community through the Integrated Development Plan and provides for the eradication of infrastructural backlogs, renewal and upgrading of existing infrastructure, new developments and enlargement of bulk infrastructure.

7.2 Capital expenditure may only be incurred on a capital project if:

- a. The funding for the project has been appropriated in the capital budget.
- b. The total cost for the project has been approved by Council.
- c. The future budgetary implications and projected cost covering all financial years until the project is operational has been considered.
- d. The implications of the capital budget on municipal tax and tariff increases been considered.
- e. The sources of funding are available and have not been committed for other purposes.

7.3 Provisions on the capital budget will be limited to availability of sources of funding and affordability. The main sources of funding for capital expenditure are:

- (a) Accumulated cash backed internal reserves;
- (b) Borrowings;
- (c) Government grants and subsidies; and
- (d) Public donations and contributions.

7.4 The following guiding principles apply when considering sources of funding for the capital budget:

(a) Government grants and subsidies:

- i. Only gazette allocations or transfers as reflected in the Division of Revenue Act or allocations as per provincial gazettes may be used to fund projects;
- ii. The conditions of the specific grant must be taken into consideration when allocated to a specific project; and
- iii. Government grants and subsidies allocated to specific capital projects are provided for on the relevant department's operating budget to the extent the conditions will be met during the financial year.

- (b) In the case of public contributions, donations and/or other grants, such capital projects may only be included in the annual budget if the funding is guaranteed by means of:
 - i. Signed service level agreement;
 - ii. Contract or written confirmation; and/or
 - iii. Any other legally binding document.
- (c) Public donations, contributions and other grants are provided for on the relevant department's operating budget to the extent the conditions will be met during the financial year.
- (d) The borrowing requirements, to be used as a basis to determine the affordability of external loans over the Medium Term Income and Expenditure Framework. The ratios to be considered to take up additional borrowings:
 - i. Long-term credit rating of BBB;
 - ii. Interest cost to total expenditure to not exceed 8%;
 - iii. Long-term debt to revenue (excluding grants) not to exceed 50%;
 - iv. Collection rate of above 95%;
 - v. Percentages of capital charges to operating expenditure less than 18%.
- (e) Allocations to capital projects from cash backed internal reserves will be based on the available funding for each ring-fenced reserve according to the conditions of each reserve as follows:
 - i. Infrastructure projects to service new developments and the revenue is received through the sale of stands/land/site must be allocated to the capital reserve for services;
 - ii. Capital projects of a smaller nature such as office equipment, furniture, plant and equipment etc. must be allocated to the capital reserve from revenue which is funding from the revenue budget for that specific year. A general principle is that these types of capital expenditure should not exceed more than 1% of total operating expenditure;
 - iii. Capital projects to replace and/or upgrade existing assets may be allocated to the capital replacement reserve;
 - iv. Capital projects to upgrade bulk services will be allocated to the capital bulk contributions reserve for each service.

7.5 All capital projects have an effect on future operating budget therefore the following cost factors should be considered before approval:

- a) Additional personnel cost to staff new facilities once operational;
- b) Additional contracted services, that is, security, cleaning etc.
- c) Additional general expenditure, that is, services cost, stationery, telephones, material etc.
- d) Additional other capital requirements to the operate facility, that is, vehicles, plant and equipment, furniture and office equipment etc.
- e) Additional costs to maintain the assets;
- f) Additional interest and redemption in the case of borrowings;
- g) Additional depreciation charges;
- h) Additional revenue generation. The impact of expenditure items must be offset by additional revenue generated to determine the real impact on tariffs.

8. CASH FLOW MANAGEMENT

- 8.1 The availability of cash is the most important requirement for financial sustainability and must be closely monitored by the Chief Financial Officer. In doing so the Chief Financial Officer must ensure a minimum cash on hand to cover 90 days operational expenditure.
- 8.2 Surplus cash not immediately required for operational purposes must be invested in terms of the Municipality's Cash Banking and Investment Policy to maximise the return on cash.

9. MANAGEMENT OF DEBTORS

- 9.1 Debt is managed in terms of the Municipal credit control and debt collection policy.
- 9.2 The provision for bad debts is budgeted as an expense and is based on the projected annual non-payment rate for each service.

10. DONATIONS, GRANTS AND SUBSIDIES.

- 10.1 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:
 - a) Signed service level agreement;
 - b) Contract or written confirmation; or
 - c) Any other legally binding document.
- 10.2 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.

11. THE CAPITAL REPLACEMENT RESERVE

- 11.1 All reserves must be “ring fenced” and “cash backed” as internal reserves within the accumulated surplus, except for provisions as allowed by GRAP.
- 11.2 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:
- a) Interest received on investments;
 - b) Proceeds from sale of assets.

12. 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.

13. PROVISIONS

A provision is recognised when the Municipality has a present obligation as a result of a past event and it is probable, more likely than not, that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are revised annually and those estimates to be settled within the next twelve (12) months are treated as current liabilities.

The Municipality has the following provisions:

(a) *Leave provision*

Liabilities for annual leave are recognised as they accrue to employees. An annual provision is made from the operating budget to the leave provision. Due to the fact that not all leave balances are redeemed for cash, only 75% of the leave provision is cash backed.

(b) *Long services awards*

Municipal employees are awarded leave days according to years in service at year end. Due to the fact that not all long service leave balances are redeemed for cash, only 75% of the long service leave provision is cash backed.

(c) *Post employment medical care benefits*

The Municipality provides post-retirement medical care benefits by subsidising the medical aid contributions to retired employees and their legitimate spouses. The entitlement to post-retirement medical benefits is based on employees remaining in service up to retirement age and the completion of a minimum service period. The expected cost of these benefits is accrued over a period of employment.

14. OTHER ITEMS TO BE CASH BACKED

14.1 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.

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

15. POLICY REVIEW

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

16. COMPLIANCE AND ENFORCEMENT

- a. Violation of or non-compliance with this Policy may give a just cause of disciplinary steps to be taken.
- b. It will be the responsibility of Accounting Officer to enforce compliance with this Policy.

17. EFFECTIVE DATE

This Policy shall come to effect upon approval by Council of Ugu District Municipality.

18. POLICY ADOPTION

This Policy has been considered and approved by the **COUNCIL OF UGU DISTRICT MUNICIPALITY** as follows:

Resolution No:.....

Approval Date:.....